

# Japan in the Uncertain World: Security, Economic Security, Diversity, and Governance

2022 CJEB Annual Tokyo Conference

Webinar Series

**Day 1: May 24, 2022**



*David Weinstein*

## Welcoming Remarks

The Center on Japanese Economy and Business (CJEB) held its annual Tokyo Conference for the first time since the onset of the COVID-19 pandemic. The conference titled “Japan in the Uncertain World: Security, Economic Security, Diversity, and Governance,” was held virtually over four days between May 24 and June 8, 2022, and served the Center’s overall mission of promoting knowledge of Japanese economic, political, and business systems in domestic, East Asian and international contexts.

David Weinstein, director of CJEB and Carl S. Shoup Professor of the Japanese Economy at Columbia University, welcomed attendees to the first day of the conference. He briefly outlined CJEB’s history, mission, and recent activities and thanked all of the Center’s corporate and individual sponsors for their continued support.

He went on to introduce one of the major themes of this year’s conference by stressing how national security issues have become central to economic policy making—a trend highlighted by the struggles surrounding global sourcing of medical equipment during the pandemic and, more recently, through the global sanctions regime prompted by the Russian invasion of Ukraine. Professor Weinstein then turned it over to Day 1’s moderator, Merit Janow, Dean Emerita of Columbia University’s School of International and Public Affairs (SIPA) and Professor of Practice in International Economic Law and International Affairs at Columbia University.

Professor Janow welcomed attendees and then introduced the keynote speaker for Day 1, Yoshimasa Hayashi, Minister for Foreign Affairs of the Government of Japan.



*Merit Janow*



*Yoshimasa Hayashi*

### **Keynote Speech: Challenges Facing Japanese Diplomacy**

Minister Hayashi, through a pre-recorded video, began his remarks by noting that the international environment Japan finds today is marked by a “competition among nations,” signaling the first turning point since the end of the Cold War in which a U.S.-supported free and open international world order based on the rule of law had come to an end. The Russian aggression against Ukraine, he said, has made the shift to this new age clear.

In light of this challenge, Minister Hayashi highlighted the need for reconstructing a global governance framework that would not allow any unilateral attempts to change the status quo by force, as well as a need to expand and strengthen support for the international order based on the rule of law. As part of this mission, he noted that it was important to also review existing frameworks that have failed to stop Russia, acknowledge their defects, and consider new models that will not allow another such aggression to take place. Minister Hayashi pointed to the United Nations Security Council as an example, noting that the aggression by a permanent member of the Security Council has again exposed the inherent limitations of the structure and the urgent need for its reform.

Minister Hayashi also commented on Japan’s effort to strengthen its cooperation with like-minded countries which support the rule of law, for example, through groupings such as, but not limited to, the G7. In the Indo-Pacific region specifically, he emphasized Japan’s efforts to promote a “Free and Open Indo-Pacific,” noting that the U.S. is Japan’s most important partner in pursuing this vision. In realizing Japan’s own responsibilities to lead the solutions on a wider range of diplomatic issues, Minister Hayashi also noted that Japan was working to help stabilize global food and energy prices in response to the crisis in Ukraine, maintain the high standards of the Trans-Pacific Partnership trade agreement, and revitalize the WTO.

He then highlighted a number of risks Japan faces specifically, such as the increasingly difficult security environment in East Asia with challenges from Russia, China, and North Korea, putting continued importance on the U.S.-Japan alliance while also emphasizing the need for strengthening Japan’s own self-defense capabilities. Lastly, Minister Hayashi noted there were, naturally, also domestic challenges that the administration of Prime Minister Fumio Kishida is working to address, such as widening domestic disparities, a shrinking middle class, and social division.

## Panel: East Asia's Shifting Geopolitical and Security Landscape: What It Means for the U.S.-Japan Alliance



*Left to Right: Thomas J. Christensen, Michael J. Green, Kenichiro Sasae, Susan Thornton*

To start the conference's first panel, Professor Janow expressed how Minister Hayashi's keynote speech served as the unique basis for framing the upcoming discussion on East Asia's changing geopolitical and security environment. She then introduced the panelists: Thomas J. Christensen, Interim Dean and James T. Shotwell Professor of International Relations at SIPA; Kenichiro Sasae, President of the Japan Institute of International Affairs; Susan Thornton, Senior Fellow and Visiting Lecturer at Yale Law School; and Michael J. Green, Senior Vice President for Asia and Japan Chair at the Center for Strategic and International Studies.

Dean Christensen began his analysis by remarking that, while the U.S. and its partners, like Japan, need to adjust their military strategy in the region to be stronger, more mobile, and more flexible, the general American political strategy in the field, featuring a mix of credible threats and political assurances, has been and continues to be successful. While deterring China from cross-strait conflict will become more difficult, Dean Christensen also noted that the Russian invasion of Ukraine likely gave Beijing some pause, especially when it comes to any potential invasion scenarios of Taiwan. He commented that Putin, for example, was "overconfident" and believed his generals, and now Xi Jinping needs to wonder whether he can trust his military leadership to deliver what they would promise ahead of a possible conflict.

Mr. Sasae, former Japanese Ambassador to the United States of America, also discussed the impact of the Ukraine conflict on geopolitical thinking in East Asia, saying that the conflict was making Japan aware of the role the country needs to play in the global context. As part of the international sanctions regime against Russia, Japan has made economic sacrifices and needs to compete in the battle to sustain its economy while also maintaining awareness of the possible nuclear threat from Russia. Ambassador Sasae also agreed with Dean Christensen that the Russian invasion was a "lesson" for China, especially in the context of the Taiwan Strait.

Next, Professor Thornton added that the focus on the Ukraine crisis was drawing a lot of resources from the United States and the West in general, likely hobbling international institutions which were

supposed to be addressing the lingering economic effects and recovery from COVID-19. In light of that, she argued that the U.S. should continue showing leadership and focus on economic recovery and counteract the neglect and weakening of international institutions in an effort to preserve what has been built over the past 70 years.

Professor Green then highlighted how signature foreign policies in the East Asia region from Biden and Trump were actually initiatives that former Japanese Prime Minister Abe introduced, such as the “Free and Open Indo-Pacific” concept. This increasing influence of Japan and Australia over U.S. strategy gives U.S. partners in the region more agency, Professor Green said. He then argued that because those partners wanted a productive relationship with China, this increase of influence was having a stabilizing effect on U.S.-China relations, as well.

During a question-and-answer period led by Professor Janow, the panelists commented on the prospect of improved trilateral relations between the U.S., South Korea, and Japan and shared their different perspectives on where the U.S.-China relationship was headed. Professor Thornton emphasized the need for at least some channel of communication between the U.S. and China on technical issues, while Dean Christensen argued it would be important for the U.S. and its allies to dissuade China from backfilling sanction gaps in Russia. Professor Green noted that the Biden administration appears to have given up on an actual strategy to shape China, instead focusing on its environment. Ambassador Sasae, however, was more optimistic, saying in the medium term, there was a good chance that the U.S. could work out bilateral dialogue with China.

## Day 2: May 25, 2022

Professor Weinstein welcomed participants to the second day of the conference held on May 25, 2022, and framed the topic for the day’s keynote and panel discussion: diversity and Japan’s efforts to effectively incorporate women into the labor force. Professor Weinstein then introduced the keynote speaker, Masako Mori, Special Advisor to the Prime Minister for Women’s Empowerment of the Government of Japan, briefly highlighting her many achievements.



*Masako Mori*

### **Keynote Speech: Crisis Management and Women, New Capitalism and Women**

Special Advisor Mori began her remarks by emphasizing that women’s empowerment was key to Prime Minister Kishida’s agenda. She then briefly touched upon the Japanese government’s humanitarian assistance to the people including women and children in Ukraine and neighboring countries before diving into the history of women and crisis management in her home region of Fukushima, which was severely affected by the earthquake, tsunami, and nuclear power station accident of 2011.

In Fukushima, Special Advisor Mori explained, women were largely excluded from disaster preparedness meetings and planning prior to the earthquake, which led to there being little consideration of women's needs. That's why she engaged in a series of revisions of laws and policy measures to include women in reconstruction and to increase the number of women in disaster preparedness meetings. She also made a variety of "cheat sheets" for shelter preparations and other aspects of disaster preparedness which include women's perspectives.

Special Advisor Mori stressed that women weren't only victims but rather helpers from the perspective of crisis management and that they showed leadership with flexible thinking after the disaster in Fukushima. Closing the gender gap in peaceful times, she noted, decreased damage done to women in times of disaster.

Following Special Advisor Mori's speech, Professor Weinstein moderated a brief question-and-answer session with the keynote speaker, asking her for advice on how executives and managers can increase diversity and inclusion in the workplace and why she thinks only about 10 percent of Japanese parliamentarians are female. Special Advisor Mori emphasized that managers needed to include women in decision-making processes and be willing to try something new. She also remarked that the gender imbalance in the Japanese parliament was shameful and a serious problem, though she noted that some parties have begun to establish a target number of female candidates to tackle this issue.

### **Panel: Diversity and Inclusion**



*Left to Right: Tomoko Hayashi, Jun Suzuki, Keiko Tashiro, Kathy Matsui*

Professor Weinstein then introduced the four panelists: Tomoko Hayashi, Director-General of the Gender Equality Bureau at the Cabinet Office of Japan; Keiko Tashiro, Member of the Board and Deputy President of Daiwa Securities Group Inc.; Dr. Jun Suzuki, Chairperson and Member of the Board of Teijin Limited; and Kathy Matsui, General Partner at MPower Partners.

Ms. Hayashi, in a pre-recorded video message, discussed the issue of the gender gap in the Japanese labor force. She highlighted how the country's social security and tax system were designed to discourage married women from participating in the workforce, thus making it difficult to close the



gender pay gap. As an example, Ms. Hayashi explained that if the annual income of a wife was below a certain level, she wouldn't have to pay social insurance premiums but would still be covered under her husband's account. Policies like these have led women to turn down wage increases or not demand them in the first place. Ms. Hayashi said it was therefore essential to review the social security and tax system, as well as to push for other policies that enhance women's economic empowerment, such as making companies disclose their gender pay gap.

Next, Ms. Tashiro began by highlighting that, for the 15 years after she joined Daiwa Securities in 1986, the percentage of women hired for career-profession positions was less than 3%, even though promoting women into decision-making positions was and is critical. To solve this problem, she said it was important to encourage mid-career and lateral hiring and to provide various training to women in non-professional roles so that they gain confidence to prepare themselves to advance their careers—and the numbers have increased since. Ms. Tashiro also emphasized the importance of supporting women throughout various life events, for instance, by promoting women even while on childcare leave if they fit the qualifications, a policy adopted by Daiwa that motivates women to come back to work. However, Ms. Tashiro also gave a few examples of policies aimed at helping employees raising children, which didn't work initially, showing that changes in culture are necessary for employees to feel safe in utilizing these policies.

Dr. Suzuki then outlined Teijin's thoughts and initiatives in terms of diversity and inclusion, beginning with a brief overview of the company itself. Especially given Teijin's international profile, he said it was important to not limit D&I to just gender, nationality, race, and religion, for instance, matter too. That also means that, depending on the region, the company sets different key performance indicators (KPIs) to measure diversity. In the United States, for instance, ethnicity is a big component, versus in Europe, leadership has set KPIs to increase non-local employees as well. Overall, Dr. Suzuki said that D&I was not the end goal at Teijin; it was rather a necessary means to achieve innovation.

Lastly, Ms. Matsui spoke about the positive correlation between gender diversity and a company's economic performance, citing research that showed that Fortune 500 companies with more board diversity had higher profits and that U.S. start-ups in which women participated as founders or co-founders generated higher revenues over a five-year period. However, Ms. Matsui emphasized that this didn't translate to her saying that women worked harder or were more intelligent—rather, it showed that different perspectives could be a form of risk management and help in cultivating new markets. Especially with the rise of ESG in Europe and the U.S., but also progressively in Japan, this was becoming increasingly important, Ms. Matsui noted.

Professor Weinstein then discussed the continuance of remote work policies in the United States and asked the panelists whether there would be a comparable shift in work style or a return to pre-pandemic office-only work in Japan. Ms. Tashiro noted while there is increased understanding of remote work as a possible option, there is a danger of equating work-from-home guidelines with support for women so they could stay home with their children, so any policies would need to be managed very carefully. Dr. Suzuki noted that while his company hasn't set any limitations regarding work-from-home,

about 40-50% have returned to the office, with more employees in city areas working from the office. Ms. Matsui noted that in the “start-up world,” several companies weren’t returning to work fully but rather taking a hybrid approach.

### Day 3: May 26, 2022

On May 26, 2022, Takatoshi Ito, Professor at SIPA and Director of the Program on Public Pension and Sovereign Funds at CJEB, welcomed attendees to the conference’s third day and began the session with brief remarks on the day’s topic—Japan’s economic security policy. He then introduced the keynote speaker, Takayuki Kobayashi, Economic Security Minister; Science and Technology Policy Minister; and Space Policy Minister of the Government of Japan.



*Takatoshi Ito*



*Takayuki Kobayashi*

### Keynote Speech: Japan’s Economic Security Policy

Minister Kobayashi, through a pre-recorded video, began by stressing the importance of combining a strong economy with strong security. However, he noted there were various economic security risks at hand: The pandemic had exposed the vulnerability of global supply chains, and the risk of cyberattacks had risen with increased digitization. This is why, Minister Kobayashi said, his party was pushing strategic autonomy and strategic indispensability as core pillars of Japan’s economic security strategy.

Next, Minister Kobayashi gave a detailed overview of how his party was implementing this strategy, including via a landmark economic security promotion bill passed by the Japanese parliament in May. The bill aimed to ensure the safety and reliability of key infrastructure to maintain its functionality and to strengthen supply chains and industrial bases. The government as a whole tackles various economic security issues, including technology drain to foreign countries, for instance, by implementing more rigorous reporting requirements for academic research funding, Minister Kobayashi explained. With regards to inward investment, a government foreign direct investment screening system has been strengthened to take appropriate measures against foreign investment that may compromise Japan’s national security.

As part of Japan’s economic security strategy, Minister Kobayashi also stressed the importance of promoting the development of technologies, for example, in the semiconductor industry, where Japan’s global market share has dropped significantly over the decades and should be revived. In promoting such developments, Minister Kobayashi said it was important to work with the U.S. while also ensuring Japan’s competitiveness.

After Minister Kobayashi concluded his remarks, Professor Ito asked the Minister a few questions, including who would bear the cost of strengthening the supply chain. Minister Kobayashi responded by emphasizing that a strengthened supply chain could lead to more overall economic growth in the medium term, even if it costs the taxpayer more in the short term. He explained that if the supply chain is not made more resilient, there would be more disruptions, and the cost incurred by the Japanese economy and people would be enormous.

### **Panel: Economic Security**



*Left to Right: Naoshi Hirose, Daniel M. Price, Candida Wolff*

Professor Ito began the economic security panel by introducing the three speakers: Naoshi Hirose, Vice-Minister for International Affairs at the Ministry of Economy, Trade and Industry; Daniel M. Price, Managing Director at Rock Creek Global Advisors; and Candida Wolff, Executive Vice President and Head of Global Government Affairs at Citigroup.

Mr. Hirose began his remarks by noting that, in light of a swath of challenges to the international order, even before the Russian invasion of Ukraine, countries have realized that having business decisions and supply chains based purely on efficiency is a big risk. This is why Japan wanted to embrace “strategic autonomy,” reducing dependency on certain sources, and establishing a “trusted value chain” among countries that share common values, such as the U.S. and Japan. Mr. Hirose emphasized, however, that this approach did not constitute a wish to onshore everything, which would hinder innovation and be counterproductive to economic security in the long run. International coordination was still very important, he stressed, especially on industrial technology policies for critical goods, export control, and investment screening.

Mr. Price said he agreed with Mr. Hirose on the need for international cooperation, the commitment to which he said had been on full display at the QUAD Leaders’ meeting and the U.S.-Japan bilateral meeting, both in May, as well as with the launch of the Indo-Pacific Economic Framework for Prosperity (IPEF). However, Mr. Price also issued a note of concern regarding “strategic autonomy,” arguing the term grew in response to the “belligerence” of the Trump administration that had often unjustifiably invoked national security to impose trade controls or sanctions against traditional allies. While Mr. Price



said he understood the original reaction, he noted that he thinks time now would be better spent on building strategic interdependence and coordinating international economic policies.

Next, Ms. Wolff, representing the private sector, began her comments by noting that “security” and “resiliency” were dominating the discussion around financing supply chains today. But Ms. Wolff also emphasized the role market efficiencies play in global stability, for instance, with food security, where onshoring food production and banning exports would ignore the role that markets play in preventing food shortages. Protectionism in response to economic security concerns should be avoided, she argued, because it carried the risk of unintended consequences, such as increased commodity prices. The private sector, Ms. Wolff added, through transparent collaboration, could help policymakers understand what some of those unintended consequences may be.

Professor Ito then asked Mr. Hirose about the similarities and differences he identified between the U.S. and Japanese positions on economic security, to which Mr. Hirose re-emphasized that Japan’s approach was not disguised protectionism but rather that Japan wanted to avoid a subsidies race to the bottom and be complementary on subsidies with like-minded countries. Mr. Price added that it was important to keep removing both new and old trade barriers. Lastly, Ms. Wolff stressed that she was encouraged by the launch of IPEF as a framework to begin more negotiations between the two countries.

#### **Day 4: June 8, 2022**

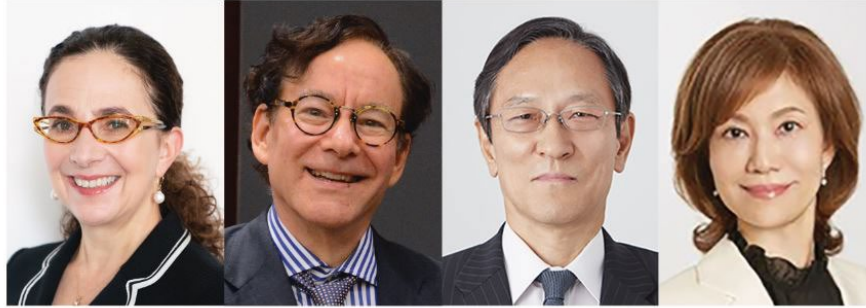


*Alicia Ogawa*

On June 8, 2022, Alicia Ogawa, Project Director for Japanese Corporate Governance and Stewardship for the Project on Japanese Corporate Governance and Stewardship at CJEB, welcomed attendees to the conference’s last day and introduced its topic. Ms. Ogawa then introduced the panelists: Jeffrey N. Gordon, Richard Paul Richman Professor of Law and Co-Director of the Millstein Center for Global Markets and Corporate Ownership at Columbia Law School; Christina Ahmadjian, Specially Appointed Professor at Rikkyo University and Outside Director at Asahi Group Holdings, Ltd.; Japan Exchange Group Inc.; NEC Corporation; and Sumitomo Electric Industries, Ltd.; Daisuke Hamaguchi, Outside Director and Chairperson of Compensation Committee, Member of Nomination Committee, and Member of Governance Committee at LIXIL Corporation; and

Sachiko Ichikawa, Partner at Tanabe & Partners and Statutory Auditor at the Board Director Training Institute of Japan.

### Panel: Board 3.0: A Vision for a New Board of Directors in America and Japan



*Left to Right: Christina Ahmadjian, Jeffrey N. Gordon, Daisuke Hamaguchi, Sachiko Ichikawa*

Professor Gordon, the co-author of “Board 3.0,” began by explaining that, according to his research, there generally have been three dominant board models in the U.S. so far: First, there was the “1.0” advisory board model, which charged directors with solving managerial and financial issues of building large-scale, national-scope enterprises. Then, the 1970s triggered the evolution of “Board 2.0,” the monitoring board, which consisted mostly of under-informed, under-resourced, and under-motivated independent directors. Now, there’s “Board 3.0,” commonly applied by private equity funds to the companies they acquire. Here, directors are usually thickly informed, well-resourced, and highly motivated to be engaged in the firm’s overall strategy and performance. Professor Gordon stressed that such changes arise through evolution: A board model that once was a great fit for the economic and corporate environment might lose its fit, triggering the development of a new model.

Ms. Ogawa then asked the other panelists to share their experiences serving as independent directors at Japanese firms. Professor Ahmadjian went first, highlighting several aspects of the board model in Japan which have been effective, such as boards bringing attention to topics the Japanese management team may not have been focused on while also improving the overall quality of management. She stressed, however, that the strategic planning process at Japanese corporations needs to change, for instance, by moving away from a strict focus on the three-year planning time horizon.

Next, Mr. Hamaguchi reflected on the possible application of the “Board 3.0” model outside of private equity-controlled companies, saying that he believes applying the model with public companies may, in some cases, be possible but is generally difficult. Part of the problem with Japanese corporate governance, he stressed, is that governance through market forces—such as shareholders voting out underperforming management teams—is less effective here, in part due to the preponderance of allegiant shareholders.

Ms. Ichikawa then shared data highlighting that board structures in Japan have been changing – there’s been, for instance, a rise in independent directors, female directors, and the number of compensation committees—but noted that change has been slow. She then showed that the board structure change did not statistically indicate the improvement of the returns on investments. Ms. Ichikawa agreed that

Japan needed more effective changes; the “Board 3.0” model could be one of such changes, but only function in a limited number of cases at public companies and requires strong buy-in from the CEO.

To conclude the discussion, Ms. Ogawa led a question-and-answer session with the panelists, covering topics such as the popularity of the “Board 3.0” model in Japan, the most pressing reforms in Japanese corporate governance, and examples of U.S. and Japanese publicly traded companies moving toward the new model.

### **Closing Remarks**

Professor Weinstein thanked the speakers and attendees for their time and engaging comments. He also thanked CJEB’s corporate and individual sponsors for their support and ended his remarks by expressing hope that next year’s annual conference could be held in person in Tokyo again.