



Columbia Business School

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| Center on Japanese Economy and Business

Center on Japanese Economy and Business

ANNUAL REPORT 2016-2017

(JULY 2016-JUNE 2017)

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Center on Japanese Economy and Business

The preeminent academic center in the United States on Japanese business and economics

Established at Columbia Business School (CBS) in 1986 under the direction of Professor Hugh Patrick, the Center on Japanese Economy and Business (CJEB) promotes knowledge and understanding of Japanese business and economics in an international context. CJEB is a research organization widely recognized for its symposia, conferences, and lectures held both in New York and Tokyo, which provide prominent speakers from the public and private sectors a forum for collaboration and reflection on Japan, the United States, and the global economy.

With the leadership of Professors David E. Weinstein, director of research, and Takatoshi Ito, director of the Program on Public Pension and Sovereign Funds and associate director of research, CJEB supports research projects, student and faculty scholarship, and library and computer-based resource initiatives. Other CJEB core faculty members are Japan specialists drawn from Columbia's Business School, Law School, School of International and Public Affairs, Department of Economics, and Department of Political Science. Funding and resources are provided by corporate sponsors, foundations, individuals, CBS, and Columbia University.

Since its founding, CJEB has developed, grown, and evolved in order to carry out its mission effectively in a changing Japan and a changing world. In this way, CJEB has been able to build and maintain its status as the preeminent academic center in the United States on Japanese business and economics.

Further information about CJEB can be found on the Center's website:
www.gsb.columbia.edu/cjeb.

Letter from the Directors



Hugh Patrick, Director



*David E. Weinstein,
Director of Research*

Dear Friends,

Columbia Business School's Center on Japanese Economy and Business (CJEB) has had another outstanding and eventful year. Over the past twelve months, we have worked diligently to develop the Center's programs and resources, including our two newest programs—the Program on Public Pension and Sovereign Funds (PPPSF) and the Corporate Governance and Stewardship Program. CJEB remains the premier U.S. academic research center committed to understanding the Japanese economy and its business systems. It continues to thrive as the main platform for leading scholars and practitioners around the globe to come for resources, discussion, and an exchange of ideas on Japan's current economy, policies, and business developments in domestic, Asian, and global, as well as U.S.-Japan contexts.

During the 2016–2017 academic year, CJEB hosted a number of prominent and well-attended events examining crucial and current topics on Japan's economic and political climate. For example, on October 6, 2016, CJEB held a special symposium, "Private Views on Japanese Government Corporations," which featured Masatsugu (Mat) Nagato, president and CEO of Japan Post Holdings Co., Ltd., and Yasushi Kinoshita, deputy president of the Development Bank of Japan, Inc. Nagato and Kinoshita shared their experiences and views on the privatization of their respective institutions, which were formally owned by the Japanese government (see p. 33). On April 11, 2017, CJEB held its 18th Annual Mitsui USA Symposium, where Yoshiyuki Sankai, CEO and president of Cyberdyne Inc., shared his vision on the utility of Cybernic systems and the challenges in developing these systems for social innovation (see p. 34). Taro Aso, deputy prime minister, minister of finance, and minister of state for financial services of Japan, gave a special lecture at Columbia on April 19, 2017, where he discussed the current state of the Japanese economy and the progress Japan has made in recent years (see p. 37).

Another main CJEB highlight was its annual conference in Tokyo, which was held on May 25, 2017. The conference, "Japan's Global and Domestic Futures: The U.S. Relationship and FinTech," featured keynote addresses by Nobuchika Mori, commissioner of the Financial Services Agency, and Alan Wm. Wolff, chairman of the National Foreign Trade Council, former U.S. deputy trade representative, and senior counsel at Dentons US LLP. Mori and the first panel focused their discussion on how FinTech is shaping the future of the financial services industry. Wolff and the second group of panelists shared their thoughts on the U.S.-Japan economic relationship under America's current trade policy and its new administration. To read more about this conference, see details on pp. 30–31.

In addition to our primary public programming, CJEB continues to host several *zadankai* lunchtime lectures, featuring major current topics on Japan's economy and business systems. Satoru Murase, partner at Morgan, Lewis & Bockius LLP, spoke on the current state of Japanese corporate governance and whether it had been revolutionized under Abe's administration (see p. 39). Satoru Komiya, then CJEB Visiting Fellow and managing executive officer of Tokio Marine Holdings, Inc.'s R&D department, gave insights on how Japanese corporations should develop new corporate strategies to compete in a changing world economy (see p. 41). Hiroshi Watanabe, president of the Institute for International Monetary Affairs, spoke on the recent development of the global markets (see p. 41). For our other *zadankai* seminars, you can read more starting on p. 38.

Last year, CJEB launched two new programs as part of its growing research initiatives. For 2016-2017, the Program on Public Pension and Sovereign Funds, led by Takatoshi Ito, held its inaugural conference on April 12, 2017. The conference was divided into three sessions, each including a panel of renowned scholars and experts who spoke on investment challenges, best practices, and alternatives to asset allocations in relation to public pension funds (see p. 27). CJEB's Corporate Governance and Stewardship Program, led by Alicia Ogawa, featured two *zadankai* lunchtime seminars: "Will New Governance Rules Change the Japanese Boardroom," with Arthur M. Mitchell, senior counsel of Tokyo, White & Case LLP on February 27, 2017 (see p. 40); and "Household Asset Diversification or Japan's Economic Growth," with Tetsuya Kubo, chairman of the board at SMBC Securities Inc., on April 6, 2017 (see p. 41). More details on both these programs can be found on p. 27.

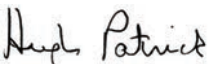
As a fundamental part of its research agenda, CJEB offers a variety of fellowship and scholarship opportunities for students interested in studying and specializing in the Japanese economy and its business systems. Through these initiatives, CJEB is actively engaged with the Columbia student community and strives to nurture the next generation of experts in this field. You can read more about this important initiative and the types of fellowships and scholarships offered by CJEB on p. 53.

CJEB's Visiting Fellows Program (see p. 43) has also had another successful year. CJEB Visiting Fellows are selected from various backgrounds in the corporate, academic, and government sectors and come to Columbia with the intention of pursuing independent research and honing their professional skillset. As CJEB Visiting Fellows, they have access to many of Columbia's rich resources, such as the University's libraries and public events, and have the opportunity to engage and interact with many in the Columbia community, including faculty and students. Other opportunities also include attending an annual business field trip, auditing a wealth of courses at Columbia, and participating in workshops with individual consultation to improve their presentation skills. Visiting Fellows then put into practice their presentation skills through monthly seminars, where they present their research among CJEB directors and their peers. CJEB has proudly hosted more than 250 Visiting Fellows since the Center's establishment.

For more than 30 years, the Center has succeeded as a preeminent academic and research center under our joint leadership. And with the eventual transition to David Weinstein's sole leadership, we will continue to strive for success and move forward to keep pace with Japan's ever-changing economy.

The foundation of CJEB's continued success is the commitment, capability, intelligence, and energy of the Center's core faculty and staff; to the resources provided by the Business School and the University; and, especially, to the funding provided by corporate sponsors, foundations, and individuals. Our deep thanks to them all.

With warm regards,



Hugh Patrick
Director



David E. Weinstein
Director of Research

July 20, 2017

Leadership and Staff



Hugh Patrick is the founder and director of the Center on Japanese Economy and Business (CJEB) and R. D. Calkins Professor of International Business Emeritus

at Columbia Business School, as well as codirector of Columbia's APEC Study Center. He joined the Columbia faculty in 1984 after some years as professor of economics and director of the Economic Growth Center at Yale University. He completed his BA at Yale University (1951), obtained MA degrees in Japanese studies (1955) and economics (1957), and earned a PhD in economics at the University of Michigan (1960). He has been a visiting professor at Hitotsubashi University, the University of Tokyo, and the University of Bombay. Professor Patrick has been awarded Guggenheim and Fulbright fellowships and the Ohira Prize. His professional writings include 18 books and some 60 articles and essays. His most recent books are *How Finance Is Shaping the Economies of China, Japan, and Korea* (Columbia University Press, 2013), coedited with Yung Chul Park; and *Reviving Japan's Economy: Problems and Prescriptions* (MIT Press, 2005), coauthored and coedited with Takatoshi Ito and David E. Weinstein. Professor Patrick served as one of four American members of the binational Japan–United States Economic Relations Group appointed by President Carter and Prime Minister Ohira from 1979 to 1981. He has been a member of the Council on Foreign Relations since 1974. He was a member of the Board of Directors of the Japan Society for seven three-year terms. In November 1994 the Japanese Government awarded him the Order of the Sacred Treasure, Gold and Silver Star (Kunritō Zuihōshō). He was

awarded an honorary doctorate of Social Sciences by Hong Kong's Lingnan University in 2000 and the Eagle on the World award by the Japanese Chamber of Commerce and Industry of New York in 2010.



David E. Weinstein

is the Carl S. Shoup Professor of the Japanese Economy at Columbia University. He is also the director of research at CJEB, director of the

Japan Project at the National Bureau of Economic Research (NBER), a member of the Federal Economic Statistics Advisory Committee, and a member of the Council on Foreign Relations. Previously, Professor Weinstein was chair of the Department of Economics and a senior economist as well as a consultant at the Federal Reserve Bank of New York, the Federal Reserve Bank of San Francisco, and the Federal Reserve Board of Governors. Prior to joining the Columbia faculty, Professor Weinstein held professorships at the University of Michigan and Harvard University. He also served on the Council of Economic Advisors from 1989 to 1990.

His teaching and research interests include international economics and the Japanese economy. Professor Weinstein earned his PhD and MA in economics from the University of Michigan and his BA at Yale University. He is the recipient of many grants and awards, including five National Science Foundation grants, an Institute for New Economic Thinking grant, a Bank of International Settlements Fellowship, and a Google Research Award. Professor Weinstein is the author of numerous publications and articles.



Takatoshi Ito is the director of the Program on Public Pension and Sovereign Funds and associate director of research at CJEB. He is also a professor at the

School of International and Public Affairs (SIPA) at Columbia University. He has taught extensively both in the United States and Japan since finishing his PhD in economics at Harvard University in 1979. He was an assistant and tenured associate professor (1979–1988) at the University of Minnesota, an associate and full professor at Hitotsubashi University (1988–2002), a professor at the Graduate School of Economics at the University of Tokyo (2004–2014), and dean of the Graduate School of Public Policy at the University of Tokyo (2012–2014) before assuming his current position in 2015. In spring 2016, he received a courtesy appointment in the Finance and Economics department at Columbia Business School. He held visiting professor positions at Harvard University, Stanford University, and Columbia Business School and was Tun Ismail Ali Chair Professor at the University of Malaya.

He has held distinguished academic and research appointments such as president of the Japanese Economic Association in 2004–2005, fellow of the Econometric Society since 1992, research associate at the National Bureau of Economic Research since 1985, faculty fellow at the Centre for Economic Policy Research in London since 2006, research associate of the Tokyo Center for Economic Research since 1990, and faculty fellow of the Research Institute of Economy, Trade and Industry since 2004. He was editor-in-chief of the *Journal of the Japanese and International*

Economies and is coeditor of the *Asian Economic Policy Review*. In an unusual move for a Japanese academic, Professor Ito was appointed senior advisor in the Research Department at the International Monetary Fund (1994–1997) and deputy vice minister for International Affairs at the Ministry of Finance of Japan (1999–2001). He also served as a member of the Prime Minister's Council on Economic and Fiscal Policy (2006–2008).

In 2010, Professor Ito was a coauthor of a commissioned study of the Bank of Thailand's 10th-year review of its inflation-targeting regime. He frequently contributes op-ed columns and articles to the *Financial Times* and *Nihon Keizai Shinbun*. He is the author of many books, including *The Japanese Economy* (MIT Press, 1992), *The Political Economy of Japanese Monetary Policy* (1997), and *Financial Policy and Central Banking in Japan* (2000, both with T. Cargill and M. Hutchison, MIT Press); *An Independent and Accountable IMF* (with J. De Gregorio, B. Eichengreen, and C. Wyplosz, 1999); and more than 130 academic (refereed) journal articles and chapters in books on international finance, monetary policy, and the Japanese economy. His research interests include capital flows and currency crises, microstructures of the foreign exchange rates, and inflation targeting. He was awarded the National Medal with Purple Ribbon in June 2011 for his excellent academic achievement.



Alicia Ogawa is the director of the Project on Japanese Corporate Governance and Stewardship at CJEB. She is also a consultant to one of the largest

U.S.-based macro hedge funds in the United States and an adjunct associate professor at SIPA. Until 2006, she was managing director at Lehman Brothers, where she was responsible for managing the firm's global equity research.

Prior to joining Lehman Brothers, Professor Ogawa spent 15 years in Tokyo, where she was a top-rated bank analyst and director of research for Nikko Salomon Smith Barney, having managed the original Salomon Brothers Research Department through three mergers. She is a member of the board of directors of the Maureen and Mike Mansfield Foundation, a member of the investment committee of the Association for Asian Studies, and a member of the President's Circle of the All Stars Project, a development program for inner city young people, which was recently launched in Tokyo. She graduated from Barnard College and earned a master's degree in international affairs at SIPA.



Ryoko Ogino is the director for administration at CJEB. She officially joined the Center as associate director for administration in September 2010 after successfully

managing the Center's Tokyo conference in spring 2010. Prior to that, she held positions at Shiseido Americas Corporation and Sony Corporation of America, bringing a wealth of experience in product development, PR, international marketing, and staff management. She graduated magna cum laude from the State University of New York, Buffalo, with a major in human relations in multinational organizational settings sponsored by the Department of Psychology and Management.

Officers

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BS Candidate, Financial Engineering and
Economics
Columbia University



From left to right: Yurie Takeuchi, Julian Radice, Emiko Mizumura, Andy Wanning, Michelle Tam, Ryoko Ogino, Shoko Nakamoto, Alfred Tsai

Core Faculty

CJEB's eight core faculty members provide the Center's intellectual foundation and are drawn from Columbia University's Business School, Law School, Department of Economics, Department of Political Science, and School of International and Public Affairs. In addition to Hugh Patrick, David E. Weinstein, and Takatoshi Ito, CJEB's core faculty members are as follows:



Gerald L. Curtis is Burgess Professor Emeritus of Political Science at Columbia University and former director of the Weatherhead East Asian Institute. He received his PhD from

Columbia University in 1969 and was on the Columbia University faculty from 1969 until December 2015. He is a professor emeritus, a senior research scholar at the Weatherhead East Asian Institute, and director of Columbia's Toyota Research Program. He is the author of numerous books and articles published in both English and Japanese on Japanese politics, government, foreign policy, and United States-Japan relations. He divides his time between Columbia University and Tokyo, where he is active as a columnist, speaker, and writer.

Professor Curtis has held appointments at the Royal Institute of International Affairs, Chatham House, London; the College de France, Paris; the Lee Kwan Yew School of Public Policy, Singapore; and in Tokyo at Keio, Tokyo, and Waseda Universities, the Research Institute for Economy, Trade and Industry, the Graduate Research Institute for Policy Studies, and the International Institute for Economic Studies.

In addition to his academic work, he has served as director of the U.S.-Japan

Parliamentary Exchange Program, special advisor to *Newsweek* for *Newsweek Japan*, columnist for the *Tokyo/Chunichi Shimbun*, and member of the International Advisory Board of the *Asahi Shimbun* and the Advisory Council for the Japan Foundation Center for Global Partnership. His articles and commentaries appear frequently in newspapers and magazines in Europe, Japan, and the United States.

Professor Curtis is a member of the Board of Directors of the Japan Society, the Japan Center for International Exchange, and the Mansfield Foundation and serves as councilor to the U.S.-Japan Council. He has served as consultant and advisor to numerous public and private organizations in the United States and Japan.

Professor Curtis is the recipient of numerous prizes and honors, including the Masayoshi Ohira Memorial Prize, the Chunichi Shimbun Special Achievement Award, the Japan Foundation Award, the Marshal Green Award of the Japan-America Society of Washington, and the Eagle on the World award from the Japanese Chamber of Commerce in New York. He is a recipient of the Order of the Rising Sun, Gold and Silver Star, one of the highest honors awarded by the Japanese government.



Glenn Hubbard is dean and Russell L. Carson Professor of Finance and Economics at Columbia Business School. Dean Hubbard received his

summa cum laude from the University of Central Florida and also holds AM and PhD degrees in economics from Harvard University. In addition to writing more than

100 scholarly articles on economics and finance, Dean Hubbard is the author of three popular textbooks, as well as coauthor of *The Aid Trap: Hard Truths About Ending Poverty*, *Balance: The Economics of Great Powers from Ancient Rome to Modern America*, and *Healthy, Wealthy, and Wise: Five Steps to a Better Health Care System*. His commentaries appear in *Business Week*, *The Wall Street Journal*, *The New York Times*, the *Financial Times*, the *Washington Post*, *Nikkei*, and the *Daily Yomiuri*, as well as on television and radio. From 2001 until 2003, he was chairman of the U.S. Council of Economic Advisers. In the corporate sector, he is on the boards of ADP, BlackRock Closed-End Funds, and MetLife. Dean Hubbard is cochair of the Committee on Capital Markets Regulation; he is a past chair of the Economic Club of New York and a past cochair of the Study Group on Corporate Boards.



Merit E. Janow is dean of Columbia University's School of International and Public Affairs. Dean Janow is an internationally recognized expert in international trade

and investment, with extensive experience in academia, government, international organizations, and business. In addition, she has had a lifelong involvement with Asia and is an expert on that region. Dean Janow has been a professor of practice at Columbia University's School of International and Public Affairs (SIPA) and affiliated faculty at Columbia Law School since 1995. She teaches graduate courses in international trade/WTO law, comparative antitrust law, China in the global economy, and international trade and investment policy, among others. She has held a number of leadership positions

at the University. Currently, she is codirector of the APEC Study Center. Previously, she was director of the Master's Program in International Affairs and chair of Columbia University's Advisory Committee on Socially Responsible Investing. Her research interests focus on international trade and investment, Asia, competition law, economic globalization, digital trade, internet governance, and cybersecurity. She has written several books and numerous articles and frequently speaks before business, policy, and academic audiences around the world.

While at Columbia University, Dean Janow was elected in December 2003 for a four-year term as one of the seven members of the World Trade Organization's (WTO) Appellate Body, which is the court of final appeal for adjudicating trade disputes between the 161 members of the WTO. She was the first woman to serve on the Appellate Body. She was involved in more than 30 appeals. While on the Appellate Body, she organized a series of global conferences with leading experts and senior government officials that focused on the Appellate Body, the international trading system, and economic globalization. From 1997 to 2000, Dean Janow served as the executive director of the first international antitrust advisory committee of the U.S. Department of Justice that reported to the attorney general and the assistant attorney general for antitrust. Her report recommended the creation of a global network of enforcers and experts, which is now the International Competition Network.

Prior to joining Columbia's faculty, Dean Janow was deputy assistant U.S. trade representative for Japan and China (1989–1993). She was responsible for developing, coordinating, and implementing U.S. trade policies with Japan and China. She negotiated more than a dozen trade agreements with Japan and China during a period of intense economic and political tension. Dean Janow

serves on the Board of Directors for several corporations, financial services, technology companies, and not-for-profit organizations. In 2009, she became a charter member of the International Advisory Council of China's sovereign wealth fund, China Investment Corporation. Early in her career, Dean Janow was a corporate lawyer specializing in cross-border mergers and acquisitions with Skadden, Arps, Slate, Meagher & Flom in New York. Before becoming a lawyer, she worked at a think tank, where she focused on U.S.-Japan trade and economic relations. She grew up in Tokyo, Japan, and is fluent in Japanese. She has a JD from Columbia Law School, where she was a Stone Scholar, and received a BA in Asian studies with honors from the University of Michigan. She is a member of the Council on Foreign Relations and the Trilateral Commission.



director of the Center for Japanese Legal Studies, all at Columbia Law School. He is also a member of Columbia University's Weatherhead East Asian Institute. Professor Milhaupt's research and teaching interests include the legal systems of East Asia (particularly Japan), comparative corporate governance, law and economic development, and state capitalism. In addition to numerous scholarly articles, he has coauthored or edited seven books, including *U.S. Corporate Law* (Yuhikaku, 2009, in Japanese), *Law and Capitalism: What Corporate Crises Reveal about Legal Systems and Economic Development around the World* (University

Curtis J. Milhaupt is the Parker Professor of Comparative Corporate Law, director of the Parker School of Foreign and Comparative Law, Fuyo Professor of Japanese Law, and

of Chicago Press, 2008), and *Transforming Corporate Governance in East Asia* (Routledge Press, 2008). His research has been profiled in *The Economist*, the *Financial Times*, and *The Wall Street Journal* and has been widely translated. Professor Milhaupt lectures regularly at universities and think tanks around the world. Representative appointments include visiting professor at Tsinghua University, Paul Hastings Visiting Professor in Corporate and Financial Law at Hong Kong University, and Erasmus Mundus Fellow in Law and Economics at the University of Bologna. He was named Teacher of the Year in 2012 and 2010 at the Duisenberg School of Finance, University of Amsterdam, where he taught from 2008 to 2015. Professor Milhaupt has been a member of several international project teams focused on policy issues in Asia, including one charged with designing an "institutional blueprint" for a unified Korean peninsula. Prior to entering academia, Professor Milhaupt practiced corporate law in New York and Tokyo with a major law firm. He holds a JD from Columbia Law School and a BA from the University of Notre Dame. He also conducted graduate studies in law and international relations at the University of Tokyo.



was awarded the John Bates Clark Award, given biennially by the American Economic Association to the economist under 40 who has made the most significant contribution to the field. He has taught at Princeton, Stanford, and MIT and was the Drummond

Joseph E. Stiglitz was born in Gary, Indiana in 1943. A graduate of Amherst College, he received his PhD from MIT in 1967, became a full professor at Yale in 1970, and in 1979

Professor and a fellow of All Souls College, Oxford. He is now University Professor at Columbia University in New York, where he is also the founder and Co-President of the University's Initiative for Policy Dialogue. He is also the Chief Economist of the Roosevelt Institute. In 2001, he was awarded the Nobel Prize in economics for his analyses of markets with asymmetric information, and he was a lead author of the 1995 Report of the Intergovernmental Panel on Climate Change, which shared the 2007 Nobel Peace Prize. In 2011, *Time* named Stiglitz one of the 100 most influential people in the world.

Professor Stiglitz was a member of the Council of Economic Advisers from 1993 to 1995, during the Clinton administration, and served as CEA chairman from 1995 to 1997. He then became chief economist and senior vice president of the World Bank (1997-2000). In 2008 he was asked by the then French president Nicolas Sarkozy to chair the Commission on the Measurement of Economic Performance and Social Progress, which released its final report in September 2009 (published as *Mismeasuring Our Lives*). He now chairs a High Level Expert Group at the OECD attempting to advance further these ideas. In 2009 he was appointed by the president of the United Nations General Assembly as chair of the Commission of Experts on Reform of the International Financial and Monetary System, which also released its report in September 2009 (published as *The Stiglitz Report*). Since the crisis, he has played an important role in the creation of the Institute for New Economic Thinking (INET), which seeks to reform the discipline so it is better equipped to find solutions for the great challenges of the 21st century.

Professor Stiglitz serves on numerous boards, including the Acumen Fund and Resources for the Future.

He helped create a new branch of economics, "The Economics of Information," exploring the

consequences of information asymmetries and pioneering such pivotal concepts as adverse selection and moral hazard, which have now become standard tools not only of theorists, but also of policy analysts. He has made major contributions to macroeconomics and monetary theory, to development economics and trade theory, to public and corporate finance, to the theories of industrial organization and rural organization, and to the theories of welfare economics and of income and wealth distribution. In the 1980s, he helped revive interest in the economics of R&D.

His work has helped explain the circumstances in which markets do not work well, and how selective government intervention can improve their performance.

In the last sixteen years, he has written a series of highly popular books that have had an enormous influence in shaping global debates. His book *Globalization and Its Discontents* (2002) has been translated into 35 languages, besides at least two pirated editions, and in the nonpirated editions have sold more than one million copies worldwide. In that book he laid bare the way globalization had been managed, especially by the international financial institutions. In two later sequels, he presented alternatives: *Fair Trade for All* (2005, with Andrew Charlton) and *Making Globalization Work* (2006). In *The Roaring Nineties* (2003), he explained how financial market deregulation and other actions of the 1990s were sowing the seeds of the next crisis. Concurrently, *Towards a New Paradigm in Monetary Economics* (2003, with Bruce Greenwald) explained the fallacies of current monetary policies, identified the risk of excessive financial interdependence, and highlighted the central role of credit availability. *Freefall: America, Free Markets, and the Sinking of the World Economy* (2010) traced in more detail the origins of the Great Recession, outlined a set of policies that would lead to robust recovery,

and correctly predicted that if these policies were not pursued, it was likely that we would enter an extended period of malaise. *The Three Trillion Dollar War: The True Cost of the Iraq Conflict* (2008, with Linda Bilmes of Harvard University) helped reshape the debate on those wars by highlighting the enormous costs of those conflicts. His most recent books are *The Price of Inequality: How Today's Divided Society Endangers Our Future*, published by W. W. Norton and Penguin/Allen Lane in 2012; *Creating a Learning Society: A New Approach to Growth, Development, and Social Progress*, with Bruce Greenwald, published by Columbia University Press in 2014; *The Great Divide: Unequal Societies and What We Can Do About Them*, published by W. W. Norton and Penguin/Allen Lane in 2015; *Rewriting the Rules of the American Economy: An Agenda for Growth and Shared Prosperity*, published by W. W. Norton in 2015; and *The Euro: How a Common Currency Threatens the Future of Europe*, published by W. W. Norton and Penguin/Allen Lane in 2016.

Professor Stiglitz's work has been widely recognized. Among his awards are more than 40 honorary doctorates, including those from Cambridge and Oxford Universities. In 2010 he was awarded the prestigious Loeb Prize for his contributions to journalism. Among the prizes awarded to his books have been the European Literary Prize, the Bruno Kreisky Prize for Political Books and the Robert F. Kennedy Book Award. He is a fellow of the National Academy of Sciences, the American Academy of Arts and Sciences, the American Philosophical Society, and the Econometric Society, and a corresponding fellow of the Royal Society and the British Academy.

He has been decorated by several governments, including Colombia, Ecuador, and Korea, and most recently became a member of France's Legion of Honor (rank of Officier).

Japan's Economy: Pursuing Its Modest Sustainable Growth Path

By Hugh Patrick

Japan's economy continues to chug along well, with above-potential GDP growth in the first half of 2017 that will continue for the coming year or two. In longer-term perspective, the economy is continuing patterns established several years ago. This is not surprising. Above all, Japan's economic success is founded on its well-educated, industrious labor force, high savings and investment rates, and good economic institutions. Its only significant natural resources are land and a four-season climate.

Similar to other developed economies, Japan faces a wide range of economic challenges. Its most important long-run economic challenge is demographic. Japan must adjust to the consequences of low fertility rates since 1974; a decrease in the size of the potential working force since 1995; absolute, albeit small, annual decreases in the population since 2008; and a rising share of the population that is 65 and older, now at 27 percent. These trends are well-understood and will persist at least to 2050.

Abenomics is an enduring label for a package of fundamental macroeconomic and structural reform policies. Although not as successful so far as had been hoped, Abenomics is not a failure. Its policies of monetary and fiscal stimulus have contributed significantly to current low unemployment and good growth. Structural reform takes considerable time to implement and be effective.

The main shocks to the economy over this past year have been foreign. The biggest single shock has been the election of U.S. president Donald Trump and the uncertainties about his administration's presumed foreign security, trade, and related economic policies. So far, Japan has fared well in its relationship with the Trump administration. China's economic and political rise is an ongoing process; over time China provides

Japan major economic challenges—and opportunities.

On September 26 Prime Minister Shinzo Abe announced he will dissolve the Diet's Lower House and hold a snap election October 22, 14 months earlier than required. He will continue to give priority to Abenomics. He did announce a change in fiscal policy following the increase in the consumption tax to 10 percent in October 2019. The government will no longer aim to achieve a budget primary balance by fiscal 2020. That would not have been achieved anyway. Instead, rather than using the new revenues from the consumption tax increase primarily to reduce government debt, the government will use at least 40 percent on child welfare, education, and other social services. The debate on the specifics is just under way.

Japan faces a host of domestic economic issues. These include the failure to achieve price stability, defined as a 2 percent annual increase in the core CPI (Consumer Price Index); the puzzle so far of the combination of full employment and only low wage increases; very long working hours and other labor market issues; company management, including corporate governance; energy strategy in a rapidly changing global energy system; and how Japan is taking care of its poor. These topics are considered in following sections.

The International Context

The global economy continues to perform reasonably well, though subject to heightened geopolitical uncertainties. How will Brexit play out? What will happen in the Middle East, notably Syria? How to deal with the nuclear and missile threat from North Korea? In what ways and how effectively will the United States and China both compete and cooperate? What effect will Trump have?

Political turmoil has not significantly hampered global economic performance.

The system thus far has dealt quite well with volatility in financial and commodity markets and protectionist pressures, despite Trump's rhetoric.

The IMF estimates world GDP in 2016 grew at 3.1 percent, slightly less than in 2015. It projects growth increasing to 3.5 percent in 2017, and to 3.8 percent in 2022. The precipitous decline in oil and other commodity prices over the past two years have dampened global inflationary pressures, but the leveling off of commodity prices means that global deflation has been avoided. The IMF projects that consumer prices in advanced countries, though not Japan, will increase at about 2 percent annually over the next five years.

The world trading system is relatively market-oriented, liberal, and open, despite ongoing protectionist and mercantilist forces. The growth in the volume of global trade in goods and services slowed to 2.7 percent in 2015 and to 2.2 percent in 2016, but it is picking up significantly to 3.8 percent this year and next. Services comprise about a fifth of total trade, and has been increasing slightly more rapidly than merchandise trade. The growth of trade in current prices has been significantly affected by the gyrations in energy and other commodity prices. Since in almost all economies the share of domestic services in GDP is increasing while the share of manufacturers is decreasing, it is not surprising that trade increases less-rapidly than world GDP.

We live in a world of incremental technological change, not only in manufacturing and medicine but in a wide range of services, as well as agriculture and mining. Much is a rather quiet process, but a significant element has been the development of the internet and the smartphone. Almost

everyone in the developed world has access to near-instant communications; social media have proliferated. Japanese are major users of Facebook, LINE, YouTube, and many other apps.

Rakuten is an economic leader in e-commerce. Retail sales have been shifting to online orders and direct delivery by Amazon, Yamato Transport in Japan, and others. This innovative process is taken for granted by young people, and many older people are adapting well to the new opportunities.

Even with major ongoing technological change, productivity growth—output per worker per hour—has slowed significantly in the developed world, including Japan. This is despite measurement problems, particularly in estimating productivity increases in services. For example, the quality of service in Japanese restaurants, retail establishments, and other personal services are among the world's highest, but the market does not value it highly because Japanese culture imbues most workers with internal high performance standards. Ironically, increasing measured productivity in such establishments by reducing the number of workers often reduces the quality of the service.

North Korea has become a security threat not only in Japan and South Korea but the United States. Under the leadership of Kim Jong-Un, North Korea has been vigorously expanding its nuclear weapons and missile delivery capabilities, with 28 missile tests in the past year alone. It has an estimated 21 nuclear weapons at least. North Korea's missile test on July 28 has been perceived as meaning a nuclear warhead could soon reach the lower 48 U.S. states. This is not yet the case, but clearly this has become a dangerous game.

North Korea believes becoming a nuclear power is essential for its defense and to sustain the regime in power. It surely does

not want war, as that would result in its destruction by U.S. military forces. I have long held that North Korea will never give up its nuclear weapons capabilities and goals. That is its strongest card. However, the U.S. government policy mindset, at least formally, is to seek North Korean denuclearization as its ultimate objective.

A major new uncertainty is U.S. global leadership—security and political as well as economic—following the election of Donald Trump as president. Much has to do with Trump's persona, style, and rhetoric, exemplified by his off-the-cuff, colorful, provocative, sometimes inconsistent tweeted comments. Fortunately, there are significant differences between Trump's rhetoric and the policies his administration have actually been pursuing so far, and the policies that Congress will endorse.

The U.S.-Japan economic relationship is very good at the government policy level, as well as in business and personal dimensions. Prime Minister Shinzo Abe has been extraordinarily effective in developing a good, close, personal relationship with Trump, with positive results. Abe was the first foreign leader to meet Trump after his election. The relationship deepened in their meeting on February 10-11, 2017, in Washington and is being sustained by frequent phone calls. Despite earlier critical remarks about Japan, following the summit, Trump stated the U.S.-Japan relationship is "very, very deep." They are scheduled to meet again in November.

The two countries set up the high level US-Japan Economic Dialogue chaired by Vice President Mike Pence and Deputy Prime Minister Taro Aso following the summit. The first meeting was held in Tokyo on May 9-10; while positive, it dealt mainly with overall general policies rather than specific issues.

One big issue for Japan is how Trump administration trade and foreign economic policy will evolve. Trump summarily had the

United States withdraw from the 12-nation Trans-Pacific Partnership (TPP) agreement on his third day in office. This was a blow to Japan, since Abe had assiduously and successfully pushed Japan's participation in TPP through the Diet in December 2016. Trump is committed to bilateral rather than multilateral deals, but so far the Japanese government appropriately has been reluctant to negotiate a U.S.-Japan bilateral trade and economic agreement. Japan will pursue a TPP-11 agreement.

The Trump administration, with considerable bipartisan political support, intends to pursue a tough trade policy, thus far mainly by enforcing existing anti-dumping and countervailing duty laws in response to foreign unfair trade practices. However, I do not expect the United States to impose direct protectionist actions such as comprehensive increases in tariffs or quotas. Japan will benefit from U.S. government corporate tax cuts and major infrastructure investments which stimulate U.S. growth. Japanese manufacturers have substantially invested in Mexican factories to produce automobile components and other products for export to the U.S. markets; not surprisingly, they are concerned about the specifics of the forthcoming Mexico-U.S. NAFTA negotiations.

In this era of anxious geopolitical uncertainties, with both global and regional challenges, it is important to remember how much the global economy has accomplished and continues to accomplish. The developed world, of which Japan is an outstanding example, has achieved high standards of living, low unemployment, and no inflation. The developing world, led by China and India, is on a sustainable path of good ongoing economic performance. Of course major economic problems persist—poverty-stricken countries (notably in Africa) and poverty-stricken persons and families in all countries, including Japan. Japan's economic history is

one of major economic success domestically and in the global economy. Japan's challenge is to sustain that success into its future.

The Japanese Economy

Japan, the world's third largest economy, is a major global player as trader, foreign direct investor, global capital market participant, and stalwart supporter of the open international economic system. Its fiscal 2016 real GDP growth rate, 1.3 percent, was the same as 2015, but the composition was significantly different. The decline in domestic demand of 0.3 percent was entirely due to inventories, which swung from plus 0.4 percent to minus 0.4 percent. This was good news because Japan's investment and consumption increased a bit more rapidly, and inventories will almost certainly become a normal positive figure this year and next. Half of Japan's 2016 growth was due to the positive 0.6 percent contributions of exports and a slight decrease in imports.

GDP surpassed its 2007 peak in 2013 and the economy is recovering well from its downturn in 2014 following the consumption tax increase to 8 percent. Employment is high; the unemployment rate is only 2.8 percent. GDP growth has been above the potential rate, and accelerated in the first half of 2017 to about a 2 percent annual rate, since there was a good, though revised down to 2.5 percent, growth surge in the April–June 2017 quarter. This has been the result of widespread rises in household consumption and in housing, business, and government investment. Mild but persistent deflation has been brought to an end. The core consumer price index rose at an annual rate of 0.5 percent in July.

In 2017 Japan is at a peak of its current growth wave. Labor is no longer in ample supply; labor shortages are a major business concern. A productivity growth resurgence will be difficult, even though the government's revitalization plan assumes that will occur as major structured reforms somehow take

place. But the wave will subside, not crash. Indeed, a more optimistic growth scenario is feasible. Since the mid-1990s Japan's productivity has been about three-quarters of the U.S. level. It should be possible to narrow that gap. Some slack remains both in the way labor is allocated, and in how service and white-collar employees work. The government could support more research and development, improve the quality of preschool and tertiary education, and implement enforcement of social security contributions by SMEs and individuals, among other methods. It's not that Japan does badly; it just could do better.

Factors Shaping the Economy

Fundamental shapers of the Japanese economy are its demographic trends, its ethnic homogeneity, and its pacifist-oriented national security strategy.

With fertility since 1974 below the replacement rate, the working-age population has been decreasing since 1995, its total population (now 126.8 million) since 2008, and the share of population 65 and over (now 27 percent) increasing. The trends of declining labor force and population will persist for at least the next 20–30 years. Given Japanese preferences, it is unlikely that immigration will be large-scale, certainly not enough to affect population size. Accordingly, in the coming decades, a major generational income distribution challenge is how fewer workers will support the increasing proportion of elderly.

One of Japan's strengths—and weaknesses—is its ethnic homogeneity, epitomized by the Japanese language, which few foreigners know. Social coherence is strong, with a deep sense of Japanese uniqueness. At the same time, within Japan, people are significantly differentiated by the quantity and quality of education, income and wealth, and family history. Substantial relative poverty persists.

Japan came out of World War II with a strong pacifist commitment, supported legally and morally by Article 9 of the Constitution. Defense expenditures are only 1 percent of GDP. Japan's national security is guaranteed by its deep alliance with the United States, including the U.S.-Japan Security Treaty. Despite its postwar Occupation origins, the Japanese have strongly supported the Constitution. It has never been revised and, despite Abe's goals, is unlikely to be in the foreseeable future—unless North Korea does something overwhelmingly provocative. Japan has sent its Self-Defense Forces, mainly engineering units, overseas under UN-based humanitarian programs, but they have always been protected by the military forces of other countries. In light of North Korea's nuclear and missile development, a major defense policy issue is whether Japan should revise its self-defense policy to include preemptive strikes.

Even though the economy is doing well, Abenomics, now beginning its fifth year, has not yet achieved its three major goals: price stability as defined by 2 percent annual increases in the CPI; fiscal stability as defined by shifting from central government budget deficits to surpluses, specifically in the budget primary balance; and structural reforms through deregulation and other measures to enhance wide-ranging market competitiveness. In particular, regulatory reform has been strongly opposed by vested interests, and is proceeding slowly.

Despite recurring political difficulties, Abe will win the forthcoming election and continue as prime minister until after the 2020 Tokyo Olympics, and he will continue Abenomics, since it is the basis of his political support. Since there are fundamental objectives, no matter who the prime minister is, government policy will always pursue full employment, price stability, and good growth.

Fighting Deflation

The Bank of Japan's easy money policy

with very low interest rates under Governor Haruhiko Kuroda since 2013 has been appropriate. While deflation has been halted, the price stability effects have been disappointingly slow; the 2 percent CPI target has not been achieved. The target date has been postponed six times. In September 2016, the Bank of Japan (BOJ) strengthened its ongoing monetary policy with direct measures to widen the interest rate term structure (capital market yield) by purchasing 10-year and longer-term JGBs (Japanese government bonds); it now holds some 40 percent of outstanding JGBs. BOJ has successfully prevented the 10-year JGB market rate from remaining slightly negative by targeting a zero percent market yield. In shifting from its direct quantitative easing policy of annual purchases of ¥80 trillion, BOJ is now purchasing about ¥60 trillion. In September 2016, BOJ also committed to overshoot the 2 percent CPI target in a large enough amount, and for long enough, to assure that market expectations would stably support CPI 2 percent annual increases in the longer term.

That the CPI target has not yet been reached has been a dismaying surprise. The policy was and is correct, but engendering sufficiently positive market expectations has turned out to be much more difficult than anticipated. The annual rate of CPI increase as of July 2017 was only 0.5 percent. BOJ expects the rate to be 1.1 percent by the end of this fiscal year (March 2018), 1.5 percent by March 2019, and reach the 2 percent target by 2020. However, market consensus continues to be less optimistic.

While some financial institutions have become more willing to lend to small businesses, many more have remained cautious; holding more money than they know what to do with, they simply build more excess reserves at BOJ. The consolidation of small local banks proceeds. With the balance sheets and administration of the major banks in good shape, the Financial Services Agency (FSA) is easing its tight regulatory oversight

administration and procedures, encouraging financial institutions now to become less risk-averse.

Fiscal Policy

The macroeconomic function of fiscal policy is to assure sufficient aggregate demand for sustained full employment, price stability and good growth. Despite the sustained easy money policy, Japan's private sector—notably corporations—continue to save more than it invests. To offset this, the central government has run budget deficits for the last two decades. The Abe administration's policy, reaffirmed on June 9, is to reduce the budget deficit and achieve a primary balance (excluding government interest payments) by fiscal 2020. That is unlikely, and, indeed, should not be unless private consumption and investment increase substantially more than is likely.

Fiscal policy faces two key issues. One is whether to have a stimulative supplementary budget for 2017. Economic and Fiscal Policy Minister Toshimitsu Motegi in August stated that there is no need this year for further fiscal stimulus, so many observers expect only a normal, small, supplementary budget. The other issue, now that Abe has stated he plans to have the consumption tax raised to 10 percent as scheduled in October 2019, is what to do with the additional tax revenues. In his September 26 election announcement, as already noted Abe stated that much will be spent for social service purposes rather than government debt reduction. The 3 percentage point consumption tax increase in 2014 resulted in a 7.6 percent GDP drop in April–June 2014 and a further 2.4 percent decline the next quarter before growth resumed. Japanese expectations and the economy's performance probably will be significantly affected by the consumption tax decision. At the least the tax increase will slow growth significantly for a year or so.

Small and Medium Enterprises

Small and medium business enterprises (SMEs) are an important, and very heterogeneous, part of the manufacturing and service sectors. They employ about 70 percent of all employees, generate about 55 percent of the economy's gross value added, and comprise 99.7 percent of all enterprises. They are defined differently by industry: SMEs in manufacturing have paid-in capital of ¥300 million or less, or 300 or fewer employees; for wholesale trade the cut-off is ¥100 million and 100 employees; for retail 50 and 50; and for other services 50 and 100.

The government defines small (also termed micro) enterprises as those with 5 or fewer employees (20 in manufacturing). These micro enterprises, including sole proprietorships, constitute almost a quarter (23.5 percent) of total private sector employment and 16 percent of gross value added. Much of an ongoing decline in micro enterprise numbers is because owners retire due to age or illness. On the other hand, many micro enterprises are run by new, young entrepreneurs and freelance designers, software engineers, and others with special skills.

Most nonmicro SMEs are incorporated and most report corporate losses so do not pay corporate income taxes, either because at one extreme the owners pay themselves high wages, or at the other extreme, they are close to bankruptcy.

Successful SMEs are the backbone of the Japanese economy, especially outside the major metropolitan areas. Most provide services for their local communities, but some are globally successful export manufacturers, as well as competitive suppliers of goods and services to the 11,000 large firms that hire 30 percent of employees and generate 45 percent of gross value added.

Japan's zombie enterprises are a drain on its economy. There are two types of zombie

firms: small loss-making companies (such as Mom and Pop stores) with elderly owners who hang on by slowly drawing down family assets, and loser firms that are not competitive enough to stay alive but banks and other creditors provide enough loans so they do not have to take bankruptcy losses. Most zombie firms are SMEs, probably with older workers, older owner-managers, and outdated facilities and technologies. Labor market shortages now provide alternative opportunities for zombie firm workers, and banks and other lenders are strong enough to write them off rather than allowing the losses to continue to expand. It is time for Japan's low corporate exit rate to rise significantly, thereby freeing labor, capital, and land for more productive uses.

Labor Productivity

With human resources quite fully utilized, growth depends primarily on improving labor productivity. Labor productivity annual growth in the 1990s was 2.3 percent, but slowed to 1 percent during 2000–2009 because of the 2008–2009 great recession, and to an average 1.2 percent over 2010–2016. Much depends on the substitution of capital for labor, exemplified by business investment in robotics and other labor-saving innovations. The government's "Basic Policy on Economic and Fiscal Management Reform, 2017" announced on June 9, places emphasis on government preschool and tertiary education and other programs to improve the quality of Japan's human resources.

The government, companies, and educational institutions actively engage in research. This includes artificial intelligence (AI), connectivity, and robotics, in which Japan is a world leader. An important focus is on stem cells and regenerative medicine. In energy, there are programs to reduce CO₂ and other noxious emissions, and to slow global warming.

One of the country's great strengths is

that Japanese are well-educated. Some 88 percent of 3–4 year olds go to nursery school. Of the 1.195 million Japanese junior high school graduates in 2015, almost all continued their education; 89 percent in 2015 graduated from a regular high school and 2 percent from vocational high schools, while others attended international schools or other not-accredited institutions. Among 2011 high school graduates, 52 percent graduated from a regular college in 2015, and 26 percent had graduated from a specialized training college or junior college. With decreasing numbers of young people wanting to attend colleges, a number of privately owned colleges are being pushed by financial losses into merger or closure.

Corporate Governance and Structural Reform

Despite vigorous governmental regulatory reform efforts, Japan is making only modest progress on corporate governance reform, a major Abe economic policy objective. Senior management continues to be staffed by long-term, promoted employees. In more than half of the 3,555 listed companies, retired chairmen or presidents stay on in cozy positions as advisers. The strength of this system is their expertise; the weakness is the company's conservative, inadequate pace in adjusting to new circumstances. Boards of directors, mainly promoted from within, are both a main source of change and of inertia. The more entrenched the board, the lower the profit performance and dividend payout ratios. This corporate management system is changing in response to the mandate to have at least two independent directors and to increasing activism, albeit still modest, by domestic and especially foreign institutional investors.

The Financial Services Agency took the initiative in establishing for companies, pension funds, and other asset managers a voluntary Stewardship Code in 2014 and Corporate Governance Code in 2015,

in which basic governance principles are laid out. The Tokyo Stock Exchange, with 3,530 companies listed on its first and second sections, plays a major governance role. By 2016 year end, 85 percent had complied with at least 90 percent of the Governance Code's 73 principles. However, while complying formally, many have yet to embrace the spirit of the principles. Pressure from investors and media coverage is putting pressure on pension funds to sign the stewardship agreement and to list their holdings.

The Stewardship Code was amended in May 2017 to call for institutional investors to report how they voted on company proposals at shareholder meetings and their reasons. It continues to be a major challenge for management in many companies to engage substantially and constructively with its investors, external auditors, credit providers, and other in order to learn new information, ideas, and ways of thinking.

The government is not pushing structural reform—the third arrow of Abenomics—as much as it should. Major structural reforms are under way—in agriculture and healthcare—but they represent a piecemeal approach. Comprehensive regulatory reform has yet to take place. It is unfortunate that Abe has not so far been willing to push structural reform hard.

Labor Markets

With 2.8 percent unemployment, Japan's labor markets are the tightest in four decades, yet substantial increases in wages are just beginning. Part of the reason is that there was considerable slack as more Japanese entered labor markets, including married women and older workers. Total employment in 2016 was 65.6 million, and unemployment was 1.9 million. The number of workers increased 1.85 million between 2012 and 2016; 1.74 million were women or 65 or older.

Not much labor supply slack remains. The number of employed persons increased 570,000 in the year to July 2017, even as the labor force decreased by 440,000 (both seasonally adjusted). The seasonally adjusted job openings to job seeker ratio in August 2017 was 1.54, the highest in 43 years, and for permanent positions the ratio was 1.01, the highest since this record keeping began in November 2004.

Segmented Labor Markets

Japan's labor markets are multisegmented, and complex. Most workers are hired employees; self-employed and family workers are 11 percent of the total. The major divide is between the rigid markets for full-time regular employees and the fluid markets for nonregular (fixed-term, contract, part-time, and temporary) workers who are now 37 percent of the labor force. Markets are shaped by firm size, gender, age, education, location, and citizenship. Large listed firms are leaders in establishing labor market practices and trends, and accordingly analysis and policy focuses on them. Gender discrimination persists in career opportunities and wages. Japan allows relatively few foreign workers.

Regular employees have guaranteed full-time positions with annual seniority wage increases until retirement, typically still at age 60, when many companies rehire their employees with lower wages and status until 65. Almost two-thirds of regular workers are male. Regular employment has increased every year since 2003, even though the total labor force did not change. It declined in manufacturing, but was more than offset by regular employment increases in the service sector. However, with slower growth and greater market uncertainties, companies are exploring ways to lay off workers with a mandatory compensation package.

Nonregular workers receive lower compensation, have less job security, and less opportunity for development of skills. Some

two-thirds of nonregular workers are women, including many married housewives. Most nonregular workers choose this labor market, but survey data indicate about one-fifth of the males would like a full-time regular position, as would about a tenth of the females. Some young workers successfully transition to being regular workers, but the probability declines significantly with age. Survey data for 2015 estimate that 9.6 percent of male workers 34–44 years old are nonregular employees. The ratio for spouseless females (never-married, divorced, or widowed) is 41.6 percent.

Earning differences are large: in 2015 full-time regular workers averaged more than 50 percent full-time nonregular workers, and benefit differences are substantial. These reflect differences in position and job, but generally only regular employees have access to the better-paying positions. Nonregular employees (especially females) are treated as marginal in many senses of the term.

The limited steps taken by employers to reduce differences are perceived as a fundamental challenge by Rengo and other unions; they are giving higher priority to assuring regular workers' job security than to wage increases.

Seniority (age) increments in wages are important primarily for regular workers in large firms, and much less so for regular workers in SMEs, and not much at all for nonregular workers. Wages almost triple from hiring date to a peak at age 50–54 for regular male employees in firms with a thousand or more employees, and double for regular female employees.

Even though Abe has urged firms to boldly pay higher wages, the 2017 shunto (spring) wage negotiations of major firms and companies resulted in increases of 2.02 percent, slightly lower than in 2016. Summer bonuses in June were smaller than in 2016. These are macroeconomic disappointments, since rising wages increase consumption and

push up the CPI.

Management-track regular employees in both the private sector and the government work long hours, which is an important part of their corporate culture. The suicide on December 25, 2016, of a young management-track employee in a major firm, classified as "death by overwork" (karoshi), raised the issue of excessive hours worked to a new level, though data are limited. Japan, with 9.2 percent of its employees reported as usually working 60 plus hours a week, ranks second only to Korea among OECD members; the U.S. rate was 3.8 percent. In a Japanese government survey, more than a fifth of Japanese companies acknowledged that some staff members worked more than 80 hours a week. Firms are reducing overtime hours somewhat, despite labor shortages. One of Abenomics' structural reforms is to enact legislation this fall limiting the amount of overtime. Better work-life balance will encourage the employment of women.

Adjusting to Labor Shortages

Companies are adjusting to labor shortages and higher wages in various ways. Delivery services are reducing the number of daily deliveries. Fast food chains are ending 24 hour service. Some firms are experimenting with 4-day work weeks, with longer hours each day. From April 2018, by law employees who have been on fixed term contracts for five years must be made permanent employees when they ask. The government and Keidanren have proposed that companies close at 3 p.m. on the fourth Friday of every month, but that has not caught on—and it is not likely to. A new category—restricted regular employees—with limited working hours and relocation assignments—is emerging; they receive somewhat lower wages and fewer fringe benefits.

Labor market reforms, including womenomics, are an important component of Abenomics

structural reforms, but politically sensitive. Effective implementation has been slow. Abe's grand "equal pay for equal work" statement implies that the wage and fringe benefit gaps between regular and nonregular workers, and between male and female workers, are too wide, and the government should develop policies at least to narrow them. However, "equal work" will probably be defined narrowly so that even small differences in jobs will mean they are not equal.

Despite labor market tightness for both skilled and unskilled workers, Japan maintains a highly restrictive policy in the use of all but highly skilled foreign workers. Japan accepts only minuscule numbers of permanent immigrants, so almost all new foreign workers entering have to leave eventually. In 2016 there were just over 1 million foreign workers in Japan, 1.6 percent of the total labor force. About 38 percent are Taiwanese, Korean, and other permanent residents who are not Japanese citizens. The others work on a range of projects of up to five years, such as a technical specialists or trainees, and 19 percent are foreign students working part-time. The foreign trainees category is important, though essentially they learn to work for Japanese companies. Even some foreign farmers are now allowed in special economic zones as specialists.

One government goal is to have 10,000 elite, highly skilled foreign workers by 2020, though in 2016 there were 4,732. Similarly, the government wants to attract 10,000 new Asian interns in nursing care, but they have to pass tough Japanese language tests, and only 2,777 were recruited over nine years through October 2016. There are a small number of illegal foreign workers in Japan; most probably overstayed their visas. At the end of 2016 there were only 65,270 cases of known illegal aliens. All this indicates that Japanese policy favors Japanese female and older workers and robots to all but a small number of elite or specialized foreign workers.

Foreign Trade

In fiscal 2016 merchandise exports were 13.1 percent of GDP, while imports were 12.1 percent. Japan's trade pattern combines absolute natural resources disadvantage and market-based competitive advantage. Almost 40 percent of merchandise imports are essential food, energy, and other natural resources. Most of Japan's exports are high-tech manufactured goods. As a high-saving economy with limited profitable domestic investment opportunities, Japan has maintained a balance of payments current account surplus for more than two decades, increasing cyclically in 2016 to 3.8 percent of GDP. Concomitantly, the government has accumulated official foreign exchange reserves of \$1,230 billion.

Japanese companies are major foreign direct investors. Firms have developed extensive foreign production chains, particularly to supply overseas assembly operations, notably in the United States and China. The automobile industry is a prime example. For the past few years Japanese companies have engaged in foreign M&A (primarily acquisitions), but thus far with only about a one-third success rate. Among the major economies, Japan is not as deeply integrated internationally as European countries. Indeed, the stock of inward foreign direct investment in Japan is the lowest of the 35 OECD countries.

Japan's two-way trade is significantly larger with China than any other country, comprises 17.7 percent of its exports and 25.8 percent of its imports. The United States is second. However, bilateral trade balances are an inadequate measure. Japanese companies export to China through Hong Kong and from operations in Southeast Asia, and to the United States from Mexico. U.S. companies own some Australian iron, coal, and other natural resource companies exporting to Japan.

Given the U.S. withdrawal from the Trans-

Pacific Partnership (TPP) and ongoing uncertainties about its foreign trade policy, Japan has become a major leader of the open international economic order. Economically TPP is not a make-or-break trade deal, but is symbolically important. The Japanese government is taking the initiative in pursuing an 11-member TPP, even though its impact will be substantially reduced without U.S. participation. Equally important, the 2012 stalled Japan-EU negotiations to eliminate tariffs and undertake other liberalizing measures were revived in the wake of Trump's TPP withdrawal. In July 2017, Japan and the EU agreed to a major trade agreement, though important specific issues still have to be negotiated. The EU is Japan's third-largest trading partner.

Japan's most troubling trade policy issue is how to deal with the Trump administration. Given Trump's preferences, the U.S. presumably will seek a strong, tough bilateral agreement which goes beyond the commitments Japan had with the TPP, particularly in agriculture. Of course, Japan has its own opportunities. For instance, Japan could press the United States to eliminate the 25 percent tariff on pick-up and other trucks.

Energy

Japan's greatest economic vulnerability is that it has to import essentially all of its primary energy sources. Japan is the world's fifth largest energy consumer, fourth largest oil importer, and (with a 31 percent share in 2016) by far the largest LNG (liquefied natural gas) importer. Accordingly, Japan is a major player in global energy markets. The good news for Japan is that new sources of supply are being developed. Fracking and other technological innovation mean rigidities in global energy markets and prices are breaking down. Successful energy conservation and population decline have been dampening demand, especially for electricity.

In 2015 fossil fuels provided 94 percent of

Japan's total primary energy supply: oil 43 percent, coal 28 percent, and natural gas 23 percent. Nuclear was only 0.6 percent. Japan's fully developed hydropower system provided 1.7 percent; solar and wind, 0.9 percent; biofuels, 2.7 percent; and geothermal 0.5 percent. Electricity is 28 percent of total energy consumption, higher than most countries. The percentages for electricity generation are: natural gas 39 percent, coal 34 percent, oil 8 percent, nuclear 0.9 percent, hydro 8.4 percent, solar 3.6 percent, wind 0.5 percent, biofuels 4.1 percent, and geothermal 0.3 percent.

Given Japan's unrelenting dependence on fossil fuel imports, Japanese energy strategy involves a complex set of trade-offs among security of supply, prices and costs, environmental protection, and safety of operations. Since some electric power plant investments have 40 to 60 year lives, policy makers face not only decisions about current prices and supplies, but also about the much longer run. Policy aims to determine the appropriate energy mix among coal, oil, gas (mainly LNG), nuclear and renewables (mainly solar and wind). Put simply, coal is cheap but environmentally dirty; oil is essential for transportation and heating; LNG is not easy to transport; existing nuclear is safe and clean with no CO₂ emissions but following Fukushima perceived to be very risky; hydropower is already well developed; solar and wind are still costly but are expected to achieve lower costs, subject to land availability.

While coal and LNG are abundant and widely dispersed globally, that is not true of oil. In 2016, 86.6 percent of Japan's oil came from the Middle East; Saudi Arabia is the main source. This oil has to be transported through vulnerable sea lanes and chokepoints. Japan is the world's largest LNG importer; almost 63 percent is imported from Australia and Southeast Asia.

Even though the United States in 2018 will become the world's third largest oil producer,

after Saudi Arabia and Russia, shipping costs will not make the United States a commercially attractive source for Japan. LNG is another story. Japan's LNG market is undergoing a major transformation in response to the U.S. becoming a major LNG producer through fracking. U.S. producers can efficiently export to Japan with large tankers utilizing the expanded Panama Canal.

Japan faces major energy conundrums in electric power generation. Coal is cheap but, despite technological improvements, still significantly polluting. Reopened nuclear power plants are the most inexpensive source of electricity, with no CO₂ emissions, but they face strong opposition. The government's 2015 strategy realistically projected that by 2030 the share of oil would decline from 13.7 percent to 3 percent while solar and wind rise from 10.7 percent to 24 percent. However, the government optimistically and unrealistically assumed nuclear would dramatically increase from 1 percent to 20–22 percent as existing reactors reopened. The projections of LNG use to drop from 43.2 percent to 27 percent and coal from 30.3 percent to 26 percent, are accordingly too low.

Nuclear power plants are Japan's electric power industry's great economic opportunity and major political challenge. Existing reactors are Japan's cheapest source of electric power. No Japanese have died from Fukushima radiation, while hundreds die every year from air pollution. Reactor plant safety standards in Japan are among the highest in the world. Expert consensus is that nuclear power is and will be very safe in Japan. But that does not allay the concerns of a vocal part of the public. Political and legal objections to reopening plants are substantial.

The ongoing issue is how many of Japan's nuclear reactors will be reopened. Fifteen have already been decommissioned, and another one or two will be every year. Others may be operational, but current safety and

maintenance investment requirements means they are not commercially feasible. As of July 2017, 5 reactors have been restarted, and another 21 are under review. Experts estimate it is technically possible to reopen another 12 by 2019. However, the Abe administration probably does not have the political will to reopen plants that rapidly. Even if Japan reopens 18 reactors by 2025, that would generate only 10 percent of Japan's projected electric power demand, substantially below its 25.3 percent share in 2010.

In addition to providing the services required to reopen plants, Japan's nuclear power industry has other major business opportunities, Toshiba's travails notwithstanding. Dismantling of decommissioned plants is expensive and will take decades. Japanese companies export nuclear power plants and technology to China and Europe. They have joint ventures with foreign companies which operate nuclear power plants in their own countries; so far Japanese power companies do not operate nuclear facilities abroad. Japanese companies have the commercial development of the ESBWR (economic simplified boiling water reactor) under way and are developing a next-generation boiling water reactor. It is unclear how competitive they will be in the longer run.

The dynamic LNG market is a major driver of the global energy revolution. Large new supply sources are now being developed in the United States, Australia, and Papua New Guinea, resulting in a supply glut and low LNG prices for the next several years. To ensure the security of supply, LNG projects historically have been developed under long-term contracts, with specific tankers transporting only to a specific, specialized LNG facility, and with prices linked to oil prices.

Some 80 percent of Japan's LNG imports in 2016 were still under such long-term contracts. METI's strategy is to create a

much more flexible LNG market, including spot markets, and to develop Japan as an LNG trading hub. Japan fully deregulated its industrial gas market in April 2017, including residences and SMEs. It remains to be seen whether an LNG trading hub will develop. LNG prices are no longer linked to oil, and countries have more flexible terms, including destinations and opportunities for resale. This is important because from 2017 until 2021 Japanese companies apparently have contracted for more LNG purchases than demand forecasted in Japan. Also, demand for LNG will be dampened to the extent nuclear plants come back on line.

In June 2017, the government accelerated its ongoing program to upgrade dams to increase electric power generation, control floods, and further improve water resource management. Projects include significantly increasing the height of some dams, reducing and controlling accumulating sediments for water flowing to dams, and other operational activities. Nonetheless, new hydropower will not be sufficient enough to replace old fossil fuel plants.

Japanese companies, with the support of METI, have 10 major coal power plants scheduled to open in 2020 to replace old facilities. The new plants use cleaner technologies. In April 2016, the government decided that all new major coal power plants must use ultra-supercritical (USC) technology. However, even this method generates about twice as much CO₂ and other pollutants as comparable LNG plants. Carbon capture and storage technologies are being developed, but remain too expensive to be used commercially. Despite objections from the Ministry of the Environment since 2015, more new coal power plants will be built during the next two decades.

Well-being and Poverty

Most Japanese have safe, comfortable lives. The average per capita income in 2016 was \$27,323. The OECD Better Life Index

indicates that Japan is about average in income, wealth, jobs, community, education, and safety, but below average in housing for developed countries. Japanese are less optimistic than people in many other OECD countries. Only 35 percent say they are in good health, even though they have a comprehensive health system and the world's second-highest life expectancy. On a scale from 0 to 10, Japanese grade their life satisfaction as 5.9, below the OECD 6.5 average. Japan's income inequality is about in the OECD middle. In 2015 the income of the top 20 percent of its population was 6.1 times that of its poorest 20 percent; the Gini coefficient was 0.33.

While Japan is a prosperous country, poverty continues to be a significant reality. Japan uses the OECD definition of poverty: those whose income is less than one-half the national median income. The OECD estimates that 16.1 percent of Japan's population lived in relative poverty in 2016, the seventh highest in the OECD some 20.4 million. Given that Japan has a standard of living close to the OECD average, and per capita income that has increased over time, the incomes of many poor Japanese have risen. Poverty is an important but partial measure of Japanese well-being, which also depends on sense of personal identity, health, wealth, education, family relations, and the degree of social support among and other determinants.

Japanese poverty ranges from, at one extreme, the small number of homeless (mostly older men) to families (often single mothers) with children barely able to scrape by. Public policy focuses mainly on the rising numbers of elderly, especially those living alone, and on children in poverty-stricken families. Survey data indicate that for regular workers aged 25 to 44, about 6 percent of males and 7 percent of females live in poverty. For nonregular workers the situation is much worse, especially for spouseless women. For men aged 25–34, 23 percent live in poverty, rising to 32 percent for those

35–44. For spouseless women, they are 30 percent and 52 percent, respectively.

Poverty is a complex interaction among economic, social, family, and personal considerations, with no single predominant cause. The UK-based Community Carte System (CCS) survey provides annual socio-economic information for nine of Japan major districts (small cities and poor Tokyo wards) for 2011–2016. The detailed survey covers more than 40 risk factors and 30 resilience factors to escape from poverty. Being raised in a poor family is important, particularly without positive involvement by parents; even more important is the difficulties in learning at school, due to native ability and motivation, as well as an inhospitable school and social environment. Personal depression or anxiety significantly reduces the chances of escape from poverty. Being withdrawn and socially incompetent are further characteristics of poor people—and, of course, others as well.

Japan's social security system is comprehensive, but focused on the elderly. Japanese poor participate in the universal healthcare system, and those over 65 receive a central government pension. All children are required to attend school until age 15, and all their parents receive government support of ¥5,000 to ¥15,000 monthly depending on family income. Single parents also receive a monthly child-raising allowance ranging from ¥10,000 to ¥42,330, with smaller amounts for each additional child, depending upon income. However, fees make high school expensive, offset only in part by zero-interest loans.

Government social security expenditures were 21.6 percent of GDP. Almost half (16.3 percent of GDP) was payment of pensions to those 65 and older. A third (7.1 percent of GDP) was in support of Japan's universal healthcare system. The government budgeted about a fifth of its social security expenditures (4.2 percent of GDP) for its Basic Livelihood Protection (seikatsu hogo) program. Of the 1.65 million households

receiving this support, almost half (803,000) were elderly, 253,000 were infirm, 150,000 handicapped, and 104,000 single-parent households. While the number of households receiving this assistance increased in the two years to May 2017 by 17,000, the number of individual recipients decreased by 31,000. Elderly single households are an increasing share of the poor.

Japan is ranked 34th of 41 developed countries in UNICEF's child poverty index, released in April 2016, with a child poverty rate of 15.8 percent in 2012. About half of those children lived in poor households with two or more adults. Single-parent (91 percent the mother) comprise 1.6 percent of all households; about half are poverty stricken.

Education is the main escape route from poverty. Poor children go to compulsory school through 15, and most continue on through regular high school or technical (vocational) high school. Most drop-outs remain in relative poverty throughout their lives. The government's program begun in 2015 to help poor people become self-reliant handled 60,892 cases in fiscal 2016. The program provides job training, housing assistance, financial advice, and education assistance for children. As the CCS survey indicates, it is the degree of good performance in school and then in occupation and lifestyle that shapes whether Japanese escape poverty.

A major ongoing political issue concerning government welfare payments is the future size for pensions of all older citizens and of what age they become eligible for pensions. The elderly are everywhere and likely to vote. Poverty-stricken children are not very noticeable, especially since their parents typically ensure their kids are dressed as well as others. The media continue to point out that as the working-age population decreases and the share of the elderly increases, the burden on taxpayers will rise; current pension levels will not be sustainable. This is not a near-term budget issue, but inevitably it will

enter into the debate over future government budget deficits and further consumption tax or other tax increases. It is noteworthy that Abe is proposing the 2019 tax increase revenues be used for childcare and related social services.

Conclusion

Japanese have excellent education, transportation, and other infrastructure facilities. By far most are in good health; Japanese life expectancy is the second highest in the world. Yet, Japan ranks only in about the middle of the 35 OECD advanced country member economies on the OECD Better Life Index both because it began from a lower base, and a Japanese modesty in assessing their own health and happiness.

Japan has recovered from the media-hyped "Japan disease" of slower than potential growth, small but persistent deflation, and a rapidly increasing rate of government debt to GDP. Indeed, output per worker per hour (labor productivity) since 2000 was 1.36 percent, above the G7 average. More importantly, the economy has recovered from the 2008-09 Great Recession and the 2014 increase in the consumption tax. The growth rate in 2017 will be higher than fiscal 2016's 1.3 percent. Not only is the unemployment rate a low 2.8 percent, most potential female and older workers are now employed. Wages are beginning to increase, although less and at a slower pace than I expected.

Japan's fundamental challenge is demographic. Most young Japanese want two children, but when a stable population size will be achieved is a long-run issue. Until then, the population will age and decrease. These projections are well understood. Their resolution will necessitate major social and economic adjustments that are only beginning to take place.

The slowdown in labor productivity growth throughout the advanced economies is a major challenge. While output per worker

per hour depends in part on increases in capital and labor skills, the key in advanced countries is total factor productivity (TFP). The government's revitalization plan is based on the assumption that TFP can be increased from a fiscal 2016 rate of 0.6 percent to about 2.2 percent, the 1983-1993 rate, generating real GDP of 2 percent growth by 2020. I am skeptical that such high TFP and growth rates can be achieved. Despite substantial R&D expenditures, there are not enough profitable investment opportunities being created. With a declining and aging population, achieving annual GDP growth of about 1 percent would constitute good performance, not sluggishness. That would be consistent with historically good GDP per capita growth of about 1.5 percent. It is important to remember that the measure of economic well-being is GDP per person.

To my surprise, on net balance I think the rising percent of the labor force of nonregular employees is probably good, not bad. Most, including married women and older workers, do not want to work full time. The number of full-time regular workers is not declining; their positions are not disappearing. The real problem is the large wage gap between regular and nonregular workers doing essentially the same job.

I have confidence in the Japanese people, the country's institutions, and its fundamentally good policies. They face many challenges. And they will prevail.

September 29, 2017

Current Research Highlights



From left to right: David E. Weinstein, Gerald L. Curtis, Merit E. Janow, Takatoshi Ito

Promoting research related to the Japanese economy, businesses, management systems, and financial markets is crucial to CJEB's mission. Typically, the Center's core faculty members obtain funding individually through competitive outside grants, and the Center also provides additional financial and administrative support in order to facilitate their research.

David E. Weinstein leads the Center's research activities and has several individual projects under way supported in part by the National Science Foundation (NSF), the Institute for New Economic Thinking (INET), and a Google Research Grant. Professor Weinstein's research and teaching focus on international economics, macroeconomics, corporate finance, the Japanese economy, and industrial policy. In addition to his role as CJEB's director of research, he is the director of the NBER Japan Project, cosponsored by CJEB. Professor Weinstein was also the chair of Columbia University's Economics Department.

In 2016-2017, Professor Weinstein continued his research on systemic financial risk in Japan. He has a major project under way that aims to illustrate how banking crises affect aggregate investment. This paper, which is forthcoming in *The Journal of Political Economy*, shows how problems in individual banks result in aggregate loan volatility and investment. He is also working on a project

with the Bank of International Settlements on the global demand and supply of bank credit, which uses confidential banking data to understand the global transmission of banking system shocks.

In addition, Professor Weinstein has been working on understanding the fiscal problems that Japan is facing and why they have not resulted in a crisis. This research aims to better understand how Japan has managed its demographic transition.

Professor Weinstein has also been working with data from Rakuten to analyze the impact of ecommerce on prices and employment in Japan. In addition, Professor Weinstein has been working on how barcode and other big data sources can be used to understand firm, price, and macroeconomic dynamics. He has a project that uses confidential Census trade transactions data to understand trade patterns in general and the sources of Chinese success in international markets.

Professor Weinstein's research is often cited and discussed in the media, and he is a frequent commentator on Japan.

Gerald L. Curtis's main research includes the evolution of and future prospects for Japan's political system and foreign policy. In this regard, he has traveled extensively throughout East and Southeast Asia. He is a frequent speaker at think tanks, universities, business and financial organizations in the

United States, Australia, China, Korea, and Europe, and is a participant in numerous track two policy dialogues with and in Japan, China, Taiwan, Korea, and the United States. In addition to his academic writings, he regularly publishes op-eds for *The Wall Street Journal*, the *Financial Times*, and numerous publications in Japan and elsewhere. He is a frequent guest on Japan's Sunday morning news programs and is widely quoted by international media outlets on issues relating to Japanese politics and society and U.S. foreign policy.

Takatoshi Ito contributes to the Center's research activities and has several individual ongoing research projects. Professor Ito's research and teaching focus on international finance, foreign exchange market microstructure, Asian financial markets, inflation targeting, and the Japanese economy. Professor Ito also maintains a teaching and research position during the summer at the National Graduate Institute for Policy Studies in Tokyo. His research focuses on three broad themes: international finance, the Japanese economy, and the Asian financial markets. He has carried out a series of research projects on the dynamics of the exchange rates in various time spans and frequencies. He has done macroeconomic analysis of the yen/dollar exchange rates after the rate floated in 1973. Currently, he is examining the microstructure of the foreign exchange markets using a tick-by-tick dataset, which contains

all firm quotes and deals in a computerized order-matching engine. He is researching how particular institutions and rules in the market influence pricing and deal activities.

His work on the Japanese economy includes both macro- and microeconomic aspects of the economy. On monetary policy, he was a proponent of inflation targeting in Japan, long before the Bank of Japan finally adopted it in 2013. He is investigating transmission channels and the effects of quantitative easing adopted by the four major central banks. On fiscal policy, he has been analyzing the debt sustainability of Japanese government debts. He has been conducting a simulation analysis of a menu of fiscal consolidation with varying degrees and speeds. On growth strategy, he investigates various reform plans in regulated industries from agriculture and education to medical and health care. He combines theory and empirical research and derives policy implications.

He belongs to a research group at the Research Institute of Economy, Trade, and Industry on Japanese exporters' decisions to pass through the exchange rate changes on export and destination prices. He is also a special member of the Council on Customs, Tariff, Foreign Exchange, and other Transactions at the Ministry of Finance, Japan. Professor Ito organizes internationally acclaimed seminars, such as the NBER East Asian Seminar on Economics in June 2016.

He served as chair to the study group on reforming public pension funds in Japan. A report from his group, recommending portfolio rebalance away from Japanese government bonds and toward more risk assets, has been very influential in the subsequent change of the Government Public Investment Fund.

Professor Ito's involvement in Southeast and East Asian economies dates from the time of Asian currency crisis in 1997-1998. He has done research on, as well as given

policy advice related to, economic and financial issues in Southeast Asia, in particular Thailand, Indonesia, Korea, and Myanmar. He continues to visit these countries to engage in academic and policy discussions. He has been doing research, as well as teaching, on inflation targeting and exchange rate regime and financial and capital markets development in the Asian emerging market economies.

Merit E. Janow, appointed dean of the School of International and Political Affairs (SIPA) in 2013, researches financial regulatory reform as well as international trade and investment. Over the past two years, she has spoken to international corporate, academic, and policy audiences on topics including financial regulatory reform in the United States, developments in international trade and investment, comparing Chinese and Japanese industrial policies, and corporate governance issues. As dean, she also has initiated a number of new initiatives around the intersection of technology and policy, the development of sound capital markets, and global urban policies. She is continuing a research project on China that focuses on sources of tension and opportunity in China's external economic relations.

Curtis J. Milhaupt's most recent publications are "Bonded to the State: A Network Perspective on China's Corporate Debt Market" (*Journal of Financial Regulation*); "Governance Challenges of Listed State-Owned Enterprises Around the World" (*Cornell International Law Journal*); and "Evaluating Abe's Third Arrow: How Significant are Japan's Recent Corporate Governance Reforms?" (forthcoming in the *Journal of Japanese Law*).

Alicia Ogawa continues her private consulting work on Japan's politics and economy, teaching at SIPA, and working at the Maureen and Mike Mansfield Foundation. She continues to be in high demand as a public speaker.

Hugh Patrick continues his study of Japan's current economic performance, monetary policy, and institutional changes. His most recent paper is his annual essay on the current Japanese economy, included in this annual report, starting on p. 10. He is an active participant in a range of conferences about Japan and Asia. He made trips to Japan in fall 2016 and spring 2017, and to Korea in spring 2017, and had meetings with senior policy advisors and business leaders.

Faculty Engagement



David E. Weinstein speaking at CJEB Tokyo Conference

CJEB actively supports Columbia University faculty members who are not formally associated with the Center by promoting dialogue between the business, professional, academic, and cultural communities in the United States and Japan. CJEB funds Japan-related research and explores ways to incorporate the study of the Japanese economy and business systems into faculty research and teaching. We foster collaboration and use our extensive network of Japanese professional contacts to arrange for speakers from the private, academic, and government sectors to give lectures to the Columbia community. CJEB faculty have access through CJEB to various Japan-related databases for use in their research. Additionally, where appropriate, CJEB can fund and arrange faculty trips to Japan.

CJEB often cosponsors programs with other Columbia Business School (CBS) centers and invites faculty members to participate as speakers or panelists for our various public programs. On November 29, 2016,

CJEB cosponsored a symposium with CBS's Richard Paul Richman Center for Business, Law, and Public Policy, titled "Is the Glass Ceiling Dented, Cracked, Broken or Firmly in Place?" (more details on p. 33). This symposium presented a discussion on the barriers women have overcome in the workforce, the challenges that still remain, and what companies and individuals can do to resolve these challenges. CJEB also held its annual Japan Economic Seminar (see p. 54) on February 10, 2017, highlighting several paper topics on the Japanese economy. CBS associate professor of business and economics Emi Nakamura was a discussant for the paper "Estimating Japan's Gross Domestic Income Based on Taxation Data," presented by Hiroyuki Fujiwara, director of the Research and Statistics Department at the Bank of Japan.

CJEB's support and collaboration for faculty research also extends outside the Business School faculty. On August 4, 2016, Professor Hugh Patrick gave a lecture to 30

Japanese teachers on youth development and the Japanese economy. This lecture, cosponsored by Teachers College, helped promote and exchange ideas on the American education system and the reforms being made to prepare youth for the 21st century. In fall 2016, CJEB hosted two lunches where Columbia faculty members discussed monetary and fiscal policies with two members from the Bank of Japan (BOJ). The first faculty lunch was held on September 12, 2016, and featured Sayuri Shirai, a Columbia University PhD and former member of the policy board at the BOJ, who shared her thoughts on the Bank's decision to move toward negative interest rates. Columbia faculty members included **Emi Nakamura** and **Patricia Mosser**, senior research scholar at the School of International and Public Affairs (SIPA). CJEB held the second faculty lunch on November 10, 2016, where Yutaka Harada, member of the policy board at the BOJ, discussed the effects of deflation on Japan's economy and how the Bank's monetary expansion will recover from stagnation.

Columbia professor **Patricia Mosser** was also present at this faculty lunch.

On November 29, 2016, CJEB hosted a *zadankai* seminar, "The Evolution of Bank Regulation and Supervision After the Recent Global Financial Crisis" (see p. 38), featuring **Masamichi Kono**, who is senior advisor at KPMG AZSA LLC; executive fellow at Japan Securities Research Institute; former vice minister for International Affairs at the Financial Services Agency in Japan; and adjunct research scholar at Columbia University's SIPA. This event was cosponsored by SIPA's Initiative on Central Banking and Financial Policy, and **Christine M. Cumming**, central banker in residence and adjunct professor at SIPA, served as the discussant. CJEB and the Weatherhead East Asian Institute (WEAI) of Columbia University also cosponsored three lectures encompassing discussions on the U.S. election outcome and the implications on the impact on Japanese politics and the U.S.-Japan relationship (see pp. 39-40) in December 2016 and January 2017. **Gerald L. Curtis**, Burgess Professor Emeritus of Political Science, and **Takako Hikotani**, Gerald L. Curtis Visiting

Associate Professor of Modern Japanese Politics and Foreign Policy at Columbia University, served as moderators for these lectures.

CJEB continues to work with the Jerome A. Chazen Institute for Global Business and CBS's student-run Japan Business Association (JBA) to support the annual travel of a CBS faculty leader on the Chazen International Study Tour to Japan. In spring 2017, CBS faculty members **Marilena Botoulas**, assistant dean for financial aid, and **Christopher Castiglione**, adjunct assistant professor of business, led the study tours.



Alicia Ogawa, David E. Weinstein, Patricia Mosser, Emi Nakamura, Sayuri Shirai, Hugh Patrick, Takatoshi Ito

Research Paper Series

CJEB fosters dissemination of research on Japan's economy and business within Columbia and in the broader academic, business, professional, and public policy communities. While much of the research produced by scholars affiliated with the Center ultimately appears in scholarly books and professional journals, early drafts of the work and research results can be found in CJEB's Working Paper (WP) Series. We also accept interesting, topical papers not slated for eventual publication in our Occasional Paper (OP) Series. Papers in both series are available for free download through our website at www.gsb.columbia.edu/cjeb/research, which links to the Columbia University Libraries' Academic Commons website.

2016-2017 Working Papers

WP 353

When Are Uninformed Boards Preferable?

Naoto Isaka, Professor, Sophia University

July 2016

In this paper, Naoto Isaka analyzes the optimal choice of board of directors using the dual-role model of boards in Adams and Ferreira (2007). In his model, shareholders choose either an informed board that brings additional private information to the firm or an uninformed board that merely considers the inside information already available within the firm. The board then randomly chooses a good chief executive officer (CEO) with inside information or a bad CEO without such information, and the CEO decides whether to consult with the board when making a project decision. Professor Isaka shows that shareholders generally choose the informed board to maximize firm value by utilizing the private information available to the board. However, the shareholders

optimally select the uninformed board if the CEO is reluctant to communicate with the informed board for fear it will reject the CEO's decision. The uninformed board is also optimal when the board has a sufficiently large private benefit of monitoring the CEO, the shareholders feel burdened by any conflict between the CEO and the board, or the firm is involved in many unrelated businesses, especially when the inside information is valuable and the firm needs many outsiders to observe useful outside information. Professor Isaka uses some of these implications and casual observation of real-world data to discuss recent trends in the board structure of Japanese firms.

WP 354

Product Dynamics and Aggregate Shocks: Evidence from Japanese Product and Firm-Level Data

Robert Dekle, Professor of Economics, University of Southern California
Atsushi Kawakami, Associate Professor Teikyo University
Nobuhiro Kiyotaki, Professor of Economics, Princeton University
Tsutomu Miyagawa, Professor, Gakushuin University and Faculty Fellow, RIETI

July 2016

Conceptually linking product adding and dropping to business cycles goes back to at least Shumpeter. In this paper, the researchers examine the effects of shocks to aggregate productivity, foreign demand, government expenditures, and demand for foreign liquidity on the dynamics of products of heterogeneous firms. Their structural empirical specifications connecting macroeconomic shocks to product dynamics are based on a neoclassical dynamic general equilibrium model (Dekle, Kiyotaki, and Jeong, 2014). They first constructed unique firm-level data

on products and exports from the Japanese Census of Manufactures. The data are more disaggregated than comparable U.S. data and available at the annual frequency (while U.S. product-level data are only available at five-year intervals), which makes their data more suitable for examining the interaction between the business cycle and firm-product dynamics. The paper demonstrates findings where positive macroeconomic shocks in total factor productivity, government demand, and real exchange rates strongly increase the number of products.

WP 355

In the Eye of the Storm

William Rapp, Henry J. Leir Professor of International Business, New Jersey Institute of Technology

October 2016

There is considerable angst today about the U.S. trade deficit and challenges to the U.S. position centers on China. It is notable that many of these issues echo concerns about Japan in the early 1980s. An analytic review of U.S. negotiations with Japan during the critical period from January 1981 through the Plaza Accord in September 1985 offers a useful reminder of unintended consequences, and of how events can evolve within a context of both micro decisions and larger political and economic forces. This is an insider's view, as the author was commercial counselor at the U.S. Embassy in Tokyo from 1983 to 1985.

WP 356

Lessons From Koizumi-Era Financial Services Sector Reforms

Naomi Fink, CEO, Europacifica Consulting and RMIT University

November 2016

Japan's "lost decades of growth" owe to insufficient countermeasures to address (a) demographic changes and (b) belated and incomplete adaptation of the services sector in particular to globalization. The combination of a strong bureaucracy, a high level of per-capita GDP at the outset, and redistributive dynamics between industrial sectors have softened the impact of deflationary shocks but allowed policy immobilism to flourish. The Koizumi reform agenda was successful in resolving Japan's banking crisis and endeavored to capitalize on this success to go beyond financial services reform, as well as to implement capital market reform.

WP 357

Lending to Unhealthy Firms in Japan During the Lost Decade: Distinguishing between Technical and Financial Health

*Suparna Chakraborty, Associate Professor of Economics, University of San Francisco
Joe Peek, Vice President and Economist, the Federal Reserve Bank of Boston, and
Research Associate, CJEB*

February 2017

This paper investigates the misallocation of credit in Japan associated with banks' evergreening loans, distinguishing between two types of firm distress: (perhaps temporary) financial distress and technical distress, which reflects weak operational capabilities, as indicated by low total factor productivity. It shows that previous evidence related to firms' financial health is problematic due to the mixing of loan-demand and loan-supply effects. Using a direct measure of operational health, the paper provides unambiguous, direct evidence of evergreening behavior, as well as confirming evidence based

on the relative impacts on subsequent firm viability of loans by bank types with different incentives to evergreen loans.

WP 358

Are Picked-up Losers Really Losers? Evidence from Scrapping Policies in the Japanese Spinning Industry, 1965-79

Takafumi Korenaga, Associate Professor, Senshu University; Visiting Fellow, CJEB

May 2017

Scrapping policy induces or forces firms to dismantle and dispose of "excessive" machines and was a typical policy tool for depressed or declining industries in postwar Japan. This paper examines the effects of this policy on the Japanese spinning industry from 1965 to 1979 using firm-level data. After clarifying features in the policy scheme, Professor Korenaga first calculated the productivity and (capital) profitability of a specified machine targeted by the scrapping policy by estimating the production function with data from the production stage. Then, several forms of (dis)investment functions were estimated to examine the direct effect on investment under policy implementation and the indirect effect on post policy investment through the firm's revelation of the expected long-term return on investment. The former effect crucially depended upon whether scrapping was compulsory or voluntary, as well as on the coverage of targeted machines. Compulsory scrapping distorted a firm's investment decisions more than voluntary scrapping. Regarding the latter effect, firms picked up by voluntary scrapping in a certain period were shown to be losers still investing less or disinvesting in the post treatment period. Firm exits also had a certain role in cutting down the unprofitable machines. Distortions

by another related policy (a scrap-and-build constraint on investment) was also observed. As a result, this skillfully-designed policy scheme was, on the whole, far from a welfare-enhancing scheme.

WP 359

A New Governance Framework for Global Financial Regulation?

Masamichi Kono, Adjunct Research Scholar, School of International and Public Affairs, Columbia University

June 2017

Nearly 10 years since the outset of the global financial crisis, it is high time to take stock of the progress made in terms of global financial regulatory reform and to assess the overall, cumulative effects of reform. This article, after providing a brief overview of the history of post crisis reform, presents a set of principles to be followed in regulatory reform for the financial sector, going forward. It puts forward some ideas for improving the organizational structure and governance of the global regulatory reform process, stressing the importance of global standards as developed by standard-setting bodies such as the Basel Committee, IOSCO and IAIS, with the G20/FSB leading and coordinating the process. It goes on to suggest providing a stronger legal foundation for the entire process by making use of a treaty-based regulatory framework, while retaining sufficient flexibility at the national level. It proposes to achieve this goal by combining a principles-based legal framework with a set of technical standards that supplement and augment the principles and provides some practical ideas to facilitate international agreement in the current political environment.

2016–2017 Program on Public Pension Working Papers

WP 1

Public Sector Investment Funds: How the Best-in-Breed Evolved

Andrew Rozanov, Associate Fellow, Chatham House

February 2017

This paper looks at the evolution of 10 public pension and sovereign wealth funds that have been on the cutting edge of innovation and best practice with respect to governance and investment management. The analysis is based on an inductive approach, proceeding from specific observations to general principles. In particular, the paper reviews 10 case studies of individual funds from three regions—Northern Europe, Canada, and Australasia. The researchers look at three funds in Canada and one each in Australia, the Netherlands, Denmark, Norway, New Zealand, Singapore, and Sweden, using the same template for each entity.

The paper starts with a brief description of the fund and explicates its liability profile, covering the source of funding and the intended use for the assets. It then reviews the fund's current governance arrangements, with a particular emphasis on how these may have helped or hindered the fund's investment professionals in their activity. It then looks at the evolution of the fund's investment strategy, focusing in particular on asset allocation and portfolio construction. The paper concludes each case by highlighting a feature unique to the fund in question, which the researchers believe is worthy of further study and emulation by their less advanced peers.

At the end, the paper brings all of these separate strands together, with a view to formulating some general observations about how the best-in-breed public pension and sovereign wealth funds within our universe have evolved with respect to governance and investment strategy. Specifically, the paper tries to determine whether the 10 funds in question have been converging onto one model, or whether their experiences suggest increasing divergence. This section can effectively be viewed as a distillation of some preliminary recommendations for the less advanced funds, based on what the researchers believe to be an emerging consensus around best practices in public sector fund management.

WP 2

Public Pension Fund Governance and Investment: Update and Critique Comparing Japan's GPIF with Foreign Peers

Sadayuki Horie, Senior Researcher, Nomura Research Institute

February 2017

Public pension fund management has undergone major changes globally over the past two decades. Pension fund management mainly involves (1) institutional design, (2) governance, and (3) investment. Approaches to institutional design, the main focus of which is pension finance, differ internationally. The two main models of public pension finance are prefunding and pay-as-you-go. Japan has adopted a predominantly pay-as-you-go model, where current labor force participants essentially fund retirees' pension benefits. However, in anticipation of changing demographics, namely the change in the elderly dependency ratio, Japanese public pension plans have prefunded reserves to cover benefit payments in excess of

contributions. Pension financing models differ internationally, reflecting differences in individual countries' attributes such as population composition, social solidarity, and national attitudes toward risk-sharing, social insurance programs, and entitlement to retirement income. This report leaves the issue of institutional design to other papers and mainly examines public pension plan governance and investment, two areas in which global consensus on best practices exist to at least some extent.

2016–2017 Occasional Papers

OP 74

Review of Yoshio Suzuki's *Difficulties and Challenges, Japan's Post-War History of Monetary Policy and Economic Trends*

Hugh Patrick, R. D. Calkins Professor of International Business Emeritus; Director, CJEB

June 2017

This is a book review edited by Hugh Patrick of a significant book in Japanese on postwar monetary policy by Dr. Yoshio Suzuki, who for many years played a leading intellectual role at the Bank of Japan. The review is based on a substantive summary provided by Dr. Suzuki. The book discusses the postwar economic performance of Japan in the context of monetary policy and its implementation. For the Bank of Japan, these 70 years are indeed a repetitive succession of difficulties and challenges, and of resulting successes and failures. The book has three sections: "Japanese Economy and Monetary Policy in the Developing Period"; "Setbacks of the Japanese Economy"; and "New Challenges of Monetary Policy."

Program on Public Pension and Sovereign Funds

With imposed stress on public pension systems across advanced economies due to the growth in aging populations, many countries have created or reformed public pension funds to finance future shortfalls in pension contributions. Under the guidance of Professor Takatoshi Ito, CJEB established this program in order to examine and conduct extensive research on how public pension funds and sovereign wealth funds should be structured, both in portfolio and governance. The program evaluates public pension fund reforms across Japan and other global economies, with an aim toward deriving lessons for Japan to enhance its Government Pension and Investment Fund (GPIF). Similarly, the GPIF can serve as a model for structuring other public and quasi-public pension funds in Japan and other emerging market economies with the intention of setting up or reforming its own funds.

This year, the PPPSF program held its inaugural conference on April 12, 2017, titled “Conference on Public Pension and Sovereign Funds” (see p. 26), which encompassed three



Panelists speaking at CJEB's Conference on Public Pension and Sovereign Funds

sessions: “Investment Challenges in the Environment of Secular Stagnation”; “Best Practices: The Case of GPIF”; and “Seeking Alpha—The Role of Alternatives in Asset Allocation.” The PPPSF program also produced two working papers in February 2017: “Public Sector Investment Funds: How the

Best-in-Breed Evolved” by Andrew Rozanov (p. 26); and “Public Pension Fund Governance and Investment: Update and Critique Comparing Japan’s GPIF with Foreign Peers” by Sadayuki Horie (p. 26).

Corporate Governance and Stewardship Program

As a major policy to promote structural reforms, Prime Minister Abe introduced the Corporate Governance Code and the Stewardship Code in order to encourage Japanese firms to innovate and invest, and for shareholders to actively monitor and promote those efforts. The Corporate Governance Code is designed to increase transparency and accountability in Japanese corporate management, and the Stewardship Code is designed to encourage investors to engage in active discussion with their

invested companies, in order to guide and accelerate the evolution of Japan’s corporate culture. Through a series of public programs and papers led by Alicia Ogawa, this program initially focuses on an analysis of the governance structure of the most innovative Japanese companies and how it has contributed to their status as leading competitors in the global market. The program’s mission is to inspire best practices among other firms in Japan as they consider new approaches to governance.

In 2016–2017, CJEB held two *zadankai* seminars for its Corporate Governance and Stewardship Program: “Will New Governance Rules Change the Japanese Boardroom?” (p. 40) and “Household Asset Diversification for Japan’s Economic Growth” (p. 41).

The New Global Financial Architecture

Building on CJEB's "Program on Alternative Investments," which ran successfully from 2002 to 2009, the Center established a program in July 2009 titled "The New Global Financial Architecture" (NGFA). The purpose of the NGFA program is to engage in analytical and policy-oriented evaluations of major global financial and economic issues and regulatory changes through conferences, brainstorming sessions, and research activities, with a major emphasis on Japan.

The program brings together distinguished finance and economics professors at Columbia Business School (CBS) and other parts of the University with scholars and financial market participants in the United States, Japan, Europe, and China. While emphasis is placed on Japan and the United States, the program also concentrates on

the broader context of the global financial system and all of its major players. Topics include, but are not limited to, financial system restructuring; development of national and international regulatory systems; effective governance, supervision, and monitoring; the operations of and interactions among specific financial markets; the relationships between finance and the performance of the economy; and the nature and role of government and monetary policies.

The NGFA program began with CJEB's seed funding, and in 2011, Aflac Japan became the first sponsor. The Center continues to seek a small number of appropriate sponsors inclined to make significant annual commitments for three years. We encourage anyone interested in becoming involved in the NGFA program to contact us.

This year, CJEB held a number of NGFA events, including seven at Columbia University: "Private Views on Japanese Government Corporations" in October 2016; "The Evolution of Bank Regulation and Supervision After the Recent Global Financial Crisis" in November 2016 (p. 38); "Will New Governance Rules Change the Japanese Boardroom?" in February 2017 (p. 40); and, in April 2017, "Household Asset Diversification for Japan's Economic Growth" (p. 41), "Special Lecture with Minister Aso," and "Recent Developments in the Global Markets" (p. 41). Finally, "Japan's Global and Domestic Futures: The U.S. Relationship and FinTech" (p. 30) was held as part of the NGFA program in Tokyo in May 2017.

EVENTS

Each year, CJEB organizes and hosts numerous major conferences, symposia, lectures, seminars, and workshops that feature distinguished speakers. These programs provide an important educational platform for students, academics, members of the private sector, and policymakers from Japan and the United States. The 2016–2017 events are listed below and split into the following sections: Conferences, Symposia, Lectures, and Lunchtime Seminars. All professional titles listed for participants are accurate for the time of the event. In addition to the descriptions below, videos and reports can be found on CJEB's website: www.gsb.columbia.edu/cjeb.

Conferences



Front row, left to right: Hugh Patrick, Takatoshi Ito; second row: PPPSF advisor Don Allison, Kevin Bong, Richard Clarida, John Gandolfo, Joyce Chang, Fiona Stewart, Sadayuki Horie, Hilda Ochoa-Brillembourg, Bob Prince; back row: Geoffrey Rubin, Andrew Rozanov, Norihiro Takahashi, Chris Schindler, William Kinlaw

Conference on Public Pension and Sovereign Funds

April 12, 2017, The Italian Academy, Columbia University

This was the inaugural conference of CJEB's Program on Public Pension and Sovereign Funds (PPPSF). CJEB director Hugh Patrick gave opening remarks and briefly introduced the program. The director of PPPSF, Takatoshi Ito, who is also a professor at the School of International and Public Affairs (SIPA) at Columbia University, followed with more details about the program and its findings so far and then went on to introduce the three panels. In the first panel, "Investment Challenges in an Environment of Secular Stagnation," the panelists discussed the current investment environment and the main challenges with portfolio management. The second panel, "Best Practices: The Case of GPIF," featured a dialogue on Japan's Government Pension Investment Fund (GPIF), the major reforms that took place, and how the GPIF can serve as a model for other countries' pension funds. In the final

panel session, "Seeking Alpha—The Role of Alternatives in Asset Allocation," the panelists discussed and identified optimal asset mix and how these alternatives would fair in today's environment.

Welcoming Remarks

Hugh Patrick, Director, CJEB, Columbia Business School

Takatoshi Ito, Professor, School of International and Public Affairs, Columbia University, and Director, Program on Public Pension and Sovereign Funds, CJEB

Session 1: Investment Challenges in an Environment of Secular Stagnation

Moderator: Lawrence Summers, Charles W. Eliot University Professor, Harvard University

Panelists:

Kevin Bong, Senior Vice President, Economics and Investment Strategy, GIC

Joyce Chang, Global Head of Research, JP Morgan Chase & Co.

Richard Clarida, C. Lowell Harriss Professor of Economics and International Affairs,

School of International and Public Affairs, Columbia University; Global Strategic Advisor, PIMCO

Geoffrey Rubin, Managing Director and Head of Portfolio Construction and Research, Canada Pension Plan Investment Board

Session 2: Best Practices: The Case of GPIF

Moderator: Takatoshi Ito

Panelists:

Sadayuki Horie, Senior Researcher, Nomura Research Institute

Andrew Rozanov, Associate Fellow, Chatham House

Fiona Stewart, Lead Financial Sector Specialist, Finance and Markets, the World Bank



Lawrence Summers



Left to right, top: David Asher, Takatoshi Ito, Yuko Kawai, Masaaki Tanaka
Left to right, bottom: Merit E. Janow, David E. Weinstein, Nobuchika Mori, Hugh Patrick, Alan Wm. Wolff, Gerald L. Curtis

Norihiro Takahashi, President, Government Pension Investment Fund

Session 3: Seeking Alpha—The Role of Alternatives in Asset Allocation

Moderator: Hilda Ochoa-Brillembourg, Founder and Chairman, Strategic Investment Group

Panelists:

Scott Evans, Deputy Comptroller for Asset Management and Chief Investment Officer, New York City Retirement Systems

John Gandolfo, Chief Investment Officer, the World Bank Group Staff Retirement and Benefit Plans

William Kinlaw, Senior Managing Director and Global Head, State Street Associates

Bob Prince, Co-Chief Investment Officer, Bridgewater Associates

Chris Schindler, Managing Director, Portfolio Management and Asset Allocation, Ontario Teachers' Pension Plan

Japan's Global and Domestic Futures: The U.S. Relationship and FinTech

May 25, 2017; Otemachi Financial City Conference Center, Tokyo, Japan

CJEB presented its annual Tokyo half-day conference featuring business, government, and academic leaders from Japan and the United States.

Nobuchika Mori, commissioner of Japan's Financial Services Agency and a long-time friend of the Center, delivered the keynote address on financial technology (FinTech) innovations in Japan and beyond. Mr. Mori first addressed the recent and potential developments in FinTech by posing six major questions. Then, Mr. Mori stated that there were many other questions that needed to be addressed as the development of FinTech progresses. He reaffirmed that the attitude of the Japan Financial Services Agency should be as innovative as the industry players, and that one must not be averse to asking questions that cannot yet be answered. Ambassador Alan Wolff, chairman of the National Foreign Trade Council, former U.S.

Deputy Trade Representative, and senior counsel at Dentons US LLP, also delivered the keynote address on the political and economic relationship between the U.S. and Japan. Ambassador Wolff expressed cautious optimism that this close trade relationship would continue under the current administration. He noted that there is no strong indication as to what the Trump administration will do when it comes to trade relations with Japan. However, if bilateral negotiations are to begin, Japan would have to address the U.S. deficit with Japan in merchandise trade, as well as other trade issues. Ambassador Wolff reiterated his firm belief that the United States and Japan can form a unique and remarkable partnership.

Welcoming Remarks

Hugh Patrick, Director, CJEB

Keynote: Will FinTech Create Shared Values?

Speaker: Nobuchika Mori, Commissioner, Financial Services Agency

Moderator: David E. Weinstein, Director of Research, CJEB



Nobuchika Mori



Alan Wm. Wolff

Panel I: The Future of Japanese Financial Services and Industry with FinTech

Panelists:

David L. Asher, Senior Vice President for Strategy and Financial Services, SparkCognition Inc.

Yuko Kawai, Head of FinTech Center, Payment and Settlement Systems Department, Bank of Japan

Yutaka Matsuo, Co-Director, Chair for Global Consumer Intelligence; Project Associate Professor, The University of Tokyo

Masaaki Tanaka, Senior Global Advisor, PwC International

Moderator: Takatoshi Ito, Professor, School of International and Public Affairs, Columbia University

Keynote: The U.S.-Japan Relationship and American Trade Policy

Speaker: Alan Wm. Wolff, Chairman, National Foreign Trade Council; Former U.S. Deputy Trade Representative; Senior Counsel, Dentons US LLP

Moderator: Hugh Patrick

Panel II: U.S.-Japan Economic Relations under the New U.S. Administration

Panelists:

Alan Wm. Wolff

Gerald Curtis, Burgess Professor Emeritus of Political Science, Columbia University

Merit E. Janow, Dean, School of International and Public Affairs, Columbia University

Akihiko Tanaka, President, National Graduate Institute for Policy Studies

Moderator: David E. Weinstein

Closing Remarks

David E. Weinstein

The Japan Project Meeting with Joint ESRI International Conference

July 31-August 1, 2017; Asian Development Bank Institute, Tokyo, Japan

The Japan Project meeting is held annually by CJEB in partnership with the National Bureau of Economic Research (NBER), the Center for Advanced Research in Finance (CARF) at the University of Tokyo, and the Australia-Japan Research Centre (AJRC) at the Crawford School of Public Policy of the Australian National University (ANU). Professor Weinstein organized this two-day academic conference with Professors Shiro Armstrong of ANU, Charles Horioka of the University of the Philippines, Takeo Hoshi of Stanford University, and Tsutomu Watanabe of the University of Tokyo. The organizers are grateful to the Asian Development Bank Institute for its generous assistance and support.

The ESRI International Conference, sponsored by the Economic and Social Research Institute (ESRI) of the Cabinet office of the Government of Japan, is held jointly with the

Japan Project meeting every year. This year's ESRI Conference was titled "The Global Decline in Growth Rate and Possible Policy Responses."

Please see below for the agendas for both the Japan Project and the ESRI Conference.

The Japan Project Meeting

Welcome Remarks by

Naoyuki Yoshino, Dean, Asian Development Bank Institute

Government Spending Multipliers under the Zero Lower Bound: Evidence from Japan

Authors: Wataru Miyamoto, Bank of Canada; Thuy Lan Nguyen, Santa Clara University; Dmitriy Sergeyev, Bocconi University

Discussant: Valerie A. Ramey, University of California at San Diego and NBER

Identifying Neighborhood Effects among Firms: Evidence from Location Lotteries of the Tokyo Tsukiji Fish Market

Author: Kentaro Nakajima, Hitotsubashi University; Kensuke Teshima, Instituto Tecnológico Autónomo de México

Discussant: Andrew B. Bernard, Dartmouth College and NBER

On Large-Scale Money Finance in the Presence of Black Markets: A Case of the Japanese Economy During and Immediately after World War II

Author: Makoto Saito, Hitotsubashi University

Discussant: Raymond Fisman, Boston University and NBER

Product Turnover and Deflation: Evidence from Japan

Authors: Kozo Ueda, Waseda University; Kota Watanabe, Meiji University; Tsutomu Watanabe, University of Tokyo

Discussant: David Atkin, Massachusetts Institute of Technology and NBER

Outcaste Politics and Organized Crime in Japan: The Effect of Terminating Ethnic Subsidies

Authors: J. Mark Ramseyer, Harvard University; Eric B. Rasmusen, Indiana University

Discussant: Chiaki Moriguchi, Hitotsubashi University

Information Frictions, Inertia, and Selection on Elasticity: A Field Experiment on Electricity Tariff Choice

Authors: Koichiro Ito, University of Chicago and NBER; Takanori Ida, Kyoto University; Makoto Tanaka, National Graduate Institute for Policy Studies (GRIPS)

Discussant: Tatsuo Hatta, Asian Growth Research Institute

ESRI International Conference: "The Global Decline in Growth Rate and Possible Policy Responses"

Keynote:

Austan Goolsbee, Robert P. Gwinn Professor of Economics, The University of Chicago Booth School of Business

First Session: "The Expert Survey on the Size of Japan's Fiscal Multiplier" and "Fiscal Multiplier Estimated from Prefectural Data"

Presenters: Masahiro Hori, ESRI; Tsuruga Takayuki, Kyoto University

Commentator: Justin Wolfers, University of Michigan

Second Session: Japan's Debt Sustainability Reassessed

Presenter: David Weinstein, Columbia University

Commentator: Hisakazu Kato, Meiji University

Third Session: On Womenomics

Presenter: Betsey Stevenson, University of Michigan

Commentator: Naohiro Yashiro, Showa Women's University

Fourth Session: Panel Discussion

Coordinator: Atsushi Seike, ESRI

Panelists: Austan Goolsbee, University of Chicago; Motoshige Itoh, Gakushuin University; Kazumasa Iwata, Japan Center for Economic Research; Anil Kashyap, University of Chicago



David E. Weinstein speaking at a CJEB lecture

Symposia



Masatsugu Nagato



Yasushi Kinoshita

Private Views on Japanese Government Corporations

October 6, 2016; International Affairs Building, Columbia University

As part of the Center on Japanese Economy and Business (CJEB)'s 30th anniversary public program series, CJEB invited two prominent speakers to share their views on former Japanese government corporations: Masatsugu Nagato, president and CEO of Japan Post Holdings Co., Ltd., and Yasushi Kinoshita, deputy president of the Development Bank of Japan Inc. Hugh Patrick, director of CJEB, introduced the speakers and moderated the discussion. Professor Patrick first noted that the privatization of Japan Post Holdings began in 2005 when Junichiro Koizumi was Prime Minister, and its trajectory continues; however, due to excessive political pressure by local postmasters who rejected this change, it has been a slow process. The Development Bank of Japan (DBJ) was also privatized in 2007 as part of an effort by the first Abe

Administration to simplify government; the government has found it useful to have a government-controlled organization that keeps the credit markets liquid for long-term investments.

Mr. Nagato's remarks, titled "Japan Post Privatization: The Political Intention and the Business Effects," covered the privatization of Japan Post Holdings, which oversees Japan Post Group, which in turn includes postal service, bank and insurance groups. There are 24,000 post offices in Japan, and its bank is the largest financial institution in Japan aside from the central bank. Mr. Kinoshita offered his remarks, titled "Blending Finance to Grow: The Public-Private Partnership in Developed Economies," describing his experience at the DBJ. The DBJ was created to support Japanese industry rehabilitation after World War II and underwent a series of regulatory reforms in recent years. Most recently, to obtain a more profitable asset portfolio, DBJ became privatized and invested in high-risk debt products.

Is the Glass Ceiling Dented, Cracked, Broken, or Firmly in Place?

November 29, 2016; Uris Hall, Columbia Business School

CJEB hosted this special symposium featuring remarks by Jean Afterman, senior vice president and assistant general manager of the New York Yankees; Michelle (Mick) Lee, CEO and founder of WINiT; and Mary Harman, managing director of Enterprise Payments of the Bank of America. Jennifer Hill, MBA '94, former chief financial officer for Global Banking and Global Markets at Bank of America, moderated the discussion. All speakers agreed that the glass ceiling has certainly been dented for women. More women are on boards, are CEOs of companies, and involved in all levels of government. All shared their views and experiences objectively on how far women have really come, what the remaining challenges are, and more. They also touched on issues such as work life



From left to right: Jean Afterman, Mary Harman, Michelle Lee, Jennifer Hill



Yoshiyuki Sankai speaking at annual Mitsui USA symposium

balance, company policies to ensure more diverse leaders, and employment laws. The audience joined a lively discussion of these issues. This symposium was cosponsored by the Richard Paul Richman Center for Business, Law, and Public Policy, Columbia University.

Social Innovation with Innovative Cybernic Systems: Challenges to Shape the Future “Society 5.0”

The 18th Annual Mitsui USA Symposium

April 11, 2017; Uris Hall, Columbia Business School

At the 18th Annual Mitsui USA Symposium, Yoshiyuki Sankai, president and CEO of CYBERDYNE, Inc., shared his vision for social innovation given his experience in developing and marketing Cybernic Systems. His vision consisted of Cybernic interface devices including the world’s first cyborg-type robot, “HAL.” Hugh Patrick, director of CJEB, introduced Dr. Sankai and moderated

the discussion. Dr. Sankai discussed the challenges of developing Cybernic Systems for social innovation. He also noted that international collaboration has been essential to the development and dissemination of Cybernic Systems—hybrid technological systems that improve, support, expand, and regenerate humans’ brain-neuro-physical functions. A goal of Dr. Sankai’s company is to solve social problems such as aging by creating innovative devices and systems and also to make them more financially accessible. Dr. Sankai shared a few cases of patient success and demonstrated the Cybernic System, Medical HAL, for the audience. In addition to his position at CYBERDYNE, Dr. Sankai holds a professorship at the University of Tsukuba, where he is also the director for the University’s Center for Cybernics Research (CCR).

Lectures



Kosuke Motani, Photo © Japan Society/Daphne Youree



Takatoshi Ito

Brewing Success: Secrets of a Japanese Sake Business

October 4, 2016; International Affairs Building, Columbia University

JASSA and the Center on Japanese Economy and Business hosted a sake lecture and tasting event featuring Yoshihisa Kita MPA '17. Faced with a declining population and overall decreasing demand for sake in Japan, many companies are seeking opportunities to expand their products into the global market. Mr. Kita's family has operated a traditional sake brewery for almost 200 years, spanning more than 10 generations. He shared details of his experience in his family's brewery through a series of sake-related events in the New York area. He explained the hidden history of sake brewing and business in Japan. Various types of sake were also available for tasting for all attendees.

Moving Beyond Money Capitalism: Japan's Alternative Economic Model of Satoyama Capitalism

Japan Society Corporate Program

October 5, 2016; Japan Society, New York, NY

Japan is facing unprecedented and extraordinary challenges: Japan's massive government debt, slow economic growth rate, demographic shifts, and deadly earthquakes and tsunamis. In the midst of all this, satoyama capitalism, an alternative economic model that focuses on fostering self-sustaining local economies, has been attracting immense attention in Japan. In particular, rural areas are embracing this new concept by utilizing locally available resources, technology, and infrastructure to restore their vitality. In this program, Kosuke Motani '94, chief research economist at the Japan Research Institute and author of the best-selling book *Satoyama Capitalism*, discussed the paradigm shift toward satoyama capitalism and the concept behind this economic model. He also shared best practices and examples of communities

implementing satoyama capitalism in Japan. Shawn Escoffery, director of Strong Local Economies at the Surdna Foundation, presided over this program. The main organizer was the Japan Society, and CJEB was a co-organizer.

Powers of Nominal Variables—Japan's Experiences of a Quarter Century Deflation

November 10, 2016; Schermerhorn Hall, Columbia University

Yutaka Harada, a member of the policy board at the Bank of Japan, was a special guest lecturer for David Weinstein's course, "Economic Developments of Japan." Dr. Harada opened his lecture on Japan's economy and monetary policy since the 1980s and how its economic growth rate has fallen to the lowest among other advanced economies since the 1990s. He then went on to discuss if deflation caused the decline in real GDP growth rate and Japan's economic developments after the introduction of QQE. He concluded his lecture by stating the economy will likely recover from stagnation due to Japan's current monetary policy. This lecture was specifically open



Rona Tison



Minister Taro Aso with Columbia University students

to students of Professor Weinstein's course and a great opportunity for students interested in the Japanese economy to learn more about the Bank of Japan's policies.

The Invisible Arrow of Abenomics: Structural Reform and Innovation

November 30, 2016; International Affairs Building, Columbia University

Takatoshi Ito, professor at SIPA and director of the Program on Public Pension and Sovereign Fund at CJEB, gave a review of the state of Abenomics, and particularly, the uncertainty surrounding its "third arrow," in his second annual lecture at CJEB. Professor Ito began by noting that, of the three arrows—monetary easing, fiscal stimulus, and structural reforms—many people are skeptical of the third: that it may never be fired at all. He noted that the third arrow is not the only one with troubles: the first arrow has not raised the inflation rate to 2 percent yet, and the first and second arrows have resulted in a labor shortage. Professor Ito focused his remarks on labor market

reform, though the third arrow's policies also include various reforms in capital markets and education. As a result of the current growth rate, many economists, who include Professor Ito, do not suggest a continuation of massive fiscal stimulus. Instead, this low, but steady, growth rate could be the new normal for the Japanese economy unless labor input—employment and hours—increases dramatically. Improving labor market conditions are telling us that the economy is near full employment and entering a stage of labor shortage. A labor shortage would constrain the economy from growing faster and thus must be addressed. Professor Ito concluded by expressing the hope that women, the elderly, and foreign workers will rescue Japan from labor shortage and slow growth. David E. Weinstein, CJEB's director of research and Carl S. Shoup Professor of the Japanese Economy at Columbia, opened and moderated the event. This was Professor Ito's third annual lecture on the Japanese economy.

The History and Business Trends of Matcha Green Tea

December 2, 2016; International Affairs Building, Columbia University

Rona Tison, senior vice president of corporate relations and PR at ITO EN (North America) INC., gave an informative and educational presentation on ITO EN's history and business, especially focusing on Matcha green tea in the U.S. market. ITO EN is a multinational beverage company from Japan specializing in tea production and distribution and sales of innovative beverages and is a global leader in premium green teas. Ms. Tison's lecture was followed by the tasting of some of their green tea products. This lecture was organized by JASSA (Japan Study Student Association) at SIPA in cooperation with ITO EN. CJEB also cosponsored this event.



Minister Taro Aso speaking at a CJEB lecture



From left to right: David E. Weinstein, Takatoshi Ito, Taro Aso, Hugh Patrick

Bank of Japan's Business Operations and Functions

April 7, 2017; Uris Hall, Columbia Business School

Mr. Hiroyuki Kanno, a CJEB Visiting Fellow and associate director-general and head of the Planning and Coordination Division at the Operations Department of the Bank of Japan, gave a private lecture to Columbia students to discuss the Bank of Japan's mission, its role as a central bank in Japan, and how it works in conjunction with the current government administration to implement monetary policies. This lecture provided a great introduction to the Bank of Japan and how it operates. Students from CBS, SIPA, Columbia Japan Society (CJS), and those who have demonstrated interest in the Bank of Japan's operation attended this lecture and took this as an opportunity to connect with the BOJ executive.

Special Lecture with Minister Aso

April 19, 2017; International Affairs Building, Columbia University

Minister Taro Aso, deputy prime minister, minister of finance, and minister of state for financial services of Japan, discussed the current state of the Japanese economy, his role in guiding the economy, and the progress Japan has made in recent years. He began the lecture by stating Japan did not lose two decades to stagnation but instead gained two decades. For the past 20 years, while Japan's economy did not grow, it underwent a quiet revolution. According to Minister Aso, the way the Ministry of Finance operates has changed significantly, as it holds no say over the financial industry, since the Financial Services Agency now exists. In terms of its budgeting process, the power is shared between the Ministry of Finance and the Prime Minister's Cabinet Office, and adding the operation independence of the Bank of Japan into the picture, the Japanese government is in a much different place from what it was 25 years ago.

Minister Aso is determined to push for reform, and progress is being made. More

than ever, U.S.-Japan economic ties are important. The day before his lecture at Columbia, Minister Aso met with Vice President Mike Pence in Tokyo to launch the U.S.-Japan economic dialogue and further deepen the economic ties between the two countries. Minister Aso is confident about working with Vice President Pence on this initiative and cited the automobile trade between the two countries as an example. He concluded his speech by stating that he is optimistic about Japan's future. Hugh Patrick provided opening remarks, and Takatoshi Ito served as moderator. David E. Weinstein gave closing remarks and thanked Minister Aso for an engaging discussion that gave new insights into Japan's future.

Lunchtime Seminars



Kazuhito Yamashita



Masamichi Kono

CJEB organizes a series of lunchtime seminars on campus for students, faculty, and members of the Columbia and New York community. These include *zadankai*, or informal discussions, which involve lengthy question-and-answer periods with the audience and are geared toward presenting new and insightful angles for understanding Japanese business and economic issues; and brown bags, in which CJEB collaborates with other organizations on campus to sponsor talks featuring a diverse range of topics related to Japan. Seminars held in 2016–2017 included:

Will TPP Cause the Fall of Japan's Powerful Agricultural Cooperatives?

Zadankai

September 27, 2016; Uris Hall, Columbia Business School

Kazuhito Yamashita, Ph.D., Research Director, The Canon Institute for Global Studies

Moderator: Hugh Patrick, Director, CJEB

According to Dr. Yamashita, Japan's agriculture policy needs major restructuring and reform in order to stimulate Japan's economic growth. The current agriculture policy has led to the development of many inefficient, small-scaled, and part-time farmers in the rice industry and are heavily protected by the JA (Japanese Agricultural Cooperatives). Given recent developments with the Trans-Pacific Partnership (TPP), JA and many farmers oppose TPP in fear that it will damage the Japanese agriculture industry. This caused the Abe administration to partially reform the JA and reduce its political influence, which Dr. Yamashita suggested by restructuring JA as joint stock companies or by eliminating the high rice price.

The Evolution of Bank Regulation and Supervision After the Recent Global Financial Crisis

Zadankai

November 29, 2016; Warren Hall, Columbia Business School

Masamichi Kono, Senior Advisor, KPMG AZSA LLC; Executive Fellow, Japan Securities Research Institute; Former Vice Minister for International Affairs, Financial Services Agency, Japan

Discussant: Christine M. Cumming, Central Banker in Residence and Adjunct Professor, School of International and Public Affairs, Columbia University; Former COO and First Vice President, Federal Reserve Bank of New York

Moderator: Takatoshi Ito, Professor, School of International and Public Affairs, Columbia University; Director of the Program on Public Pension and Sovereign Funds, CJEB

Mr. Kono presented his views on the recent evolution of financial regulation and supervision based on his experience in working with the Minister for Financial Services at the Financial Services Agency (FSA). He discussed the progress of regulatory reform, shaped by the recent global financial crisis, and the challenges faced in implementing greater transparency and accountability in financial institutions. He then addressed the G20 countries' commitment to enhancing supervision on financial institutions in order to prevent future crises and concluded the



Satoru Murase



Hitoshi Tanaka

lecture by giving his perspective on how to increase investment growth and development in Asia.

Has There Really Been a Japanese Corporate Governance Revolution?

Zadankai

December 1, 2016; Uris Hall, Columbia Business School

Satoru Murase, Partner, Morgan, Lewis & Bockius LLP

Moderator: Hugh Patrick, Director, CJEB

A key component of the Abenomics plan to revitalize economic growth in Japan is corporate governance reform. According to Mr. Murase, while the change in Japanese corporate governance has not been revolutionary, there has been a tremendous evolutionary change in its system and practices. The current reform has had a number of successes, including the increase in return on equity (ROE) and the number of outside directors within companies, and a positive change in attitude from corporate leadership

to consider alternative strategies to attract more investors and compete globally. Despite its successes, there are still many challenges that prevent the reform from being fully effective, such as the weak enforcement of the Corporate Governance Code and Stewardship Code and the difficulty in fundamentally restructuring a company in Japan. Mr. Murase concluded that Japanese corporations, shareholders, and investors need to take the initiative instead of relying only on the government to devise policies to improve corporate governance in Japan.

U.S. Presidential Election: The View from Japan—Implications for Asian Security

Brown Bag

December 13, 2016; International Affairs Building, Columbia University

Hitoshi Tanaka, Chairman, Institute for International Strategy, The Japan Research Institute, Ltd.

Moderator: Takako Hikotani, Gerald L. Curtis Visiting Associate Professor of Modern Japanese Politics and Foreign Policy, Columbia University

This lecture was the first of three lectures focused on how the U.S. presidential electoral process was viewed from Japan. Hitoshi Tanaka, chairman of the Institute for International Strategy at the Japan Research Institute, Ltd., spoke about how Japan's security will be affected under Trump's presidency. Professor Takako Hikotani, Gerald L. Curtis Visiting Associate Professor of Modern Japanese Politics and Foreign Policy at Columbia University, moderated this event. This event was also cosponsored by the Weatherhead East Asian Institute at Columbia University.

U.S. Presidential Election: The View from Japan—The Impact on Japanese Politics

Brown Bag

January 19, 2017; International Affairs Building, Columbia University



From left to right: Toshihiro Nakayama, Arthur M. Mitchell, Satoru Komiya

Satoshi Machidori, Professor, Kyoto University

Moderator: Takako Hikotani, Gerald L. Curtis Visiting Associate Professor of Modern Japanese Politics and Foreign Policy, Columbia University

This lecture focused on how the U.S. electoral process was viewed from Japan and how it will influence Japan's politics, featuring Satoshi Machidori, professor at Kyoto University, as the speaker. After the lecture, JASSA held a workshop on Japanese politics. This event was moderated by Professor Takako Hikotani, Gerald L. Curtis Visiting Associate Professor of Modern Japanese Politics and Foreign Policy at Columbia University. This event was also cosponsored by the Weatherhead East Asian Institute at Columbia University.

U.S. Presidential Election: The View from Japan—The Future of the U.S.-Japan Alliance

Brown Bag

January 23, 2017; International Affairs Building, Columbia University

Toshihiro Nakayama, Professor, Keio University

Moderator: Gerald L. Curtis, Burgess Professor Emeritus of Political Science, Columbia University

The Japanese public paid very close attention to what was going on in the U.S. presidential election of 2016, first out of curiosity, then with growing alarm. Following the unexpected election result, Prime Minister Abe was quick to respond. He had no hesitation in meeting President-elect Trump, whereas in Europe, leaders were more cautious. Professor Toshihiro Nakayama, professor at Keio University SFC and adjunct fellow at the Japan Institute of International Affairs, gave a presentation focusing on how Japan viewed the election and how Japan sees Japan-U.S. relations in the new administration. Professor Gerald L. Curtis, Burgess Professor Emeritus of Political Science at Columbia University, opened and moderated this event. It was cosponsored by the Weatherhead East Asian Institute at Columbia University.

Will New Governance Rules Change the Japanese Boardroom?

Zadankai

February 27, 2017; Uris Hall, Columbia Business School

Arthur M. Mitchell, Senior Counselor, Tokyo, White & Case LLP

Moderator: Alicia Ogawa, Director, Project on Japanese Corporate Governance and Stewardship, CJEB

As a non-Japanese board member of a Japanese megabank, Arthur Mitchell shared his views on corporate governance reform in Japan and its affect on the Japanese boardroom. According to Mr. Mitchell, outside directors and corporate boards should engage by asking questions to ensure accountability and transparency in the company's relationship with its stakeholders. Financial institutions can play a significant role in encouraging this by having more open consultation and conversations with outside directors regarding corporate strategy, risk management, business planning, and capital allocation.



Tetsuya Kubo



Hiroshi Watanabe

compared to other countries such as the U.S. With Japan's current challenges of a declining birth rate and aging population, expenditures for social security and public pensions are becoming an imminent problem. According to Mr. Kubo, in order to maintain a healthy economy and combat these challenges, it is important to encourage the diversification of individual household assets in investments. The Financial Services Agency introduced plans like NISA, a tax exemption program for small investments, in an effort to encourage the transfer of household assets toward investments. Core securities companies like SMBC Nikko Securities are expanding their businesses to assist in this mission.

Tokio Marine Group's Corporate Strategy: The Future Direction of Japan's Leading Insurance Company

Zadankai

March 23, 2017; Uris Hall, Columbia Business School

Satoru Komiya, Managing Executive Officer, R&D Department, Tokio Marine Holdings, Inc.

Moderator: Hugh Patrick, Director, CJEB

Mr. Komiya shared his views on how Japanese companies should develop new corporate strategies to compete in a changing world economy. By using Tokio Marine as an example, he demonstrated how the company transformed itself and succeeded as a leading non-life insurance company in Japan by expanding its global footprint through multiple acquisitions across the U.S. and Europe. In order for Tokio Marine to further globalize its business, the company must continue to deliver on its promises to clients, diversify risks, and seek further growth opportunities. To achieve these initiatives, Tokio Marine's

corporate strategy is to globalize its group management by introducing common policies and cross-function systems, developing new products and services, and cultivating human resources and organization.

Household Asset Diversification for Japan's Economic Growth

Zadankai

April 6, 2017; Warren Hall, Columbia Business School

Tetsuya Kubo, Chairman of the Board, SMBC Nikko Securities Inc.

Moderator: Alicia Ogawa, Director, Project on Japanese Corporate Governance and Stewardship, CJEB

More than half of Japan's household assets are held in cash and deposits, making the rate of return extremely low, especially with the introduction of the Bank of Japan's negative interest rate policy. About 16 percent of assets are allocated in investments or risk money, which is a small percentage

Recent Developments in the Global Markets

Zadankai

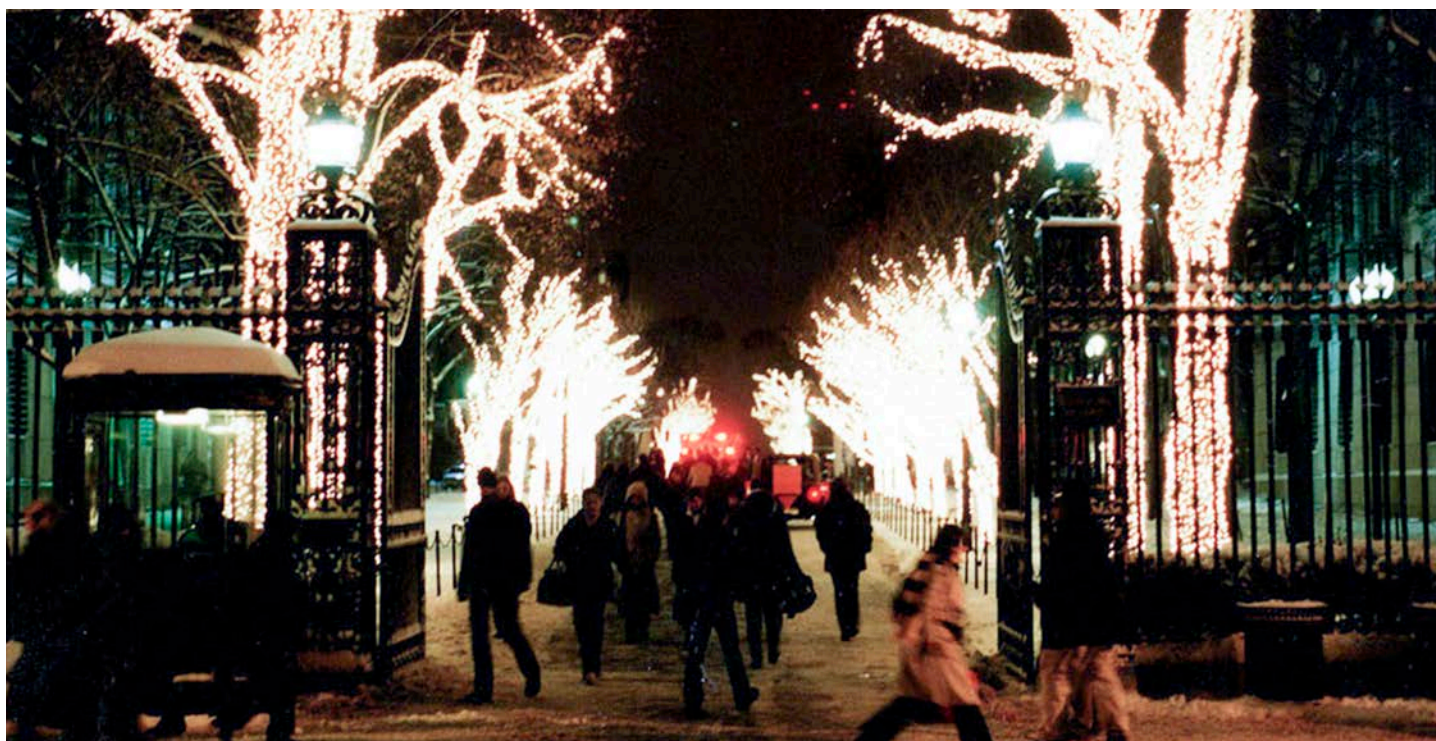
April 25, 2017; Uris Hall, Columbia Business School

Hiroshi Watanabe, President, Institute for International Monetary Affairs

Moderator: Hugh Patrick, Director, CJEB

Mr. Watanabe explained his position on the current assessment of the economic and political developments in Japan as it responds to external turbulence in the United States, China, and Europe. He also shared his strategic ideas for Japan to restructure its system and governance toward an increasingly aging society. Finally, he discussed Japan's contribution to ASEAN and other Asian economies, with due consideration of supply chains formed in Asia.

Faculty Advisory Committee



CJEB's Faculty Advisory Committee was formed to provide insight and guidance to CJEB's governance, research, teaching, and outreach activities. The diversity of intellectual focus among the committee members is key to furthering CJEB's mission of serving as a comprehensive forum for collaboration and reflection on Japan, the United States, and the global economy. CJEB directors receive valuable advice and recommendations on potential opportunities to expand and develop the Center. In addition to **Hugh Patrick** and **David E. Weinstein**, the members of the Committee are:

Charles W. Calomiris

*Henry Kaufman Professor of Financial Institutions
Faculty Director, Program for Financial Studies
Columbia Business School*

Fangruo Chen

*MUTB Professor of International Business
Columbia Business School*

Wouter H. Dessein

*Eli Ginzberg Professor of Finance and Economics
Professor, Heilbrunn Center for Graham and Dodd Investing
Columbia Business School*

Robert J. Hodrick

*Nomura Professor of International Finance
Academic Advisory Board Member, Program for Financial Studies
Columbia Business School*

Sheena S. Iyengar

*S. T. Lee Professor of Business
Columbia Business School*

Merit E. Janow

*Dean
Professor of Professional Practice, International Economic Law and International Affairs
School of International and Public Affairs
Co-Director, APEC Study Center
Columbia University*

Bruce M. Kogut

*Sanford C. Bernstein & Co. Professor of Leadership and Ethics
Director, Sanford C. Bernstein & Co. Center for Leadership and Ethics
Columbia Business School*

2016-2017 Visiting Fellows

Each year, a small number of professional and academic fellows are selected to spend a period of time in residence at Columbia Business School. CJEB Visiting Fellows receive a unique research and networking experience at one of the world's most prestigious business schools in a top-ranking university while experiencing the dynamic lifestyle of New York City. The 2016-2017 Visiting Fellows are:



Tetsuro Asakawa
Kyushu Sangyo
University
August 2016-
September 2016



Tatsuya Goto
Nikkei Inc.
July 2016-June
2017



Satoshi Inoue
Sumitomo Mitsui
Trust Bank, Limited
June 2016-May
2017



Naoto Isaka
Sophia University
August 2015-July
2016



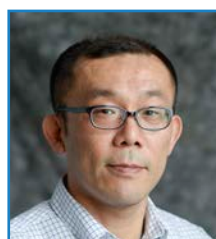
Tomohiro Jitsui
Tokai Tokyo
Securities Co., Ltd.
October 2015-
August 2016



Yusuke Kataoka
MinebeaMitsumi
Inc.
September 2016-
May 2017



Satoru Komiya
Tokio Marine
Holdings, Inc.
April 2016-March
2017



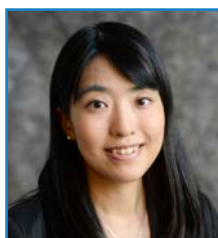
Takafumi Korenaga
Senshu University
April 2016-March
2017



Masako Kurosawa
National Graduate
Institute for Policy
Studies (GRIPS)
August 2015-
March 2017



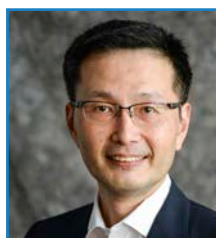
Mayuko Morinaga
Tokai Tokyo
Securities Co., Ltd.
February 2017-
February 2018



Akiko Osawa
Ministry of Finance,
Japan
October 2016-
April 2017



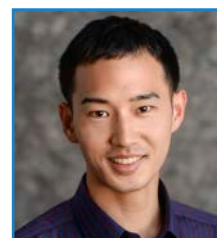
Mariko Oyabu
Sumitomo Mitsui
Trust Bank, Limited
May 2017-May
2018



Masazumi Wakatabe
Waseda University
March 2017-April
2018



Kentaro Yajima
Mitsui Sumitomo
Insurance Co., Ltd.
July 2016-June
2017



Yuki Yazumi
Hyogo Prefectural
Credit Federation
of Agricultural
Cooperatives
May 2017-May
2018



Hiroyuki Kanno
Bank of Japan
June 2016-May
2017
*Joint Fellow with
the Weatherhead
East Asian Institute
(WEAI) of Columbia
University*



Hiroki Koike
National Tax Agency
September 2016-
June 2017
*Joint Fellow with
the Weatherhead
East Asian Institute
(WEAI) of Columbia
University*

2017 Visiting Fellow Reunion Reception

CJEB held its annual Visiting Fellow Reunion Reception on May 24, 2017, at the Orizuru Mai Room at the Hotel New Otani in Tokyo. The reunion was cosponsored with CBS Alumni Relations and the Admissions Office, where more than 120 CJEB Visiting Fellows, CBS alumni, and incoming and prospective students attended the reception. The reception commenced with welcoming remarks by CBS Senior Associate Director of Individual Giving **Kelly Garvey**. She then introduced their Columbia Business School Club of Japan (CBSCJ) representative, **Hajime Kosai '96**, who spoke on behalf of **Katsuya Takanashi '69**, president of CBSCJ. CJEB's director, **Hugh Patrick**, then gave brief remarks, welcoming the CJEB Visiting Fellows and alumni, followed by a toast by **Kazuho Tanaka**, a former CJEB Visiting Fellow and former administrative vice minister of finance at the Ministry of Finance and Tokio Marine & Nichido Fire Insurance's current advisor. CJEB's director of research, **David Weinstein**, concluded the reception.



Hugh Patrick speaks at CJEB Visiting Fellow Reunion

2017 Annual Visiting Fellow Business Field Trip

On March 3, 2017, CJEB hosted its annual spring business field trip for its Visiting Fellows. The trip started off with a tour of Bloomberg's unique New York office in the morning. Afterward, the Visiting Fellows took a quick train ride over to Long Island City to hear a presentation hosted by the Long Island City Partnership. The organization shared interesting facts and information about the area and community and its development initiatives and involvement in Long Island City. The Visiting Fellows were then introduced to the local food scene by dining at Oro, an up-and-coming restaurant featuring classic Italian dishes. The trip concluded with a tour of JetBlue Airways Corporation, the iconic U.S. airline company, where our Visiting Fellows had the opportunity to hear about the company's unique operations, marketing efforts, and history.



CJEB directors, staff, and Visiting Fellows at JetBlue Airways Corporation

Research Associates

CJEB benefits from ongoing collaboration with Japan specialists from institutions other than Columbia, principally within the United States. Research associates are invited to communicate their research through participation of the Center's projects and public programs and by contributing to the Center's Working Paper Series.

Christina Ahmadjian

Professor, Graduate School of Commerce and Management
Hitotsubashi University

Shiro Armstrong

Co-Director
Australia-Japan Research Centre
Crawford School of Public Policy
Editor, East Asia Forum
The Australian National University

Schon L. Beechler

Senior Affiliate Professor of Organisational Behaviour
INSEAD

Lee G. Branstetter

Professor of Economics and Public Policy
Heinz College and Department of Social and Decision Sciences
Carnegie Mellon University
Nonresident Senior Fellow
Peterson Institute for International Economics

Jenny Corbett

Distinguished Professor
Crawford School of Public Policy
Director
ANU Japan Institute, ANU College of Asia and the Pacific
The Australian National University

Robert Dekle

Professor of Economics
Department of Economics
University of Southern California

Peter Drysdale

Emeritus Professor of Economics
Head, East Asia Bureau of Economic Research and East Asia Forum
Crawford School of Public Policy
The Australian National University

Robert Eberhart

Assistant Professor
Leavey School of Business
Santa Clara University
Research Fellow
Stanford Technology Venture Program

David Flath

Professor
Department of Economics
Ritsumeikan University
Emeritus Professor of Economics
Poole College of Management
North Carolina State University

Koichi Hamada

Tuntex Professor Emeritus of Economics
Department of Economics
Yale University
Special Advisor to the Cabinet
The Cabinet of Japan

Yasushi Hamao

Visiting Scholar
Yale School of Management
Yale University
Visiting Professor
Schwarzman College
Tsinghua University

Masanori Hashimoto

Professor Emeritus
The Ohio State University

Takeo Hoshi

Henri and Tomoye Takahashi Senior Fellow and Director of the Japan Program
Shorenstein Asia-Pacific Research Center, Freeman Spogli Institute for International Studies
Professor of Finance (by courtesy)
Stanford Graduate School of Business
Stanford University

Anil Kashyap

Edward Eagle Brown Professor of Economics and Finance
The University of Chicago Booth School of Business

Takao Kato

W. S. Schupf Professor of Economics and Far Eastern Studies
Department of Economics
Colgate University

Kenneth N. Kuttner

Robert F. White Class of 1952 Professor of Economics
Department of Economics
Williams College

Patricia H. Kuwayama

Economist
Professional Fellow
Center on Japanese Economy and Business
Columbia Business School
Former Vice President
JPMorgan Chase Bank, N.A.

Edward Lincoln

Professorial Lecturer
George Washington University

Robert A. Myers

Senior Vice President
Fairfield Resources LLC
Former Director of Technology
IBM Japan

Terutomo Ozawa

Professor Emeritus of Economics
Department of Economics
Colorado State University

Joe Peek

Vice President and Economist
Research Department
Federal Reserve Bank of Boston

Adam S. Posen

President
Peterson Institute for International Economics

Professional Fellows

William V. Rapp

Henry J. Leir Professor of International Trade and Business
School of Management
Director
Leir Center for Financial Bubble Research
New Jersey Institute of Technology

Frances McCall Rosenbluth

Damon Wells Professor of Political Science
Department of Political Science
Yale University

Ulrike Schaede

Professor of Japanese Business
Director, JFIT Japan Forum for Innovation and Technology
Executive Director, Center for Emerging and Pacific Economies
School of Global Policy and Strategy (GPS)
University of California, San Diego

Michael J. Smitka

Professor of Economics
Williams School of Commerce
Washington and Lee University

Tsutomu Watanabe

Professor
Graduate School of Economics
University of Tokyo

Eleanor Westney

Professor Emeritus of Organization Studies
The Schulich School of Business
York University

Jiro Yoshida

Associate Professor of Business
Department of Risk Management
Smeal College of Business
The Pennsylvania State University

A professional fellow appointment at the Center recognizes former government officials and business leaders who have had distinguished careers in economics-related fields. This position facilitates his or her ongoing involvement with CJEB and its activities.



Robert E. Fallon is president and CEO of Phosplatin Therapeutics LLC, a company he helped found that is developing a novel class of anticancer chemotherapy drugs. From 2008 to 2011, Mr. Fallon

was adjunct professor at Columbia Business School, where he taught international banking. Prior to his Columbia appointment, Mr. Fallon was chairman of Korea Exchange Bank, a publicly listed \$80 billion institution that is Korea's leading international bank. After taking over as chairman and CEO in January 2004, he led a successful reorganization and restructuring that restored the bank's capital strength and achieved record profitability. He is also the first non-Korean to chair a public company in Korea. Previously, Mr. Fallon was an international banker based in Tokyo with JPMorgan Chase, where he was Asia-Pacific division head for the Chase Manhattan Bank and a member of the Chase Manhattan Corporation Management Committee. He was responsible, as senior executive in Asia, for Chase's activities in the Pacific Rim located across 13 different countries. Mr. Fallon has lived in Asia for more than 30 years and enjoys a myriad of contacts across a wide spectrum of government, corporate, and financial institutions in the region. He travels widely and speaks often on Asian economic and business affairs. He started his banking career with Citibank in Hong Kong in 1975 and later worked in investment banking and management positions in Tokyo. Subsequently, he assumed Asia regional responsibility with Drexel Burnham Lambert and Bankers Trust Company before joining Chase in 1992. Mr. Fallon holds a BA from Ohio University and an MBA from Harvard Business School. Following his undergraduate studies, he served in the U.S. Peace

Corps, including three years as a volunteer mathematics teacher at Chanel College in Western Samoa. Mr. Fallon is chairman of the Council on International Educational Exchange, Inc., a member of the Asia Society and the Council on Foreign Relations, and a professional fellow of CJEB. He is a former director of the Japan Society and of the Korea Society, as well as trustee emeritus of the Ohio University Foundation.



Patricia Hagan

Kuwayama has been studying the Japanese economy since she was a graduate student in the 1960s, completing a doctoral dissertation on effective tariff protection of the Japanese

industry in 1970. She became a professional fellow of CJEB in 2009, after retiring as a vice president and international economist at JPMorgan Chase in New York. Previously, she was JPMorgan's chief economist in Tokyo and earlier with Chemical Bank in Tokyo. From 1970 to 1986, Dr. Kuwayama was with the Federal Reserve Bank of New York, serving in various research and management posts in the International Research, Statistics, and Foreign Exchange Departments. She has been a visiting scholar at the Bank of Japan Institute for Monetary and Economic Research and visiting consultant at the Bank for International Settlements in Basel and taught as a visiting professor at Keio University in Tokyo and at Kobe Gakuin University. Dr. Kuwayama has written widely about Japanese macroeconomic policy, balance of payments issues, and financial institutions, including the postal savings system. She assisted Eleanor M. Hadley in writing *Memoir of a Trustbuster: A Lifelong Adventure with Japan*. She earned her BA and PhD degrees in economics at Harvard University and the City University of New York, respectively, and did her Japanese language studies at Columbia University. She participates actively in the CJEB Visiting Fellow Seminars.

International Advisory Board

The International Advisory Board provides overall guidance for CJEB. Members are distinguished leaders in the fields of Japan-U.S. economic, business, and political relations.

Richard Folsom

Representative Partner
Advantage Partners, Inc.

Shinji Fukukawa

Former Vice-Minister Japanese Ministry of
International Trade and Industry
Senior Advisor
Global Industrial and Social Progress
Research Institute
Chairman
Board of Trustees
Toyo University

Yasushi Kinoshita

Deputy President
Development Bank of Japan Inc.

Charles D. Lake II

Chairman and Representative
Aflac Japan
President
Aflac International

Yuzaburo Mogi '61

Honorary CEO and Chairman of the Board,
Kikkoman Corporation

Toshikazu Nambu

Senior Managing Executive Officer,
Sumitomo Corporation

Atsushi Saito

Chairman, KKR Japan Limited

Taisuke Sasanuma

Representative Partner
Advantage Partners, Inc.

Joseph G. Tompkins '67

President, Saga Investment Co., Inc.



Yasushi Kinoshita speaking at a CJEB symposium

CJEB in the News

CJEB and its academic directors are regularly featured in the media, providing their insights and expertise in Japan-related matters. Highlights for this year include:

Hugh Patrick

Outlook for Asian Economies 2017

NHK World, January 11, 2017

From Rival to Ally: Japan's American Evolution

The Wall Street Journal, March 16, 2017

Takatoshi Ito

The Lessons Learned from Japan's Economy

Bloomberg, September 1, 2016

How Long Will Central Banks Remain Close to Zero

Bloomberg, January 31, 2017

DPM Tharman appointed chairman of top G20 group tasked to review global financial governance

The Strait Times, April 22, 2017

Professor Ito Sees Japan Near 2% Inflation by End of 2018

Bloomberg, May 3, 2017

Professor Ito Says Fed Policy Path Is Best Scenario

Bloomberg, May 3, 2017

Columbia University's Ito on Fed, BOE, BOJ Inflation

Bloomberg, June 15, 2017

Professor Ito Says BOJ Will Keep Yield Near Zero

Bloomberg, June 15, 2017

CJEB/CBS-Related News

CJEB hosted a special lecture featuring Japan's Deputy Prime Minister, Taro Aso, on April 19, 2017. This event was widely covered by several leading news outlets. Some of the titles have been translated from Japanese to English.

Japan's Aso Pushes Back Against U.S. Pressure for Bilateral Trade Deal

Reuters, April 19, 2017

Japan Won't Resort to "Helicopter Money"—Finance Minister Aso

CNBC, April 20, 2017

"Our Airline Crews Won't Beat You," Japan's Deputy PM Tells U.S. Audience

Bloomberg, April 20, 2017

Japan's Deputy Prime Minister Taro Aso Tells U.S. Audience: "Our Airline Crews Won't Beat You"

The Straits Times, April 20, 2017

Japan's Deputy Prime Minister Aso Talks About Japan's Economic Achievements—Columbia University

Bloomberg, April 20, 2017

Japan's Deputy Prime Minister Aso Says: "Japan Won't Resort to 'Helicopter Money' and Tax Increase and Cutting Down Expenditure Are the Key"

Reuters, April 20, 2017

Japan's Deputy Prime Minister Aso: Eager to Increase Consumption Tax

Yomiuri, April 20, 2017

Japan's Deputy Prime Minister Aso Says: "TPP Without the U.S. to Be Discussed in May at APEC"

Featured on:

Asahi Shimbun, April 20, 2017

Jiji Press, April 20, 2017

NHK, April 20, 2017

Nikkei, April 20, 2017

Okinawa Times, April 20, 2017

TBS News, April 20, 2017

Enhancing the MBA Experience



Chazen International Study Tour participants touring Suntory's Yamazaki distillery



Hiroyuki Kanno speaking to Columbia University students

CJEB is a key contributor to the Columbia Business School's (CBS) international community and seeks to pursue opportunities to enhance the MBA student experience. In this endeavor, CJEB's major collaborative partner is the CBS Japan Business Association (JBA), a student-led organization that promotes Japanese business and culture to the CBS community. The Center regularly meets with JBA officers to exchange ideas on ways to promote Japanese economy and business-related issues within CBS.

As an annual initiative, CJEB assists the JBA in organizing the Chazen International Study Tour to Japan. Led by the Jerome A. Chazen Institute for Global Business, the Japan Study Tour sends a group of students on a weeklong trip to Japan, providing a unique opportunity for the students to experience cultural excursions and visits to Japanese corporations. Since the tour's initiation in 1989, CJEB has helped fund the program and contributed to its agenda. Before each trip, the student trip organizers consult with Professor Hugh Patrick and CJEB's director for administration, Ryoko Ogino, on possible

company visits and on the overall current state of the Japanese economy.

The 2017 Chazen Japan Study Tour took place from March 12 to March 19 and was a huge success. Visiting Kyoto, Aichi, and Tokyo, the 80 MBA students met with representatives from Japanese corporations and immersed themselves in Japanese cultural sights, and experiences. The students were divided into two groups (Teams A and B, 40 students each), and each group had an independent itinerary. CBS Assistant Dean for Financial Aid Marilena Botoulas and CBS adjunct assistant professor of business Christopher Castiglione joined Teams A and B, respectively.

Team A visited Taizo-in temple in Kyoto to learn about Zen and its influence in business practices. In Tokyo, they were welcomed by the Cabinet Office and given a lecture on Japanese philosophy. Students also learned about Japan's monetary policies and gained insights on the Japanese economy at the Bank of Japan. At the alumni reception, Mr. Yutaka Yoshimoto, deputy director-general at METI, gave a lecture on corporate

turnarounds in Japan from the views of policymaking.

Team B students toured the Omron manufacturing plant and listened to presentations from several companies, including Mitsubishi Real Estate, Hoshinoya, and two *Shinise* (established and long-standing Japanese companies). In Kyoto, they visited Suntory's Yamazaki distillery to learn about the production process of its world-famous whisky. They also visited several historical sites, including the Golden Pavilion and the Fushimi Inari Shrine. While in Tokyo, the participants visited Asakusa and participated in an *Urasenke* tea ceremony and *Edo-Kiriko*, the traditional Japanese cut glass-making experience.

The visit to the Toyota manufacturing plant was done jointly with the two teams. Students had a chance to see the world-leading production process, which they had studied in their core operations class. The two teams also stayed in a *ryokan* (traditional Japanese inn) in Gamagori and experienced bathing in an onsen and eating a *kaiseki* dinner.

Enhancing the Columbia Experience

JBA also cohosted an “International Happy Hour—Festival of Nations” night on April 13, 2017, with other regional/affinity clubs. At this event, which CJEB funded, the JBA officers prepared Japanese food and drinks for the Columbia community, introduced Japan’s food industry, and demonstrated Japanese traditional clothing. This event gave Columbia students an opportunity to learn about various cultures as well as appreciate and celebrate the diversity at Columbia.

The CJEB annual welcome reception for CJEB Visiting Fellows, students, and other CBS community members was held on September 21, 2016. CJEB officers and staff welcomed the CBS community to the new academic year, allowing CBS students the opportunity to network with CJEB Visiting Fellows and CBS faculty and staff from other departments.

On April 7, 2017, CJEB organized a lecture, titled “Bank of Japan’s Business Operations and Functions,” featuring one of CJEB’s Visiting Fellows, Hiroyuki Kanno, associate director-general and head of the Planning and Coordination Division in the Operations Department at the Bank of Japan. Columbia students, including those from JBA, Japan Study Student Association (JASSA), and Columbia Japan Society (CJS), were invited to listen and connect with Mr. Kanno. He shared his views on the Bank of Japan’s business operations and functions (see p. 37 for more details).

Columbia University offers many resources and opportunities for students, faculty, and alumni interested in learning more about Japan outside the Business School. CJEB contributes to this initiative by assisting other organizations on campus that are engaged in Japan-related activities. This includes the Weatherhead East Asian Institute (WEAI), the Donald Keene Center, the APEC Study Center, the East Asian Languages and Cultures (EALAC) Department, the School of International and Public Affairs (SIPA), and many others.

For 2016–2017, CJEB was proactive and engaged with the Columbia community in various initiatives. In one initiative, the Center provided sponsorship to Columbia Japan Society (CJS), an undergraduate organization at Columbia University run by and composed entirely of students, where the organization’s mission is to introduce and spread aspects of Japanese culture to the Columbia community. On November 11, 2016, CJEB funded CJS for its Sushi Night 2016 event, which introduced the business aspects of sushi and the industry’s impact on the Japanese economy. In another initiative to promote Japan to the Columbia community, CJEB’s director, Hugh Patrick, met with SIPA students January 25, 2017, to discuss the Japanese economy and business and exchange ideas on possible solutions to Japan’s current economic and social issues. CJEB also sponsored the 26th Annual Graduate Student Conference on East Asia, a conference hosted by EALAC. This conference, held from February 24 to 25, 2017, invited graduate students to submit abstracts on research topics related to East Asia and connect and share research with students from institutions around the world.

CJEB is continually active and committed to promoting Japan-related activities at Columbia through the support of JASSA

and its initiatives. On October 4, 2016, JASSA cohosted a sake tasting and lecture with CJEB, featuring Yoshihisa Kita MPA ’17, who discussed his family’s traditional sake brewery and the history of sake brewing and business in Japan. Various types of sake were also available for tasting by the audience. On December 2, 2016, JASSA organized an event that was cosponsored by CJEB and hosted in cooperation with ITO EN. This event featured a lecture and tasting on the history and business trends of matcha green tea, with a guest speaker, Rona Tison, senior vice president of corporate relations and PR of ITO EN. CJEB also continues to fund JASSA’s language table sessions, which help promote understanding of and interest in Japan and provides opportunities to network between native Japanese and those who have interest in living or working in Japan. In spring 2017, JASSA also planned a series of lunch sessions, funded by CJEB, featuring key experts on the Japanese economy, business, and politics. Key speakers included Jun Makihara, a partner at Goldman Sachs; Mio Yamamoto, president of World in Tohoku (WIT); and Columbia faculty members Hugh Patrick, Gerald Curtis, and Merit Janow.

JASSA continues to organize its 11th annual student-led trip to Japan, which is similar to the Chazen International Study Tour to Japan, and partially funded by CJEB. This year, 47 students, including 13 organizers, from 15 countries participated in the trip and traveled to Tohoku (Miyagi or Fukushima), Kyoto, and Tokyo. The trip commenced in the Tohoku region, where students were divided into two groups and visited either the Miyagi prefecture or Fukushima prefecture.

In the Miyagi prefecture, students visited Asuenokibou, an NGO focused on the recovery of this region; Agriead Naruse, an agricultural production corporation; and JICA Tohoku, an organization dedicated to the



JASSA Japan Study Tour participants visiting Tohoku, Kyoto, and Tokyo



Hugh Patrick and Ryoko Ogino discuss leadership with Japanese female student population at Columbia

rebuilding effort in Tohoku after the March 2011 tsunami and earthquake. The students learned how people, especially in private sectors, are now trying to reconstruct their daily lives and community from the devastation caused by the tsunami. In Fukushima, participants went inside the nuclear power station and had a discussion with executives from the Tokyo Electric Power Company (TEPCO). They also met with Mr. Masao Uchibori, the governor of the Fukushima prefecture. There, students learned about the damages caused by the 2011 tsunami and earthquake and how the local government and engineers are struggling to bring back the original environment.

After visiting the Tohoku region, both groups traveled to Kyoto, where students participated in cultural activities, including wearing kimonos and experiencing a tea ceremony. The participants also visited the beautiful Fushimi Inari Shrine and Kiyomizudera Temple and enjoyed traditional Kyoto cuisine, all of which fascinated the students. In their final destination, Tokyo, they had a lot of opportunities to exchange opinions and discussions with leaders in both the public and private sector. In one instance, they visited the Office of the Prime Minister and met Koichi

Hagiuda, deputy chief Cabinet secretary. Mr. Hagiuda explained Japan's foreign policy and the general policy of the Abe administration. They also talked with the first female governor of Tokyo, Ms. YuriKo Koike, to discuss the improving developments of Tokyo and how Tokyo is preparing for the 2020 Olympic and Paralympic games. In addition, they visited the Bank of Japan, Sanrio Company, Recruit Holdings, and Hamano Factory to understand how monetary policy is strategized, how Japan's "Kawaii" culture was created, how Japan's social entrepreneurs are facilitated, and how high technology products are made. Lastly, students visited central ministries and discussed with policymakers Japan's future policies, such as its reconstruction and energy policies. They visited the Ministry of Education, Culture, Sports, Science, and Technology, Ministry of Foreign Affairs, and Ministry of Health, Labour, and Welfare. Through this one-week trip, the students gained a better understanding of the "real Japan" as they gathered insights from diverse perspectives in politics, business, and culture.

On October 3, 2017, Professor Hugh Patrick and Ryoko Ogino organized a lunch to engage with the Japanese female graduate student

population from a cross-section of Columbia schools, including CBS, SIPA, Columbia Law School, Teachers College, and the School of Arts. This lunch is part of an ongoing CJEB initiative to promote career and leadership development among women in the international community

Aside from funding and programming, CJEB engages with the student community by providing opportunities for Columbia students to work at the Center as student casuals. They are selected from a number of applicants, and their contribution to the CJEB team is invaluable, as they are deeply involved in the day-to-day operations of the Center. The Center is committed to developing our student workers professionally while providing a unique learning opportunity. Our student casual program is open to high-performing and proactive students with relevant backgrounds and interests from across the University.

Visits from Japan to Columbia



Hugh Patrick with TOMODACHI Sumitomo Scholars in January



TOMODACHI Sumitomo Scholars meet with CBS and SIPA students



Haruo Shimada and Hugh Patrick

Groups of Japanese undergraduate and graduate students often visit CJEB during their tours of the East Coast. In 2016–2017, student groups from Meiji University, Bunkyo University, and Wako University came to Columbia University. Each group met with Professor Patrick, who gave a brief introduction and fielded questions. Discussion topics included U.S.-Japan relations, Abenomics, trade policies, women's workplace challenges and related policies, challenges presented by Japan's aging population, and attitudes toward foreign study and employment.

In spring 2017, the New York office of one of CJEB's longtime lead corporate sponsors, Sumitomo Corporation of Americas, visited CJEB and Columbia twice as part of its TOMODACHI Sumitomo Corporation Scholars Program. Through this program, scholarship recipients, who come from Japanese universities, are given the opportunity to study abroad in the United States for one year. This year Sumitomo visited CJEB on January 10, 2017 and March 31, 2017, bringing five students for each visit to engage in a conversation with Professor Hugh Patrick and CJEB's director for administration, Ryoko Ogino. Both welcomed Ryoko Tsukada, Emi Hayano, Mitsuhiro Tomita, Noriko Hagiwara, Masumi Abe, Daichi Meguro, Ryu Nagae, Aimi Bessho, Hotsuki Hayama, and Naoki Tokunaga, as well as executives from Sumitomo, to engage in a lively discussion on Japan and the world economy and the students' future prospects. For the group who visited on March 31, 2017, the students had the opportunity to meet with graduate students from CBS and SIPA to receive advice and exchange ideas on job hunting and career development.

On April 10, 2017, Dr. Haruo Shimada, president of the Japan Forum of International Relations, arranged a group visit to CJEB, where the group of 10 professionals and entrepreneurs met with Professor Patrick to discuss the economic, diplomatic, and defense policies under the Trump administration. The group was first given a campus tour of Columbia, which was followed by a frank and informative discussion with Professor Patrick on President Trump's policies and their impact on the U.S.-Japan relationship.

Fellowship and Scholarship Programs



Hugh Patrick meeting SIPA students

CJEB provides select fellowships for Columbia University students who demonstrate outstanding academic ability and a specific interest in Japan and the Asia-Pacific economies. These fellowships support research and participation in academic programs related to Japanese economic and business fields. Further information on these opportunities is available at www.gsb.columbia.edu/cjeb/resources/fellowships.

The **CJEB Doctoral Fellowship** was established in 2013 to support PhD students at CBS and/or Columbia's Department of Economics who intend to develop Japan expertise, culminating in dissertations focused primarily on Japan. Our CJEB Doctoral Fellowship recipients include Guannan (Jackson) Lu in the Management Division of CBS and Shogo Sakabe in the Economics Department of Columbia University. *CJEB Doctoral Research Grants*

and *Summer Stipends* are also available to PhD students at CBS or the Department of Economics who wish to pursue Japan-related research projects or language training programs. This year CJEB awarded two summer stipends to PhD candidates in Columbia University's Department of Economics: Shogo Sakabe and Tatyana Avilova. Shogo is using his stipend to research discount sales and life cycle prices, and Tatyana is using her stipend to work on a proposal related to the Japanese pharmaceutical industry. The Center also awarded a doctoral research grant to Cameron LaPoint, another PhD candidate in the Department of Economics, on his research on the Japanese consumer response to public benefit payments.

The **Sumitomo Fellowship Program** was established by the Center as part of an initial operating grant from Sumitomo Corporation of Americas. The program has provided

support to various Japan-related research initiatives, and the fellowship recipients engage in their own research as well as participate in CJEB programs. Misaki Matsumura, PhD candidate in the Department of Economics, was this year's recipient.

The **Mitsubishi UFJ Trust Scholarship Foundation** provides one Columbia University student each year with tuition and living expenses for a program of either undergraduate or graduate study in Japan. CJEB conducts a University-wide competition on behalf of the Foundation to nominate a student. The award was granted to Deanna Nardy of Columbia University for 2016-2018.

Library and Data Resources



Columbia University is home to one of the largest collections of Japanese- and English-language materials in the United States. CJEB evaluates Columbia University library resources and commits funding to procure new materials on Japan and the Asia-Pacific economies. CJEB also maintains a small working collection of materials on the Japanese and Asia-Pacific economies, including statistical resources, academic journals, and periodicals.

Data Resources

The Center continues to develop its major computer-based databank on the Japanese economy, with an emphasis on financial markets, under the direction of Professor David Weinstein. The databank is a compilation of statistical resources for faculty members and students conducting relevant research.

CJEB's databank includes:

- Time-series and cross-section data on financial markets, institutions, and the

macroeconomy from Nikkei NEEDS Financial QUEST 2.0 and the Development Bank of Japan's Industrial Financial Database

- An online news and data retrieval system that provides essential corporate and economic data as well as leading newspaper and journal articles on Japanese and other Asia-Pacific economies from Nikkei Telecom, which is accessible via Columbia University Libraries (CLIO)

Other data resources:

- CJEB Research Associate Professor Tsutomu Watanabe of the University of Tokyo (along with Kota Watanabe of Chuo University and the University of Tokyo), launched the UTokyo Daily Price Index project in May 2013, which measures and publishes the consumer inflation rate on a daily basis.

Discussion Groups

Japan Economic Seminar

The Japan Economic Seminar (JES) was founded in 1966 by the late Professor James Nakamura of Columbia and Professors Hugh Patrick (then at Yale) and Henry Rosovsky of Harvard. With a membership of up to one hundred individuals, it originally was an inter-university forum for faculty, other professionals, and advanced graduate students to discuss ongoing research in preliminary form by specialists on the Japanese economy. JES now meets once a year, sponsored by CJEB, and is held at Columbia in the spring semester under the leadership of Takatoshi Ito, professor at Columbia's School of International and Public Affairs and director of Program on Public Pension and Sovereign Funds at CJEB. Special arrangements have been made to include economists from Japan as paper authors and discussants.

This year, the JES was held on February 10, 2017, and had four sessions. These sessions were moderated by Professors Ito, Patrick, and Professor Tokuo Iwaisako of Hitotsubashi University and Mr. Naohiko Baba of Goldman Sachs. The Japan Economic Seminar thanks the James Nakamura Fund and the Sasakawa Peace Foundation for their support.

The following papers were discussed:

Fiscal Theory of Inflation: The Great Depression and Contemporary Japan

Presenter: Eric Leeper, Rudy Professor, Indiana University Bloomington (written with Margaret Jacobson, Indiana University Bloomington and Bruce Preston, Professor, University of Melbourne)

Discussants: Tsutomu Watanabe, Professor, The University of Tokyo; Christopher Sims, John J. F. Sherrerd '52 University Professor of Economics, Princeton University

Government Spending Multipliers under the Zero Lower Bound: Evidence from Japan

Presenter: Wataru Miyamoto, Senior Analyst, Bank of Canada (written with Thuy Lan Nguyen, Assistant Professor, Santa Clara University and Dmitriy Sergeyev, Assistant Professor, Bocconi University)

Discussants: Takeo Hoshi, Henri and Tomoye Takahashi Senior Fellow, Stanford University; Etsuro Shioji, Professor, Hitotsubashi University

Estimating Japan's Gross Domestic Income Based on Taxation Data

Presenter: Hiroyuki Fujiwara, Director, Research and Statistics Department, Bank of Japan (written with Yasutaka Ogawa, Bank of Japan)

Discussants: David E. Weinstein, Director of Research, CJEB; Emi Nakamura, Associate Professor of Business, Columbia University

Spillover Effect of Japanese Long-Term Care Insurance as an Employment Promotion Policy for Caregivers

Presenter: Haruko Noguchi, Professor, Waseda University (written with Rong Fu, Akira Kawamura, Hideto Takahashi, and Nanako Tamiya)

Discussants: Emiko Usui, Associate Professor, Hitotsubashi University; Heidi Allen, Assistant Professor, School of Social Work, Columbia University



Japan Economic Seminar participants

U.S.-Japan Discussion Group

Shortly after CJEB was founded, the then-CEO of Sumitomo Corporation of Americas and Professor Patrick took the initiative to organize, on a private and individual basis, an evening discussion group attended by senior Japanese and American businessmen and professionals living in the New York area. The group continues to convene to discuss frankly and informally—and off the record—issues and prospects in U.S.-Japan business, economic, and political relations. Shingo Ueno, the current CEO of Sumitomo Corporation of Americas, and Hugh Patrick are the co-organizers of this group. The members come from the business and financial communities, together with several specialists on Japan from the Columbia University faculty. The group avoids identification with any particular companies or groups and meets twice in the fall and spring for dinner and discussion. The discussions naturally focus on the wide-ranging political economy and how Japanese and American

corporations operate domestically, abroad, and with each other. Topics discussed in 2016–2017 included the implementation of Abenomics, TPP, political stability with Abe in Japan, Trump's election, Trump's economic policy pronouncements, and his administration's initial policy proposals.

Financial Support

Columbia University and Columbia Business School (CBS) give basic support for the Center by providing faculty salaries and office space, library and administrative support, and other essential services. However, the Center relies on external sources of financial support from foundations, corporations, and individuals for its programs and research activities. Income is derived from the Center's endowment, operating and project grants, and, especially, from its Corporate Sponsorship Program, which was established in 1995. Academic independence has not been an issue, as there are no special restrictions attached to any of these gifts.

The Sponsorship Program has been instrumental in expanding the Center's activities and guaranteeing their long-term financial support. The companies listed below support CJEB through funding to help establish an endowment or provide funding on an annual basis. Sumitomo Corporation of Americas made an initial significant contribution that enabled the Center to be established in 1986 and has continued to be a major Center donor. The Center also greatly appreciates and benefits from the income derived from the generous endowments funded by Fuji Xerox Co., Ltd., Sanken Industrial Policy Research Institute, the Marine and Fire Insurance Association, the Federation of Bankers Association, the Security Dealers Association, the Life Insurance Association, and Mitsubishi UFJ Trust and Banking Corporation during the first years of the Center's establishment at CBS.

On May 26, 2017, CJEB was delighted to hold a special luncheon at the Hotel New Otani Tokyo for our corporate sponsors to demonstrate our deep appreciation for their continued support.

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Sponsors for the year 2016-2017 are as follows:

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Columbia Creative

Office of Communications and Public Affairs

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