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## Special Japan Issue - First Part

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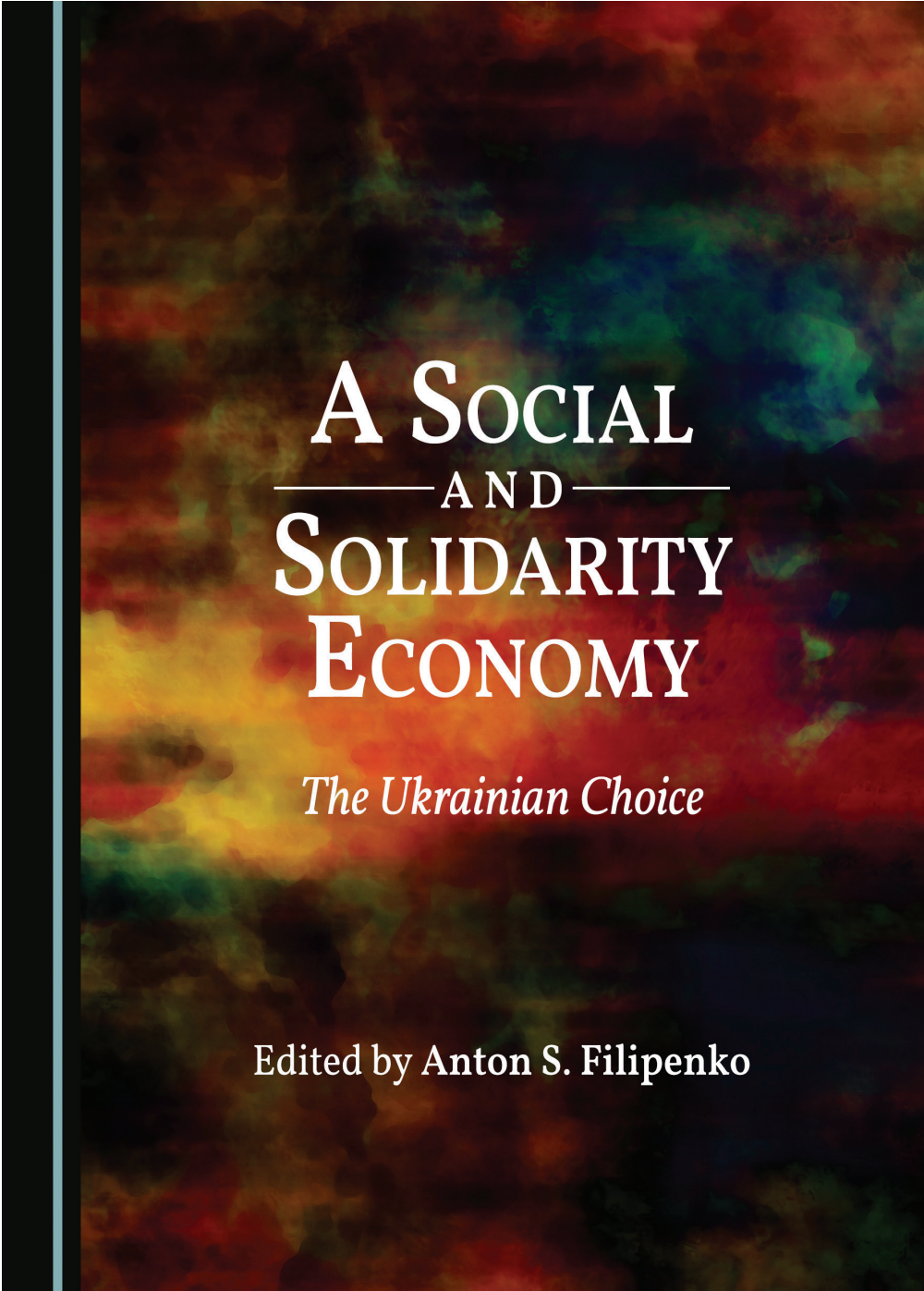
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A SOCIAL  
— AND —  
SOLIDARITY  
ECONOMY

*The Ukrainian Choice*

Edited by Anton S. Filipenko

## Political and Economic Opening as a Post-Crisis Strategy for Japan

Bernadette Andreosso-O'Callaghan<sup>1</sup> • Jacques Jaussaud<sup>2</sup> • M. Bruna Zolin<sup>3</sup>

**Key Words** Economic growth, Japan, Trade balance, Technological change, Labour market, population, Energy production

**JEL Classification** O11, J11, H50, M14, N15

In economics literature, the sources of economic growth in general and in Japan in particular have been appraised either from the supply-side, with the emphasis on capital accumulation, labour, total factor productivity and – given the advent of the new growth models – on technological change, or from the demand side. The study on Japanese growth by Chenery et al. (1962) was an early demand-based study that looked at the drivers of economic growth and structural change over the period 1914-1954. Using input-output methods and taking into account the contribution of technological change<sup>1</sup> over this long-time period, the authors found two distinct early sub-periods of economic growth: the 1914-1935 and the 1935-1954 sub-periods. The first (1914-1935) is characterised by a rise in domestic income (by 4.5 per cent per annum) with large increases in exports. The second (1935-1954) is marked by the loss of colonial supplies of raw materials and by a substantial fall in exports; this second sub-period is also marked by import substitution policies and by the rising importance of technological change. The findings for the first sub-period mirror Japan's emergence as an economic and geostrategic power, affirming first its colonial ambitions in East-Asia through the development of its many manufacturing networks, in the region as a whole and in Korea in particular (Inkster, 2001). In post WWII Japan, capital deepening and technological change became the main sources of long-term economic growth in line with the core ideas enshrined in the endogenous growth theories. Economic growth and wealth accumulation had been such that by the late 1980s a small area in Tokyo – such as for example the grounds under Tokyo's Imperial Palace - was valued more than the entire State of California. The shift in investment away from the manufacturing sector and into the real estate sector after the 1985 Plaza Accord had led to the build-up of a formidable financial bubble (Hutchinson and Westermann, 2006). The beginning of the 'lost decade' after March 1989 signalled that Japan was embarking upon a new growth trajectory and that the country was leaving behind several decades of

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<sup>1</sup> In this study, technological change is measured with the help of the technical coefficients.

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quasi-uninterrupted high growth. The de-industrialisation (kudoka), driven by the dynamic and responsive strategy of Japanese multinational enterprises increasingly investing in the newly opened Chinese market, affected the Japanese economy negatively. For instance, the number of employees in the manufacturing industries experienced a sharp drop: from 14.56 million in 1995 to 11.30 millions in 2011 (Keizai Koho Center, 2007, 2014), although the unemployment rates remained relatively low thanks to an increasingly flexible labour market. The kudoka phenomenon did not however jeopardise the manufacturing and exporting capacity of Japanese corporate firms, as for instance the trade balance remained in surplus during the whole period, except for a short period after the Fukushima nuclear disaster in March 2011. Furthermore, competitiveness is supported by significant public and private investment in research and development (R&D) activities in Japan (3.29% of GDP in 2015 for instance, compared to 2.93% in Germany and 2.22% in France that year, according to OECD data). In the case of Japan, the post-bubble new growth period needs to therefore be appraised through the lenses of economic growth in a mature post-industrial country. Indeed, the new drive for the internationalisation (kokusaika) of Japanese firms in the 1980s was made possible because of the country's strong manufacturing sector. At the same time, and in line with the tenets of the new growth models, technological change has also been earmarked as a key driver of long-term economic growth since the 'lost decade'. Technological change and a deeper integration of Japan into the world productive and trading (manufacturing) system have both implied a number of on-going structural changes notably in the labour market. Non-regular employment, for instance, rose from 15% in 1982 to a comparatively high level of 38% of all employees in 2014, a change that may contribute to Japan's economic competitiveness but that translates into rising poverty for a growing part of the population, and to the drop in the fertility rate (Gordon, 2016). First of all, policy change has been stimulated by the 2008 global financial crisis; as a result, the increasing political and economic interaction of Japan with the outside world has become, more than ever, a strategy in order to revive economic growth. Second, policy change has eventually taken prominence since Prime Minister Shinzo Abe took office in 2012, with the launch of its famous 'Abenomics' policies encompassing three arrows (monetary policy, fiscal policy and revitalisation strategy through, in particular, a number of structural measures). In the same way that the burst of the property bubble in 1989 placed Japan on a 'post catching-up' economic growth path, Abenomics measures are intended to play the role of a catalyst in reviving economic growth in Japan in the not too distant future. Abe's policies are, therefore, aimed at smoothing out the transition of Japan towards a new economic growth regime.

Possibly more so than in any other 'mature' economy, the transition of Japan to a new growth regime offers multidimensional challenges, particularly in terms of demographics, energy production and other environmental issues, and this implies to analyse the characteristics of Japan's deeper integration into both the world economy and the geostrategic environment. Japan currently has the most rapidly aging population (a problem to be shared soon with South Korea), and its population started to decrease from the middle of this century's first decade. In terms of energy production, the shift from nuclear generation to fuel, gas and renewable sources of energy has been dramatic following the Fukushima event in March 2011, but the question of sustainability remains, both from an environmental point of view, and from the viewpoint of the instability of oil prices in the coming years and decades.

The integration of Japan into both the world economy and the geostrategic environment also poses a number of different challenges. These include Chinese firms' ability to rapidly improve their technological level; China, as a nation, being more and more assertive and capable of defending its views; and the relative stability that had prevailed in international trade and

markets being increasingly challenged by the multiplication of specific trade agreements, rather than by multilateral ones, not to mention the instability derived from the election of the new Administration in the USA and missile threat from North Korea.

Articles in this special issue enrich the debate on the transition of Japan to a post “lost decade” and post-crisis growth regime. Since the economic and business issues mentioned above are intimately connected to the political dimension, and in particular with the role of Japan in the East-Asian region and further afield, one of the strengths of the special issue is its combination of articles drawn from the political as well as the economic spheres. This special issue starts by defining and clarifying the institutional framework in which a number of appropriate economic policies can take place; this is done with the inclusion of the article by Tatsuro Chiba on the “second Abe Administration”. The paper on the currently negotiated EU-Japan free trade deal by Bernadette Andreosso-O’Callaghan is used as a case study of a potential channel of (external) economic growth rejuvenation. The two papers on human resource management focus on changes in the labour market deriving from the transition towards a low growth regime, leading to the development of non-regular employment on the one hand, and to the demographic transition to an aging population on the other hand. The paper by Shiho Futagami and Yukiko Muramoto addresses the question of ensuring decent work conditions, while the paper by Philippe Debroux, Jacques Jaussaud and Julien Martine focuses on the development of senior workers’ employment. The paper by Larissa Grzeskowiak investigates, through a broader perspective, the economic impact of demographic change in Japan, focusing on female labour. Finally, two other articles offer a link between these two levels of analysis (domestic and international): the article on the stock market by Sophie Nivoix and Serge Rey will discuss the role that a key Japanese utility company plays in the domestic stock market, in the context of both financial liberalization/opening and the disruptive Fukushima event. The article by Ikuo Kato investigates the relationship between corporate sustainable strategies and stock prices.

All papers for this edited volume were drawn from a pool of papers presented at the 21st Euro-Asia International Research Seminar held in the summer of 2016 at Pusan Korea National University, South-Korea. This proposed special issue represents a subsequent stage in the research process. Written by well-known authors across Europe and Asia working in the field of Japanese and Asian studies, the different articles include the various and related areas of management, economics and political science/international relations.

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# The First and Second Abe Administrations' Foreign Policy from a Role Theory Perspective

Tatsuro Debroux

**Abstract** This paper provides an outline in relation to the foreign policy of the first and second Abe's administrations, mainly in the areas of security, economic/trade policy and Japanese history, and it extracts Japan's roles by using role theory. It is argued that Prime Minister Abe's foreign policy indicates a substantial role shift from Japan's previously reluctant approaches in international security toward Tokyo's self-perception of being pivotal in Asia. Prime Minister Abe's objective is to make Japan more assertive in political affairs by putting more emphasis on the defense of democratic values, i.e. respect for rule of law, human rights and pacific resolution of conflicts. More than ever before, this can be achieved through the active cooperation with other like-minded nations, including in the field of security but also in expressing more explicitly the voice of Japan in political affairs.

So far, it seems that Abe has been successful in doing that by reinterpreting Article 9 and legislating new security-related laws. In the sphere of economics, Abe tries to have Japan take a leading position by responding to China's challenge in the Northern and Southeast Asian region. With respect to Japan's history, Abe wants to liberate Japan from the historic shackles of the postwar period, although he is cautious with regard to historical issues. Aware of the danger of rekindling old feuds with countries such as China and South Korea, he makes statements and adopts a behavior that allows him to evade being regarded as a historical revisionist.

Role theory indicates that Abe is not changing Japan's fundamental roles. Rather, the Prime Minister modifies the realm of the roles and the way to pursue them. There are four meta-roles: Japan as a reliable security partner; Japan as a country that puts emphasis on multilateralism; Japan as a pacifist country based on non-militarism, and Japan as a world/regional leader. It should be possible to observe the changes in them. The core roles are unlikely to change but the meaning of what the components imply in Japan's foreign policy are at stake. In conclusion this paper focuses on: Japan security shift; Prime Minister Abe second term; Japan foreign policy and new role in Eastern Asia and the World; Historic shackles of the postwar period over; even so Japan is a pacifist country based on non-militarism

**Keywords** Role theory, Abe Administration, Security, Values, Economy History, Relations with EU and US

**JEL Classification** F51, F52, F53, F680, P51, P57

## Introduction

Japan, through its foreign policy, has a high economic and political influence in East and Southeast Asia (SEA), on par with China and the United States (the US). Moreover, as the largest liberal democratic country in the region, Japan's influence extends further through relationships with European, Indian and Australasian allies. The objective of this paper is to explore the evolution of Japanese foreign policy during the first and second periods of Abe's administration (2006-2007 and 2012-2016). It mainly focuses on security with subtopics covering the country's economy and history. However, the economic undertone of Abe's foreign policy and his objective of revitalizing Japan's economic strength appear clearly in his eagerness to deepen relations with the US. He hopes that Japanese firms in the US market can benefit from the goodwill created by a proactive Japan in defense-related activities. The willingness to have the US engage more in Asia through the Trans-Pacific Partnership (TPP) project but also through common action with some SEA countries in order not to let China take control of key transportation lanes in SEA also has crucial economic dimensions besides geopolitical concerns. The same can be argued in the case of Abe's proactive policy toward India that has already concretized in large transportation and energy-related projects.

Role theory originates from the studies of Holsti (1970) who was the first to apply socio-psychological and sociological theories about the role(s) of individuals in society to states' behavior. His idea is that it is possible to know how cognitive and ideational factors can change state policy preferences. It can be done through the analysis of foreign policy statements by heads of state, high level officials, and government documents. What he coined national role conception (NRC) forms the perspective of external environment and options for decision-makers to choose. Language and action signal expectations (including prescriptions) of the other actors and the NRC can be expected to cover them (Holsti 1970: 245-246). The Abe administration's foreign policy is analyzed in this paper from this viewpoint. It focuses on what role theory terms the ego-part, i.e. the domestic roles a leader is supposed to represent in foreign policy, and the alter-parts, i.e. the roles vis-à-vis Japan of other countries. In this paper, the alter-parts are the countries with whom Japan has important relationships: the US, China and some SEA countries such as the Philippines and Vietnam.

This paper consists of two sections. The first section presents the explanation of role theory's key concepts in analyzing Japan's security policy. The second applies role theory in analyzing the characteristics of the NRC the Abe administration intends to present to the alter-parts in his foreign policy, including some aspects of economic policy, the presentation of historical issue viewpoints, and what kind of issues and possible changes may emerge from his initiatives due to the reaction of alter-parts.

After analyzing the Abe administration's foreign policy empirically using role theory methodology for the examination of Japan's key postwar four meta-roles, this paper concludes that Abe's security policy is more proactive than that of his predecessors. This is shown by the new laws he has made and by the security and defense-related institutions that he has created. Therefore, it can be argued that his initiatives have transformed the content of Japan's pacifism, although it does not shake the fundamental tenets of the nation's traditional stance on such a belief. With respect of economic/trade policy, Abe wants to be a rule-maker with the US in East and SEA through the TPP. He puts emphasis on sharing the same values on issues related to security, rule of law and human rights but the TPP also includes the enhancement of market principles. As for history, he has displayed great caution so far through the continuity of his predecessors' policies. He refrains from expressing historical revisionist views in order not to rekindle trouble with China and South Korea.



## 1. Role theory concepts

### *National Role Conception (NRC)*

Role theory has been applied in the case of many countries, for example the US (Maull 2011), China (Harnisch et al 2016), Germany (Sakaki 2011), India (Hansel and Möller (2015), and Latin American countries (Thies 2014). Research has also been done regarding Japan using role theory: Elgstrom (1988); Macleod (1997); Sakaki (2011) and Hirata (2016). So far, role theory has not been used to analyze the Abe administration. Therefore, this study is the first one to do so, and in that sense, it makes a contribution to the field of role theory.

The study covers the topic comprehensively, including an analysis of both ego-part and alter-part. Japan is in a transitory period during which a new generation of Japanese politicians seems to want Japan to play a more assertive political role in the world than the passive position deemed necessary by their predecessors. Abe emphasizes values in politics explicitly and his initiatives, especially those linked to security, are considered to challenge traditional interpretations of the NRC related to pacifism. Therefore, it is worthwhile to examine whether they either transform the existing roles or whether they may even open the possibility of Japan developing different ones that would be deemed more appropriate. To do so, role theory's concepts can be considered appropriate to examine the dynamics of Abe's value-oriented foreign policy and the complex interaction that it may have with alter-parts.

The objective of role theory is to describe and analyze a variety of roles which are defined as a set of norms that describe a state's objectives, interests, obligations and responsibilities. They can be understood to be social positions (as well as socially recognized categories of actors) constituted by expectations, prescriptions and proscriptions about proper behavior in a social position in an organized group (Thies 2010). For Holsti (1970: 306-307) a NRC includes the policy-makers' own definitions of the general kinds of decisions, commitments, rules and actions suitable for their state, and of the functions, if any, their state should perform on a continuing basis in the international system or in subordinate regional systems. In this paper, Japan's foreign policy is analyzed on the assumption that defining roles subjected to norms and having those roles accepted by other countries are the objective of the state (Le Prestre 1997).

### *Ego-part and alter-part conceptions*

This paper assumes that both ego-part conceptions, i.e. consisting of the rights and obligations a country's leaders perceive on behalf of their nation— taking into account role contestation - and alter-part conceptions, i.e. behavioral expectations and prescriptions held by other countries or by international organizations have an impact on state behavior. They impose duties on actors and have an effect on what should be done or not (Le Prestre 1997). Both ego-part and alter-part conceptions are important because roles involve implicit or explicit counter-role in the intersubjective process of interaction. Interdependency, constant reconstruction and recreation are inherent in the nature of foreign policy roles. Policymakers often internalize alter-part behavioral expectations or role prescriptions through socialization at the bilateral and multilateral level through other countries' language and action (Holsti 1970; Aggestam 2004; Barnett 1993; Sakaki 2011).

### *Meta-role and Context-specific role*

Role theory separates roles into meta-roles and context-specific roles. A meta-role is a role that is based on an actor's material or immaterial power resources that induce expectations of

consistent generic role behavior across issues and/or over time. As Le Prestre (1997) points out, a role reflects a claim on the international system, i.e. it is constitutive of international actors' recognition, and of a conception of national identity. Foreign policy changes rest on a redefinition of a meta-role and/or context specific role and on its congruence with political initiatives. Roles are generally stable as they reflect on widely expected behavior that socialization constantly reinforces. This creates over time what Maull (2011) described as a 'structural environment of roles'. In the case of Japan, it means that in the postwar period, including under Abe's leadership, meta-roles developed (and became deeply engrained in the socio-political environment) that emphasize that Japan acts to maintain peace in adherence with the spirit of the Japanese Constitution, i.e. that it will not become a militaristic nation again; that it will work toward the eradication of nuclear weapons, and neither will nor does not challenge the historical conception of the countries involved in the war. These meta-roles are linked to a number of context-specific roles, i.e. roles that are related to mutual behavioral expectations specific to a certain policy area, country, or geographic region (Harnisch 2011). For instance, Japan always adopted a behavior in the postwar period that aimed to keep a stable relationship with the US and to share values with the US in a follower role in world affairs. In economic terms, it meant that Japan always refrained from adopting protectionist policies that could impede the penetration of Japan's market. In return, Japan's expectation was that the US would keep its commitment of protection in matters of security. In the case of the other alter-parts, the traditional expected role is that Japan will never attempt to change unilaterally the postwar political status quo in East and SEA. Likewise, Japan will keep its promise to China to separate business from politics and to focus on mutually profitable business relations and to help China's economic development. This means that Japan will do its best to avoid escalation of the territorial conflict on the Senkaku/Diaoyu Islands and will not interfere in the South China Sea affairs.

The extent to which meta-roles and context-specific roles coincide with the alter-parts' demands and expectations is important because discrepancy is a source of inconsistency and subsequent conflict if the respective expectations are not matched. Even if Japan considers its role conception correct and responsive to the alter-part's role demand, the conception may not be mirrored by others' role expectations. In the postwar period, it can be said that little role inconsistency appeared internally or in the relationship with the key alter-parts but the extent of Abe's initiatives is such that it may be worthwhile to examine whether changes will occur as a result.

## **2. Application of role theory to Abe's Administration**

### ***The first Abe administration (September 2006 to August 2007) and value-oriented diplomacy***

The US devoted itself to promoting global democracy at the end of the Cold War. To serve this purpose, it promoted the so-called 'democratic peace' idea. The rationale of the claim was that no war is likely to erupt between democratic states. Values and ideals came to occupy a prominent position in international politics. At the beginning of the 21<sup>st</sup> century, neo-conservative proponents in the Bush administration supported again the spread of freedom and democracy (Hosoya 2011). Diplomacy changed from the pure pursuit of national interests to spreading values the country supports. Those ideas became popular in Japan's conservative camp which went with the flow. At the 2006 Japan-US summit, Prime Minister Koizumi and President Bush issued the 'Japan-U.S Alliance of the New Century' declaration that stated 'The United States and Japan stand together not only against mutual threats but also for the advancement of core universal values such as freedom, human dignity and human rights, democracy, market economy, and rule of law. These

values are deeply rooted in the long historic traditions of both countries (MOFA 2006). Liberal democracy became a key term in Japan's foreign policy which led to the promotion of 'value-oriented diplomacy' and to the 'arc of freedom and prosperity' – called 'diplomacy of a bird's eye view of the globe' in the second Abe administration. Those concepts were used as a normative justification to highlight the Abe administration's international position (Hosoya 2011).

Then foreign minister Aso (2006) defined 'value-oriented diplomacy' as foreign policy based on the principles of the declaration at the Japan-US Summit in 2006. The intention was to further anchor Japan in the democratic camp. The term the 'arc of freedom and prosperity' was used to specify the geopolitical areas that are supposed to be covered. The Democratic Party of Japan administrations (2009-2012) did not promote those ideas but the importance of democracy and values in diplomacy are present again in the second Abe administration.

The Diplomatic Bluebook specifically mentions that 'Japan will strengthen cooperative relations with countries with which it shares universal values and strategic interests' (NSS 2013: 23). The intention is to show, for the first time since the end of the Second World War, that Japan can be a 'torchbearer' for universal values and an Asian 'thought leader'. After the lull of the Second World War period, it is presented as a normal evolution for a country with a long history of democracy, respect for human rights and for the rule of law (Taniguchi 2010: 3). Promoting those concepts was an opportunity to play the roles of a reliable democratic security partner and for a world/regional leader engaged in strengthening ties with the US and with other democracies. It indicated that Japan should play a role not only for itself, but also for the region. In his book, *Towards a Beautiful Country*, Abe (2006) writes about closer relationships with Australia, India and the US. He suggests a regular meeting to discuss how to expand universal values to other countries in their region. Through such diplomatic activities he expects Japan's roles to gain importance in world affairs. Furthermore, Abe (2012) also launched the idea of the 'Democratic Security Diamond' that is indirectly related to his China policy. The objective is to compose a diamond consisting of Japan, Australia, India, and the US (Hawaii) to address the territorial disputes in the East China Sea and the South China Sea. As Abe argues, Japan is an important maritime power and an advanced democracy, different from China in this respect. It justifies the idea that Japan must connect values and foreign policy, and favor relationships with partners sharing them.

### ***The Second Abe administration (26 December 2012 to 31 December 2016) and proactive pacifism***

During the first administration, Abe committed himself to changing NRC fundamentally with the slogan of 'escaping postwar Japan', in the sense of moving beyond the mercantilist and passively pacifist Yoshida doctrine (Singh 2016: 595). To adopt a more proactive behavior inside the Japan-US alliance was the key point on Abe's agenda (Abe 2006). In this line, Japan has pursued its self-defense stance in the first and second Abe administrations, through constant upgrading of the Self Defense Forces' (SDF) technical capacity and increased interoperability with US forces in the first and second Abe administrations. The proposals of Abe went farther to the point that critics say that they aimed at redefining Japan's concept of self-defense to a degree that goes toward reinforcing Japan's military 'normalization' (Weston 2013: 172). During that period, the Defense Agency became a ministry, Japan concluded its first security agreement outside the US-Japan Security Treaty with Australia, and strong support was given to NATO activities in Afghanistan (Yasutomo 2014).

During his second administration, Abe stopped advocating escape from the postwar period and named his assertive foreign policy 'proactive pacifism.' This can be interpreted as the willingness to have Japan move away from a passive to an active defense policy (Shi 2016). Role theory

tells that actors are able to redefine their role conceptions in all circumstances (Holsti 1970). As a result of the complex socialization process it is possible that Abe's initiatives will eventually lead to the emergence of new roles. This could mean the shift away from and disappearance of some traditional roles to the emergence of a different role-set. Although significant changes have not been observed yet, an analysis of the current moves seems to indicate that Abe is willing to alter the behavior and identity of Japan away from the passive international security approach that limited involvement in world affairs. This process of the socialization of diplomacy can have an impact on actual cooperation and conflict among states. Drifting away from a role-set that fundamentally satisfied all alter-parts, Abe's initiatives are bound not only to create role inconsistency and even conflicts with some of them but they could also be perceived differently by each of them. The US and the other democracies could welcome Abe's proactive pacifism as a proof of his reliability as an ally. However, China and traditional pacifists in Japan could consider it unwelcome assertiveness and an expression of nationalistic sentiments (Drifte 2014) that break the postwar role proscription of non-militarism. So far, Abe has implemented some important security policies and they are described in detail in the following.

#### *Four pillars of Abe's security policy as a reliable and faithful ally*

##### **a) The Secret Information Protection Act and the National Security Council (NSC)**

With proactive pacifism, the Abe administration has developed a new security policy to ease the military constraints that are built on four pillars (Sakaki 2015: 6). In November 2013, a new law dealing with state secrecy was enacted to ensure a better control by government of security information. The law designates as state secrets 23 types of information related to counter-terrorism, defense, and diplomacy. Rejecting public concerns, the law allows for alleged information leaks to result in severe penalties to those who violate the law and impose rules that lead to the regression of Japan's postwar democracy, Abe insists that the secrecy law is a crucial precondition for the NSC to operate efficiently (Maslow 2016). The NSC is designed to function as a control institution of Japan's foreign security, integrating information among key security agencies in order to facilitate the implementation of its foreign policy and defense initiatives (Yachi 2013; Hughes 2015).

##### **b) National Security Strategy, National Defense Program Guideline, ODA and arms transfer policy**

In December 2013, the government released a new National Security Strategy (NSS) (Prime Minister of Japan and His Cabinet 2013) with the aims of redefining Japan's international role, calling for the reinforcement of Japan's defense capabilities, rejecting 'status quo by coercion' imposed by China and advocating the need for US 'rebalancing' to the region (Prime Minister of Japan and His Cabinet 2013: 8). The NSS refers again to an international order 'based on rules and universal values, such as freedom, democracy, respect for fundamental human rights, and the rule of law' (Prime Minister of Japan and His Cabinet 2013: 21). It outlines Abe's perception of what should be done with a group of countries that shape international rules and norms, and contributes to the stability of the global security environment (Yuki 2013).

In this line of thought, Abe replaced the 1967 'three principles' of the Sato administration (1964-1972) that virtually banned arms exports with 'three principles on transfer of defense equipment and technology' in March 2014. This portends the end of the self-imposed ban on arms exports and the participation in joint defense research to strengthen military capabilities in the long

term. It allows joint development of military equipment with countries such as the Philippines and Vietnam (Carr and Wallis 2016). In February 2015, the Abe cabinet approved a new 'Development Cooperation Charter' that replaced the 2002 Official Development Assistance Charter as a guide for Japan's aid policy for developing nations. The new Charter stipulates for the first time that ODA to foreign military forces is allowed as assistance in disaster relief, anti-terrorism and anti-piracy in the name of law enforcement issues (Asplund 2015; Sakaki 2015: 20; Hughes 2015).

Abe also revised the National Defense Program Guidelines and Mid-Term Defense Plan in 2013. Based on the 2010 "dynamic defense forces" concept, it calls for change in force structure and deployment to reinforce naval and air forces. As Japan wants to strengthen its surveillance capabilities vis-à-vis China, the plan includes among others the procurement of 52 amphibious landing vehicles and three Global Hawk surveillance drones along with a large budget increase for paramilitary coast guard (Maslow 2016).

### **c) Reinterpretation of Article 9**

In his second administration, Abe reinterpreted Japan's constitution to allow collective self-defense in July 2014 and to open the way for an active role within the alliance with the US and other partners. In this respect, he seems to renounce the constitutional revision's stance of his first administration (The Japan Times 2 July 2014; Hirata 2016). The policymakers' own images of the appropriate orientations or functions of their country toward the external environment or inside it are included in NRC (Holsti 1970: 245-246). It is assumed that Abe desires Japan to have different role conceptions, and consequently different foreign policy preferences. Making wider use of Japan's military capability and deepening security-related relationships with value-sharing allies requires revising Article 9 or, at least, reinterpreting it (Nagy 2017). Like his predecessors Abe considers the Japan-US alliance the cornerstone of Japan's security policy. Amending Article 9 would fulfill the US long time expectation of Japan playing a larger military role (Akimoto 2013: 234-235), something that the Japanese were always reluctant to do.

Abe's stance is inherently revisionist (Fisher-Nielsen 2016). Indeed, he began his new term in 2014 by reiterating his intent to revise Article 9 and to remove the constraints that it had imposed (Carr and Wallis 2016). Assisting an ally under attack is a fundamental right of any nation, but the conventional interpretation of the pacifist constitution considers it beyond the 'minimum necessary' use of force and Japan has been unable to exercise this right so far. Since his first administration, Abe has attempted to build role location, the interactional process by which an actor locates itself and the other in the social structure, that is different from previous administrations in this respect. He feels emboldened because he perceives that support for the traditional pacifist roles, in the passive sense of the role, leading to the quasi impossibility of the SDF to be utilized efficiently and effectively, has gradually declined since the Cold War. However, he is aware that it has not declined to the point of a revision of the Constitution being easily accepted (Miyamoto and Watanabe 2014). It is difficult for the Liberal Democratic Party (LDP) alone to achieve the two-third majorities necessary to amend the Constitution, either in parliament or by referendum. Therefore, he limited himself so far to cautiously reinterpreting Article 9 and gradually increasing the visibility of Japan's security-related foreign policy. Rather than eschewing international conflicts, Abe seeks to engage with like-minded countries without amending the constitution to change Japan's NRC.

As an example of willingness not to adopt a high profile in security affairs, the new interpretation of collective self-defense in 2014 is a compromise with the New Komei Party (NKP), reached after a severe debate. It limits collective self-defense to helping a country with



close ties against which armed aggression was directed and when it results in a threat to ‘Japan’s survival and poses a clear danger to fundamentally overturn people’s right to life, liberty and pursuit of happiness’ (MOFA 2014a) there is no page in the website. Thus, collective self-defense is allowed if Japan and Japanese people are concretely under threat (Sakaki 2015: 18). In addition, the exercise is limited to situations where no other means of survival are available (Sakaki 2015: 18; Nakanishi 2015: 413). Thus, it preserves the tenet of an exclusively defense-oriented policy fitting to the identity of non-military pacifism. Abe probably perceives a window of opportunity to push his agenda of revision of Article 9 as a result of North Korea’s nuclear development and China’s expansionism (Hasebe 2017). It fits the desire to fulfill the role of faithful ally but enlarging roles and missions of the SDF conflicts with the NKP and public opinion over non-military pacifism meta-role.

The basic principles of not becoming a military power that poses a threat to other countries, and the observance of the ‘three Non-Nuclear Principles’, i.e. neither possessing nor producing nuclear weapons nor allowing third parties to bring such weapons into the country is maintained (NSS 2013: 3). During the first administration, Abe confirmed that Japan would maintain its commitment to the three non-nuclear principles and would never enter the nuclear weapon race. He purposefully reaffirmed those principles soon after the North Korean nuclear test on October 9, 2006. In doing so, he wanted to reaffirm Japan’s pacifist credentials even in the case of political tension. In addition, Abe consistently announced that Japan aimed for worldwide nuclear disarmament. Nevertheless, Japan has asked the US to provide the nuclear umbrella as a principle of ‘extended deterrence’ since the signing of the security treaty (McCormack 2016). Japan abstained when a UN resolution on the ‘no first use’ of nuclear weapons was brought forward in 1998. During the second administration, and following the 2014 Vienna Conference on the Humanitarian Impact of Nuclear Weapons, a ‘Humanitarian Pledge’ outlawing the use of nuclear weapons was endorsed by 159 countries (by August 2015) but not by Japan. In May 2016, US President Obama and Prime Minister Abe reiterated their commitment to nuclear disarmament, but Japan once again voted against a resolution of the First Committee of the UN General Assembly, in the same year, that launched the process of forbidding possession or use of nuclear weapons (McCormack 2016). This indicates that as long as Japan refuses to possess nuclear weapons, it relies on US nuclear deterrence (Mochizuki 2007: 305). Therefore, it confirms that Japan’s non-military pacifism (including anti-nuclear) has been maintained under the condition of US extended deterrence.

#### **d) New Guideline and New Security Laws**

The Abe administration and the US revised the 1997 US-Japan Defense Cooperation Guidelines for tighter bilateral cooperation in April 2015. Coinciding with Abe’s US visit, the ‘2+2’ Defense and Foreign Ministers’ meeting finally revised the defense cooperation guidelines. The new guidelines allow Japan to intercept missiles targeting the US. The area where the SDF can provide support under the US-Japan security treaty has been extended to ‘Asia-Pacific and beyond’ and the word ‘regional contingencies’ was deleted. It now potentially allows greater SDF participation in military activities with the United States transcending the original boundaries on the use of force by the SDF (Craig 2016).

The security laws can be considered an incarnation of these new Japan-US guidelines. The New Security Act that took effect in March 2016 is presented as a ‘peaceful security legal system’. Its main points address issues in relation to protecting the lives and peace of Japanese people. Therefore, the law is once again based on the concept of proactive pacifism, meaning

that it does not challenge Japan's pacifism. Based on the New Security Act, the Diet revised ten security-related laws<sup>1</sup>, the most prominent of which are: the Law on a Response to Contingencies, enabling the aforementioned Japan's exercise of the right to collective self-defense; the Law to Ensure Security in Contingencies Significantly Affecting Japan - replacing the 1999 Regional Contingencies Law - designed to bolster Japanese non-combat logistical support for the US, and also other states, regionally and globally – the use of this latter term meaning that there is no geographical restraint. The revised International Peace Support Law, which removes the need for Japan to enact separate laws for each SDF dispatch providing logistical support to multinational forces and enabling the SDF to use force during PKO missions in the pursuit of certain duties rather than solely in self-defense (Hughes 2016: 143; Akimoto 2016: 143).

In this way, Japan puts some importance on multilateralism, taking on responsibility in the UN. However, the SDF activities remain constrained despite the new legislative arsenal. The revised International Peace Support Law is based on five PKO principles<sup>2</sup>. The SDF are not permitted to provide logistic support, as well as recovery and humanitarian support in places where combat activities are actually being conducted. If fighting were to break out, they would have to withdraw. The position of the NKP is that the new legislation does not change the position of war renunciation and exclusively defensive security policy. The laws thus deny full-fledged participation in collective-security measures involving the use of force such as in the Vietnam War and in the Afghanistan War even if the US requests it (Fisher-Nielsen 2016; Akimoto 2016: 156-157).

### 3. Regionalism, historical issues and Japan's role

#### *Japan's role as a free trade promoter*

Since the 1990s, Japan's policymakers are hesitant to choose between East Asian and Asia-Pacific regionalism. Japan's NRC in this respect is well defined by constant attempts to keep a balanced position and to take advantage of it economically and politically (Watanabe 2011). As pointed out before, Abe wants to expand the scope of foreign policy to give Japan an important and responsible role in the world, something that he perceives to be what alter-parts expect from Japan in terms of role demand. Under his helmsmanship, Japan intends to be involved in many economic organizations not only because it can contribute to economic development but also because Japan conceives its role as a counterbalance to China's economic and political rise in Asia. In this regard, the TPP involvement is a turning point of Japan's policy related to free trade agreements in Asia-Pacific (Sohn 2015: 357). First of all, Japan decided to take part for economic reasons, i.e. to help Japanese companies retake ground in a region where regional linkages largely developed owing to these companies since the 1970s but where China has recently been getting the upper hand. To dominate the TPP with the US would make Japan a rule-making regional leader putting emphasis on multilateralism and respect for the law to protect the market economy in all areas of trade and investment in the region. Once again, the emphasis on values is put to the fore. Respect for those principles is considered to create points of difference with China whose trade policy is presented as mercantilist. Other member countries can be expected to relish the possibility to do business in a predictable and safe business environment where the interests of all are respected. Japan presents itself as being able to create such an environment while China

<sup>1</sup> See Akimoto's article (2016: 143) for more details on the bill.

<sup>2</sup> See MOFA's website (2013) <http://www.mofa.go.jp/policy/un/pko/issues.html> for more on Japan's PKO principles in detail.

cannot or is not willing to do so. Concurrently, the economic bloc's frontiers would coincide with security because some of the would-be participants are key allies and strategic partners of both Japan and the US, and others such as Vietnam and the Philippines, feel threatened by China. Thus, the economy-security nexus and the linkage to Japan's strategic national interests are evident beyond trade matters (Huang 2015). China's Regional Comprehensive Economic Partnership (RCEP) precludes US membership and its dominance would mean further lowering of the US presence in Asia. Thus, it would counter Japan's support for continuation of the US-dominated East Asian order against China's quest for its own regional domination (Yachi 2011; Murakami 2015; Zhang 2016). The RCEP is likely to develop whatever the circumstances which force Japan to reposition itself. Japan is the only country that could be signing both agreements. However, China will dominate the RCEP and Japan's influence is likely to be lower than in the TPP. Moreover, the RCEP rules can be expected to be looser than the TPP ones. Therefore, Japan is bound to be unable to differentiate itself thanks to superior standards of governance at state and company levels. China's maritime claims in the Western Pacific are a concern because they threaten Japan's economic and security presence in the region. From both the military and economic perspectives, Abe needs TPP members' support to contain China and the agreement is a structural factor in the current Japan-US-China relationship. Thus, it may have a great impact on China's perception and response to Abe's foreign policy (Zhang 2015: 435) in a role theory perspective. However, Japan needs to be careful not to be a destabilizing factor in SEA. No SEA country wants to be forced to choose between Japan and China and it could create a role conflict with Japan<sup>3</sup> if these countries perceive its foreign policy as arousing tensions that could force them to take sides (Interview with Professor Fukushima, 19 July, 2017). However, the TPP deal is now in limbo as the new US administration decided not to enter the agreement (Pugliese et al 2016). In November 2017, a number of countries seemed to be ready to revive the TPP agreement under the aegis of Japan, without the US. However, it will be hard to reach an agreement. Some countries such as Chile, Australia and Singapore are ready to compromise but others such as Vietnam, Malaysia and Canada made compromises on the condition of larger access to the US market. Therefore, the agreement, without the US, is less attractive without the US for them and they are already showing reluctance to conclude an agreement on the same terms. Thus, it seems unrealistic to expect a rapid conclusion. It would likely take years of protracted negotiations before a reasonably attractive agreement could be concluded. But for Japan the economic and political stakes are indeed high (Reuters 9 November 2017). A failure to put the TPP in force would be a major setback. It could furthermore marginalize Japan in shaping the new economic order. It would leave the country with many fewer international linkages than South Korea and China (Pempel 2015: 373) and would force Vietnam and other countries to come closer to China. Still, despite the willingness of Japan to contain the rise of China, Japan cannot ignore the interdependence of the Japanese and Chinese economies. Therefore, there is a limit to the defense of liberal democratic values and Japan wants to continue to keep politics separated from economics. While linking the TPP to security and values, it also wants to develop strategic economic relations with China. This is not completely new as the agreement between both governments in 2006 to realize a 'mutually beneficial relationship based on common strategic interests' (MOFA 2008 there is no page) testified that the two countries did not want their relations to be emotion-laden. So, Abe's current policy is a continuation of the previous one (MOFA 2014b).

<sup>3</sup> Del Rosario, then Foreign Secretary of the Philippines, expressed its support for Japanese rearmament in order to contain China's hegemonic behavior (Bello 2013). Still, it is not so straightforward because Duterte, current President of the Philippines, added that he wanted to be friends with China when he addressed Japanese businessmen in Japan (The Japan Times 26 October 2016).

### ***Historical role demand and Abe's role enactment***

Disputes related to historical issues in Northeast Asia are not new. During the Cold war, periodic cooling and warming of relationships between Japan, South Korea and China over historical issues such as the 'comfort women' issue, the Senkaku/Diaoyu territorial dispute and Japan's war atrocities were common features accepted as a fact of life. Japan began to try to earnestly tackle them for good in the 1990s, with some ephemeral success. By the late 1990s, Japan and South Korea appeared to move toward lasting reconciliation. The Kono and Murayama statements<sup>4</sup> seemed to appease the tension. China and Japan were happy with their fructuous economic relations. South Korean, Chinese and Japanese policymakers seemed to be willing to prevent the hindrance from becoming a broader diplomatic agenda.

Since the early 2000s, however, historical issues threaten again the long-term attempts of cooperation. One reason was Koizumi's yearly visits between 2001 and 2006 to the Yasukuni Shrine where tribute was given to all Japanese war dead but where 14 convicted war criminals are also enshrined. Tensions over the visits spilled over into territorial disputes and other issues. For both Korea and China, the control over disputed islands erupted with stronger force than before. Korean leadership and media started again to link it to the colonial annexation of Korea, while China argued that Japan's control over Senkaku/Diaoyu was an extension of the Sino-Japanese war of 1894-1895.

Role conflict dynamics can lead to nonlinear and unexpected outcomes if it spirals out of control. Abe acknowledges the importance of historical issues. He recognizes that Japan must come to terms with its history and to show it is ready to reduce tensions and avoid mutually disadvantageous outcomes. For example, during his first administration, he did not visit the Yasukuni Shrine. However, recent historical disputes, which have been restricted to being an Asian issue until now, are of broader significance nowadays. Increasingly they have the potential to disrupt the Japan-US relations as well. The US does not want Japan to put into question the international order in the region that resulted from the Second World War, including the territorial status quo and the acceptance of Japan's war responsibility.

Abe's 'historical revisionism' exemplified by attempts of constitutional revision, a proactive security policy and his visit to the Yasukuni Shrine in 2013 resulted in Chinese criticism because it was perceived as Japan's willingness to reconsider the established vision of Japan as war aggressor (Zhang 2015: 426). It has had a negative impact as well on East Asian cooperation. It can lead to what China would consider provocation over the Senkaku/Diaoyu Islands. Indirectly, it could also negatively impact the US perception of Japan's reliability as an ally. Likewise, Abe's position on the Comfort Women issue that denies the fact that they were victims of forcible conscription (Financial Times 6 May 2015) continues to undermine Japan's relationship with South Korea. This makes the task of coordination of military collaboration with the US more complicated. In the case of emergency, it may threaten attempts to present a unified front against the enemy.

In the terms of role theory, proper enactment of roles usually leads to positive reaction, and negative valuations are placed on actors who fail to perform appropriate roles from their alter-part's viewpoint (Harnisch 2013). Japan upsets China when it tries not to enact its role as a country deeply reflecting on its past behavior in having its leaders visiting the Yasukuni Shrine. It also receives US criticisms for that behavior (Zhang 2015; Hughes 2015; Maslow 2016).

<sup>4</sup> The 1993 Kono statement refers to the Chief Cabinet Secretary Kono apologizing to Korea for the experiences of the comfort women and admitted the involvement of the Japanese army - and the 1995 Murayama statement refers to the apologies for Japan's wartime colonial rule and aggression across Asia (Pempel 2015: 376).

However, despite his revisionist stance Abe is also willing to appease its key alter-parts. He does not behave as if he wanted to revive militarism and trivialize war crimes. He opposed the right's challenge to the Murayama and Kono statements that, respectively, made explicit apology and acknowledgement for the invasion and the coercive women's conscription as sex slaves. With the so-called 'Abe Statement' he sought to appease China's historical sensitivities in putting emphasis on postwar Japan's positive role and his contribution to peace through his initiatives (Pugliese 2015: 53).

Abe inherits a critical understanding of Japan's history during the Second World War from his predecessors. His initiatives reflect the difficulties in reconciling viewpoints in his attempts to define and redefine what Japan did in the past and how this affects Japan's roles in current world affairs. It could become a source of role conflict, because all alter-parts, including the US and the other democracies are likely to have negative reactions to the issue of revisionism. This creates uncertainty concerning the role Japan intends to play in the region; it might put in question the US legacy of building a democratic Japan, and it could rekindle feuds among US allies, notably Japan and South Korea. A compromise is needed lest Japan loses its credibility as a main US ally in Asia. Although Abe understands that he must appease China, South Korea, and the US, he cannot neglect his constituency, i.e. the right-wing groups such as the Japan Conference and the Japan War-Bereaved Families Association. They still expect revision of the Constitution and also push for reconsideration of the postwar consensus about war responsibilities. For them, Japan must be given the right to exercise military power to protect its national security interests. The current shackles prevent Japan from recovering great power and international status (Larsson 2015; Hughes 2016: 133).

The heritage from the Second World War is likely to remain constitutive of how Japan thinks of itself and its role in the world. The current political debates center on what historical legacy means, and what they imply in international affairs today, i.e. how and to what extent it could impact the Japanese NRC. Faced with international and domestic pressures that are liable to lead to contradictions, Abe has to keep the balance for the moment so as they do not create role conflict. If Abe is seen as a historical revisionist by Japan's security partners, his security policy may not advance smoothly. If Abe is seen as indecisive from the viewpoint of nationalist supporters, he loses his support base. Still, whether Abe emphasizes pacifist and international norms or makes concessions to his right-wing supporters, the question remains how to manage both at the same time in a longer perspective, i.e. in which cases, under what conditions, and to what ends he will have to shift the balance in one direction or another.

## **Conclusion**

Using role theory concepts, notably in observing the evolvement of the traditional meta-roles that have anchored Japan's foreign policy in the post Second World War, it was possible to observe behavioral changes in Japan's position on important foreign policy related issues. An examination of Abe's foreign policy indicates a substantial role shift from Japan's reluctant approach to international security toward more assertiveness of its roles in the world. As regards history, Abe tries to meet right-wing supporters' role expectations but cannot proceed without taking international and domestic expectations into account. Thus, his policy related to history is cautious so as not to become an obstacle to his foreign policy. He makes symbolic gestures, for example when he becomes the first Japanese Prime Minister to express his apologies to Australian prisoners of war in the Australian Parliament (The Australian 9 July 2014), or when he visits Pearl Harbor to express his condolences for the lost lives in Japan's attack in 1941 (BBC 28 December 2016). The self-perception of Japan being pivotal in Asia is present in many statements of Abe. Japan also seems to be more forward looking in the acceptance of the long-



standing request from the US to contribute more to its own defense and to utilize its greater security-related technical, legal and managerial capabilities more pro-actively in Asia. In this line of thought, Japan has pro-actively acted as a reliable security partner to contribute to President Obama's 'Pacific Pivot' strategy of US rebalancing to the Asia Pacific region. Although Prime Minister Abe has yet to revise Article 9, he rammed through his unilateral interpretation that collective self-defense can be exerted. As for the economic/trade policies, Japan's NRC about the TPP is closely linked to its long-term interest in economic growth in the region that would be beneficial to Japan. At the same time the objective of the TPP also seems to maximize politically a leading position because the boundaries of the project coincide with that of a key security partner, such as Australia, and include countries such as Vietnam and the Philippines that are considered politically important in Japan's policy toward China.

Abe is most likely to strengthen its philosophical orientation of active cooperation with other nations as shown by his stress of Japan's significant international role in the postwar period. He plans to have Japan confirm its 'forward-oriented' attitude through his proactive pacifism concept (Pugliese 2015: 50). In terms of role theory, it does not seem that Abe's initiatives are questioning. The key postwar NRC. As argued by Abe himself, the differences fall in the realm of how best to interpret and to pursue existing role conceptions, rather than concerning the role conceptions themselves. The core norm as a non-militarist pacifist state is unlikely to change but the meaning of what the components imply as acceptable behavior seem to be at stake because of Abe's initiatives. A deeper understanding of the ego-part and key alter-parts' reaction to Abe's claim and a subsequent assessment of the impact on NRC requires the use of an empirical method such as a qualitative content analysis for further research. Analysis of political leaders' speeches, for example, clarifies what roles the country is eager to play. As Holsti wrote, language and actions signal expectations (including prescriptions and proscriptions) of the other actors and the NRC can be expected to cover them (Holsti 1970: 245-246). Therefore, it is necessary to examine speeches concerning Japan's duty, responsibility, and the obligation of Japanese and foreign political leaders and, if necessary, their aides. In doing so, it should be possible to observe more precisely the possible changes in the key traditional meta-roles mentioned in the text. It may also be possible to deepen the knowledge of Abe's foreign policy in examining the case of context-specific roles between Japan and foreign countries on important issues, such as the Japan-US alliance, and the Senkaku/Diaoyu Islands territorial dispute between Japan and China.

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# Demographic Change and its Impact on Economic Growth

**Jana-Larissa Grzeszkowiak**

**Abstract** Most advanced economies are facing demographic change, but all eyes are on Japan as the country holds the vanguard role in this issue with its very low birth rate and the highest life expectancy in the world. This paper aims at giving an insight into the possible impacts of demographic change on Japan's economy. At the same time, it investigates the influence of possible policies that can be implemented to address the issue. A special focus is on the attempt to increase the female labour participation rate as this approach is already part of Japan's economic strategy under the broad heading of 'Abenomics'. These policies are ultimately aimed at invigorating economic growth in Japan. To show the impact of demographic change and an increase of the female labour participation rate, a simple Solow-Swan-model is used and adjusted accordingly.

The paper is structured as follows. First, it will give an insight into the theoretical implications of demographic change, in a first section. This will be followed by an analysis of the gender issue as having an important role in this change. In a third section, the paper will look at the possible benefits arising from increasing the female labour participation rate and it will finish with some concluding remarks.

**Keyword** Low Birth Rates, High Life Expectancy, Gender Labour, Increase Female Labour Demographic Dchange in Japan

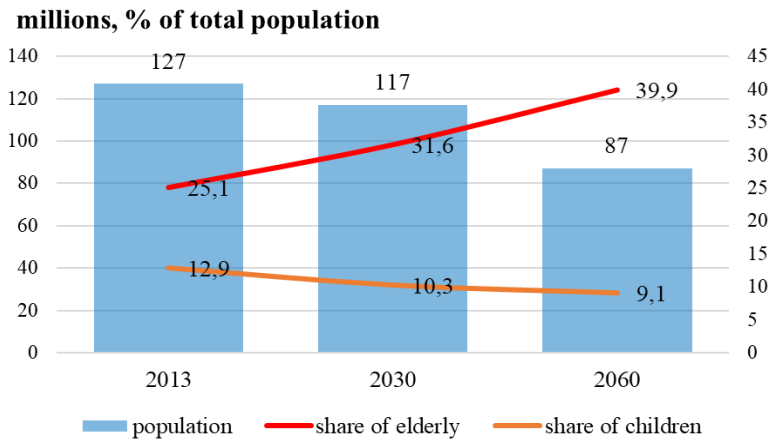
**JEL Classification** J11, J 16, O41, O53, I20, N33, N35

## Demographic change in Japan – theoretical implications

The demographic situation in a country is characterised by the relationship between three groups in the population: the working population, the elderly and children. The structure of the population has therefore a large impact on economic growth. On the one hand, a rising number of elderly people increases the demographic burden through pension and health care costs, which have to be absorbed by the working population. If the share of the elderly in contrast to the share of the working population increases, an intergenerational imbalance appears (Aoyagi and Ganelli 2013) with the younger generation bearing a heavier fiscal debt than the older generation. On the other hand, low birth rates imply the increase of this intergenerational imbalance in the future, as there are not enough people to backfill the labour force. Hence, an increasing share of elderly people and a decreasing birth rate can be seen as the two edges of a sword named 'demographic change' that threatens most developed economies. Although these are problems that most advanced economies have to deal with, all eyes are on Japan as

the country holds the vanguard role in these issues with its very low birth rate and the highest life expectancy in the world. The year 2005 marked a watershed for Japan regarding its demographic situation as the rate of the natural population change was negative for the first time and it has remained negative since (Statistics Bureau 2017).<sup>1</sup> According to Cabinet Office projections, the population is forecast to shrink by over 30 per cent from 127 million in 2014 to just 87 million by 2060 (Matsui et al. 2014). In combination with the fact that Japan has the highest level of life expectancy in the world (Statistics Bureau 2017), the Japanese population is not only shrinking but aging as well. By 2060 the share of the elderly, defined as persons aged 65 and above, is estimated to reach almost 40 per cent, whereas the proportion of children below the age of 14, is under 10 per cent, as can be seen in Figure 1.

**Figure 1. Population forecast for Japan (2013 – 2060)**

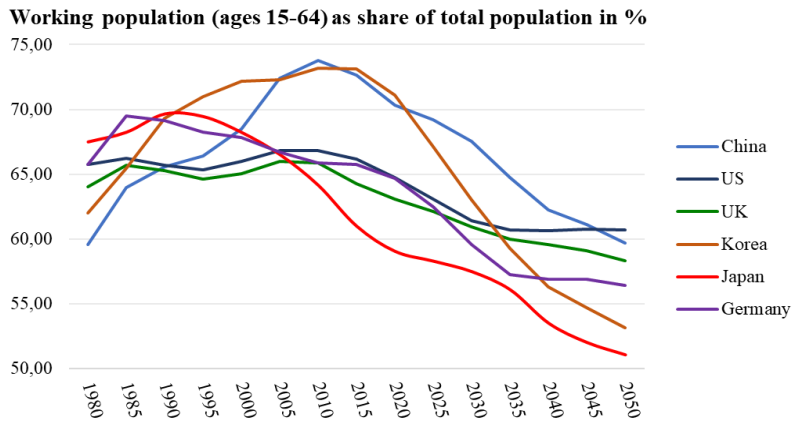


Source: own illustration based on data of Matsui et al (2014).

The rapidly rising amount of elderly people implies soaring pension costs and rising healthcare burdens. This is one reason why Japan's fiscal debt has exceeded 250 per cent of its GDP in 2017 (Statistics Bureau 2017). Public pension costs have been accounting for more than 10 per cent of GDP since 2011 (OECD 2017a). On the other hand, the declining birth rate and thus the decreasing proportion of children will have a massive impact on the evolution of the labour force, which is defined as the group of people aged between 15 and 64 years. Its share accounted for 60.3 per cent of the entire population in 2016, but it is projected to shrink to 51.8 per cent by 2050 (Statistics Bureau 2017). Japan is about to face “the sharpest labour force decline among advanced economies” (Steinberg and Nakane 2012: 4), as shown in Figure 2.

Many industrial sectors are already suffering from acute labour shortages. The current overall ratio of effective job offers to applicants is at a high 1 to 1, whereas in labour-intensive sectors such as security services, construction and mining, the ratio is at a much higher level of 3 to 5 meaning that there are 3 to 5 jobs available for every applicant (Matsui et al. 2014). A shrinking workforce could drastically lower the domestic economic output and thus GDP endangering thereby economic growth. This has partly explained why Japan has already handed over its ranking as the second biggest economy in the world to China (Steinberg and Nakane 2012). Furthermore, a shrinking population does not stimulate consumption and does not thus help to ease Japan's deflation problems (Matsui et al. 2010).

<sup>1</sup> This rate records the number of births minus the number of deaths in a country and in a year.

**Figure 2. Population forecast - Japan in comparison with other nations (1980-2050)**

Source: own illustration based on data of The World Bank (2017).

While a shrinking workforce and a rising share of elderly people appear as manageable problems when dealt with separately, the two issues lead to massive economic implications when they happen together. For clarification, it makes sense to have a closer look at demographic dependency ratios. First of all, the “elderly dependency ratio” shows the relationship between the elderly and the economically active population (dependents per 100 people of working population). This ratio is estimated to increase by 79 per cent from 24 dependents per 100 workers in 2000 to 43 dependents per 100 workers by 2025 compared to a 52 per cent average increase in the OECD countries (CESifo 2003). The high increase is mainly due to the combination of the retirement of the so called first “baby boom” generation (e.g. people who were born after World War II in 1947-1949) and the aforementioned decline of the workforce due to low current birth rates. By 2050, the ratio will have risen further to 56 dependents per 100 of workforce. Although the increase will have slowed down a bit compared with the enormous surge between 2000 and 2025, it will still rise above the OECD average (CESifo 2003).

The “total dependency ratio” takes into account the fact that the economically active population does not only have to care for the elderly but for children as well. With the estimated 86 dependents per 100 workers by 2050, Japan displays one of the highest total dependency ratios in the world even above the OECD average of 72 dependents per 100 of labour force, - although this is already the highest region’s average in the world (CESifo 2003). Estimates for 2050 show that only higher amounts can be found for some countries within Europe (CESifo 2003). Although Japan will not stand alone with its demographic problems, the country will be hit earlier than other countries.

As the demographic burden of children is lower than that of the elderly, the “needs weighted dependency ratio” is an adjustment of the total dependency ratio by applying weighting techniques. It assumes that the demographic burden of elderly people is three times higher than that of children. Even with this measure, which lowers Japan’s demographic burden massively, Japan still ranks highly above the OECD average (CESifo 2003).

The first important implication of these demographic trends is in terms of output growth and of growth theory. The standard Solow-Swan-model augmented with a dependency ratio for taking into account the age structure of the population, referred to as the “Model of Silver Growth” (Weber 2010), is used in this paper. The Solow-Swan-Model was originally composed

for economies with a growing population but the assumption that the whole population is working will be changed by incorporating the dependency ratio.

A simple Solow-Swan-model using a Cobb-Douglas-function (Mankiw 2016) augmented by the factor of exogenous technology progress shows the growth perspective for economies that have reached the steady state (Gärtner 2009 and Acemoglu 2009). For simplification, it is assumed that the production function has constant returns to scale:

$$Y = AK^\alpha L^\beta \quad (1)$$

with  $Y$  denoting production;  $K$  capital;  $L$  labour; and  $A$  technology progress and with  $\beta = 1 - \alpha$  and  $0 < \alpha < 1$ .

By 2016, more than half of the Japanese population had completed tertiary education (OECD 2017b) thus it is sensible to augment the Solow-Swan-Model even further with a human capital term so as not to neglect an important input factor. Human capital is related to each worker and therefore it is not an exogenous variable. Studies show that there is a significant positive effect of secondary and higher education on growth, whereas primary education is indirectly growth-enhancing since it is a precondition for higher education (Barro 1997). The new production function becomes:

$$Y = AK^\alpha (hL)^\beta \text{ with } h = \text{average human capital per worker} \quad (2)$$

which can be re-written as:

$$Y = AK^\alpha (hL)^{(1-\alpha)} \quad (3)$$

Given that the total population ( $N$ ) is composed of the labour force ( $L$ ) and of dependants ( $D$ ) or given that  $N = L + D$ , it follows that the dependency ratio can be expressed as follows:

$$\text{Dependency ratio: } \theta = \frac{D}{L} = \frac{(N-L)}{L} \quad (4)$$

The share of the labour force ( $L/N$ ) can be written as:

$$\frac{L}{N} = \left(\frac{N}{L}\right)^{-1} = \left(\frac{L+D}{L}\right)^{-1} = (1+\theta)^{-1} = \frac{1}{(1+\theta)} \quad (5)$$

GDP per capita can be expressed as: (6)

$$GDP_{capita} = \frac{Y}{N} = \frac{AK^\alpha (hL)^{1-\alpha}}{N}$$

$$= AK^\alpha (hL)^{1-\alpha} * \frac{1}{N}$$

$$= AK^\alpha h^{1-\alpha} L^{1-\alpha} * \frac{1}{N}$$

$$= AK^\alpha h^\beta \left(\frac{L}{L^\alpha}\right) * \frac{1}{N}$$

$$= AK^\alpha h^\beta \frac{L * 1}{L^\alpha * N}$$

$= AK^\alpha h^\beta \frac{1}{L^\alpha} * \frac{L}{N}$  and when replacing  $L/N$  by its expression found in equation (5), GDP per capita becomes: (6a)

$$= AK^\alpha h^\beta \frac{1}{L^\alpha} \left(\frac{1}{1+\theta}\right)$$

To see how the dependency ratio affects the term, the first partial derivative with respect to is used as follows: (7)

$$(GDP_{capita})' = \frac{\partial \frac{Y}{N}}{\partial \theta} = AK^\alpha h^\beta \frac{1}{L^\alpha} * \left(-\frac{1}{(1+\theta)^2}\right) < 0$$

Since the first factor is positive and the second is negative, the overall product in equation (7) is negative. As this represents the slope of equation (6a) it is demonstrated that the dependency ratio has a negative impact on the term.



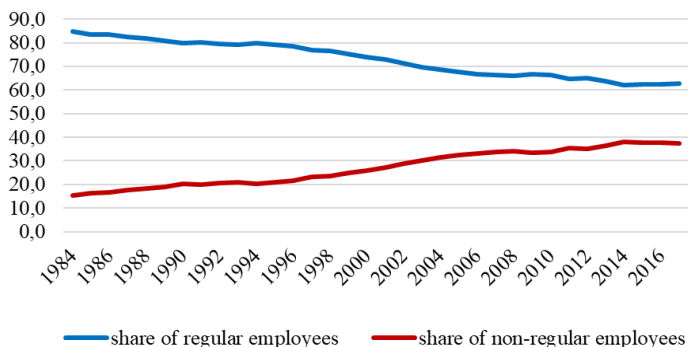
Consequently, a higher share of dependents lowers economic growth, but the final impact on economic growth depends very much on the other variables. Generally, a declining workforce (and concomitantly an increasing dependency ratio) can be compensated for by an increase in technological change or/and in physical capital (Gruescu 2007).

### Explaining demographic problems in Japan – The gender issue

Japan has long been the synonym of economic performance and growth. As it has only few natural resources, Japan has always made a successful use of its population as an input factor. The Japanese employment system has gained the reputation for being unique and for being at the heart of Japan's economic success. To understand how such a famous system can be affected by adverse demographic trends, it is important to understand the system's mode of operation. The Japanese employment system was established in the post war period and it was based on the principle of life-long employment security combined with seniority-based wages. These attributes are still enjoyed today by regular employees. They have the advantage of secure full-time contracts until the mandatory retirement age, and of benefits from annually increasing wages. Furthermore, they benefit from intensive and continuous on-the-job-training so as to build up a multiple-skilled workforce. In return, the employees accept long working hours, frequent job rotation and even relocation to undesirable locations willingly (Yashiro 2011). Additionally, company unions, - instead of trade unions on a sectoral basis -, engage in annual wage bargaining in order to maintain harmony between employer and employee. Wage compensation for regular employees is given by bonus payment twice a year accounting for up to 40 per cent of the annual wage (Fortin and Sicsic 2009). Promotion is based on loyalty and granted to those who show the most effort (Yashiro 2011). The effort is often measured by the time the employee spends dealing with the company's issues, whether in the office directly or during his/her free-time.

Since the 1980s, a new cohort of "non-regular" employees has been on the rise; these workers either have part-time or open-ended contracts, or are not directly hired by the employer or have a status which is a combination of these three (Aoyagi and Ganelli 2013). They have lower wages and enjoy less promotion perspectives, although they carry out mostly the same work as regular workers (Jones and Urasawa 2011). In general, they enjoy fewer benefits than their regular colleagues and they support a core workforce of regular employees by ensuring flexibility depending on the business cycle. This employment system has been important to ensure employment stability and to contribute thereby to a welfare society in Japan. Hence, the general view in Japan is to hold on to this system (Yashiro 2011) although it leads to a divide on the labour market. As shown in Figure 3, the share of non-regular employees has almost constantly increased since 1984.

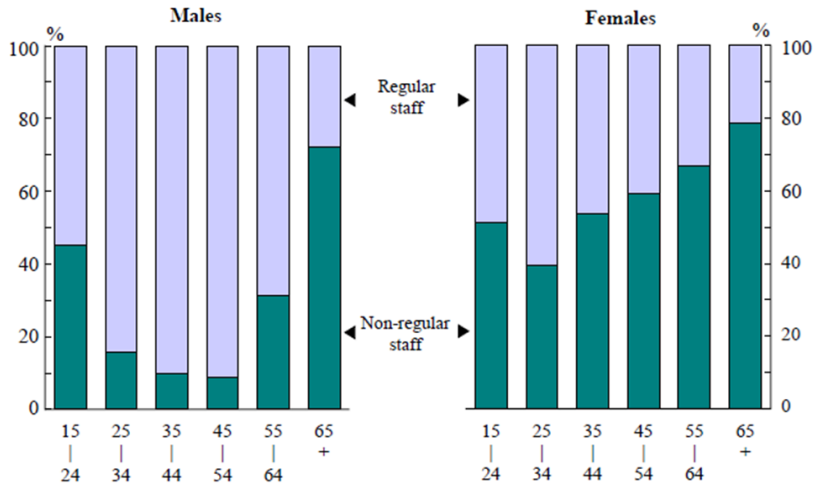
**Figure 3. Shares of employment types (1984-2017)**



Source: own illustration based on data of the Statistics Bureau (1996), Tokyo.

The divide appears across several characteristics of the population. First, the male labour participation (MLP) of the key productive cohort of 25-60 years is extremely high averaging 95 per cent with 90 per cent of these being in regular employment (Macnaughtan 2015). Figure 4 shows that the majority of men are in regular employment, whereas the majority of women in most age groups are not, with younger and older men more likely to be non-regular workers.

**Figure 4. Employment Pattern by Gender and Age (2016)**

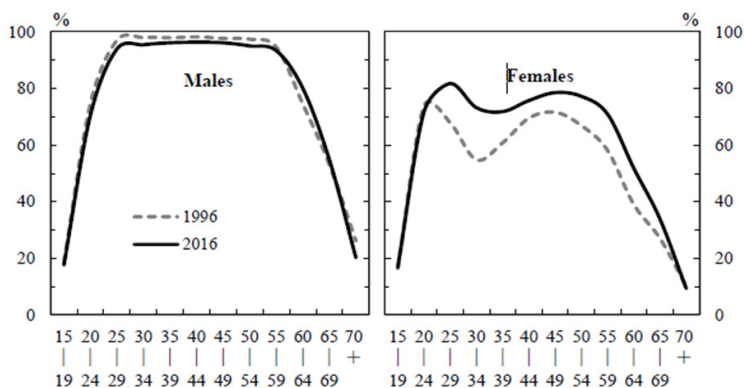


Source: Statistics Bureau (2017), Tokyo.

These findings raise the question as to whether non-regular employment is chosen or imposed upon. Figure 5 shows that many women stop working at the end of their twenties and this pattern is already well-known as Japan's "M-curve". Whilst the dip in the M-curve has flattened during the past two decades, it is still obvious.

The flattening is partly due to the increasing share of non-regular employment. With respect to the fact that the current female average age of first marriage is 29.4 and the average age to have the first baby is 30.7 (Statistics Bureau 2017), it seems that women interrupt their employment for becoming wife or/and mother. Almost 70 per cent of women drop out of the workforce after giving birth to their first child (Matsui et al. 2010) and 43 per cent of these women return to work later in their lives out of the 77 per cent in total that wish to return (Matsui et al. 2014).

As continuous occupation is conditional for regular employment and thereby for building up a career, these interruptions are the reason why the share of regular employed women is low, and why they do not achieve a high position. According to the 2017 Global Gender Gap Report, Japan's female to male ratio of legislators, senior officials and managers levels is only at 0.14. An even worse image appears in the ratio of women to men in parliament. Only every tenth parliamentarian is female (WEF 2017).

**Figure 5. Labour Participation by Gender (2016) – Japan’s “M-curve”**

Source: Statistics Bureau (2017), Tokyo.

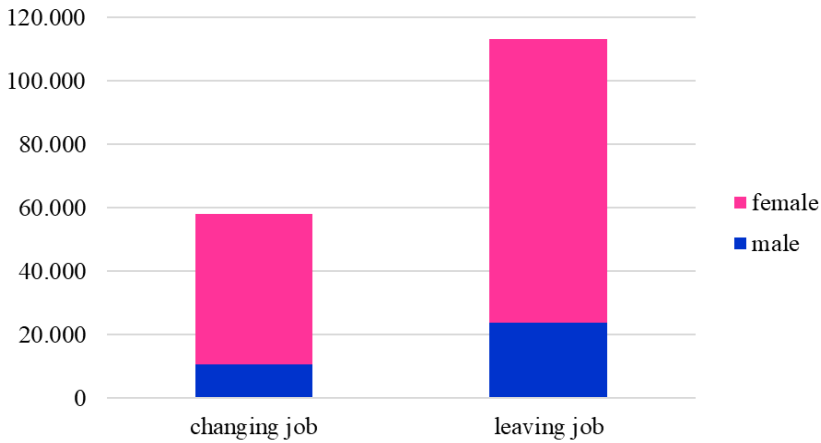
The reason behind these patterns can be traced to the Japanese model of femininity, which dates back to Confucianism, stating that women belong to the home and are responsible for the family (Ianacone 2015). Several surveys confirm that this point of view is still valid to date, even among the younger generation (Macnaughtan 2015).

By keeping these traditions, several beliefs have solidified with enormous consequences for women. Of special note are “*Sansaiji shinwa*” (“the three-year-old myth”), which emphasizes the importance for children’s development to be cared by their mothers during their first three years of life, and “*kyōiku mama*” (“education mum”), that says that a child must have a mother who monitors homework, gives additional educational tasks, provides home-made food daily and keeps in touch with teachers and other mothers (Macnaughtan 2015).

Regardless to these myths, there were more than 21,000 children on waiting lists for childcare facilities in 2014 (MHLW 2015). The lack of after-elementary-school-care has become so serious that it was named “*sho-ichi no kabe*” (“the first-grade wall”), and that it is seen as the main reason for female workers quitting their job in the eyes of the government (Chanlett-Avery and Nelson 2014). Nevertheless, there are even less places for children under two as they accounted for almost 85 per cent of the waitlisted children in 2014 (MHLW 2015). These numbers are biased because they do not include children whose parents are on parental leave or are not willing to accept any facilities (The Japan Times 2017).

Furthermore, the number of facilities offering care for ill children is low, so that in such cases the mother has to look for alternatives like relatives or staying at home (Steinberg 2012). Additionally, although Japan has some very liberal parental leave laws, only about 2 per cent of new fathers made use of these laws in 2015 (WEF 2016). In addition, Japanese men spend only about one hour per day on household and childcare (Matsui et al 2014).

Women are the care-givers with social responsibility for children as well as for the elderly. The share of females quitting their jobs to take care of elderly relatives is much higher than the share for their male counterparts, as shown in Figure 6. Even if the elderly are mentally healthy and do not need nursing care, many of them need assistance with daily life issues as they become less mobile with age.

**Figure 6. Number of people leaving or changing their jobs for caregiving by gender (2012)**

Source: own illustration based on data of Statistics Bureau (2011), Tokyo.

As long as women are carrying the “double burden” (WEF 2014), meaning balancing sole responsibility for the family and participating in the workforce, they cannot serve “the anytime/anywhere performance model” of Japanese work culture. Although Japan already ranks among the top places of annual worked hours (Matsui et al. 2014), it is not unusual for a worker to spend even more time with colleagues in her/his free-time to strengthen office cohesion (Chanlett-Avery and Nelson 2014). Due to the availability of new technologies, the working time has been extended to 24 hours, 7 days a week (WEF 2014). If women try to serve this model fully, they will not have time for a family, which will exclude them socially (WEF 2014).

Furthermore, women receive on average only 67 per cent of what their male counterparts earn for similar work (WEF 2017). This is due to the duality of Japan’s labour market. The discrimination is against non-regular employees, as they receive lower wages for the same work and miss promotion perspectives by lacking training opportunities. But the truth is that almost 70 per cent of all non-regular employees are women and that they are in this position mainly because of their gender (own estimation based on Statistics Bureau 2017). Additionally, there is a lack of role models and opportunities due to the lack of female workers in higher positions (WEF 2014) as promotion is dependent on the “*Sempai-Kohai*-principle”, meaning a senior (*sempai*) mentors juniors (*kohai*) and campaigns for them (Dietrich 1991). The only way to change this is to achieve a critical mass of women in these positions (Scott-Gall and Manohar 2013). More women quit their careers because of ‘push factors’: 63 per cent cite dissatisfaction with their work and 49 per cent feel they are stalled in their careers. ‘Pull factors’ are less important with only 32 per cent giving child-rearing as a reason (Matsui et al. 2014). So, women satisfied with their career will ponder before giving up their career for motherhood. This is especially true since the likelihood of a change from non-regular into regular employment is estimated at between 1.7 to 10.3 per cent chance depending on various factors such as age and previous types of contract and work (Aoyagi and Ganelli 2013).

Moreover, unmarried women represent a higher share of regular employment than married women (Aoyagi and Ganelli 2013). This is a reason for the increasing number of women deciding to stay single. In 2015, 14.1 per cent of women said to have made a decision for ‘lifetime non-marriage’ (Statistics Bureau 2017). Additionally, the number of marriages has decreased and the average age of the first marriage has been postponed to the early thirties. Combined with the low

share of babies born out of wedlock of around 2 per cent over the years (Fukuda 2016) it gives an explanation for the low birth rate as marriage seems to be a precondition to have children in Japan. There is a high correlation between a woman's decision for children and marriage. The recent unfolding situation of young men being insecure in the labour market results in a lack of trust in their ability to provide for a family (Ogura and Kadoda 2008), and this is one reason for delayed marriage. In contrast to the low average unemployment rate of 3.1 per cent, the unemployment rate for men up to their mid-30s is around 5 per cent (Statistics Bureau 2017). In addition, the share of men in non-regular employment under the age of 25 is over 40 per cent (Statistics Bureau 2017). As a result, the situation on the labour market has a negative impact on the birth rate, whether this is due to female decisions for careers instead of motherhood or whether this is caused by a more precarious situation for young men on the labour market; these all result in delayed marriage and family-building.

### Benefits arising from increasing the female labour participation rate (FLP)

Raising the FLP is a main aspect of Prime Minister Abe's "Revitalization Strategy". The targets of Abe's Womenomics are a general lift of FLP to 73 per cent by 2020, a share of 30 per cent of women in leadership positions in all areas, increasing the part of first-time mothers returning to work after childbirth to 55 per cent, by bringing the childcare waiting lists down to zero by 2017 and enlarging the share of fathers taking parental leave to 13 per cent by 2020 (Matsui et al. 2014). The female labour participation (FLP) rate has continuously risen over the past years and it is currently at a high 63 per cent (WEF 2014). If it were to rise to over 80 per cent, matching that of males, this would add 7.1 million employees to the labour force (Matsui et al. 2014). This would ease the above mentioned demographic burden as it would counteract the shrinking of the workforce and thus affect the dependency ratios positively.

Moreover, increasing the FLP ratio in Japan is viable since Japanese women are highly educated. With 49.5 per cent of women having completed tertiary education in 2015, Japan ranks far above the OECD average of 37.2 per cent (OECD 2017d). Adding highly skilled workers to the labour force will have a positive impact on economic output. From a theoretical viewpoint, the Solow-Swan-model can be used and adjusted once again, starting with the previously used production function:

$$Y = AK^\alpha(hL)^\beta \quad (2)$$

The model can be modified with the assumption that only a share of the population is economically active (Hussain 2012).

$$L = \rho N \quad (8)$$

Combining equation (2) with equation (8) gives:

$$Y = AK^\alpha[h(\rho N)]^\beta \quad (9)$$

We assume that  $\rho$  is different for men and women; it is separated into  $\rho_m$  for the economically active male share and  $\rho_f$  for the female share. For simplification, it is assumed that exactly half the population is female.

$$L = \rho N = \rho_m \frac{N}{2} + \rho_f \frac{N}{2} = (\rho_m + \rho_f) \frac{N}{2} \quad (8a)$$

By replacing  $L$  by this expression in equation (9) gives:

$$Y = AK^\alpha \left[ h \left( (\rho_m + \rho_f) \frac{N}{2} \right) \right]^\beta \quad (9a)$$

After solving and considering  $0 < \beta < 1$  and  $0 < \rho_m < 1$  and  $0 < \rho_f < 1$ , equation (9a) can be simplified as follows (Hussain 2012):

$$\begin{aligned} Y &= AK^\alpha h^\beta \left( \rho_m \frac{N}{2} \right)^\beta + AK^\alpha h^\beta \left( \rho_f \frac{N}{2} \right)^\beta \\ &= AK^\alpha h^\beta \left( \frac{N}{2} \right)^\beta + AK^\alpha h^\beta \rho_f^\beta \left( \frac{N}{2} \right)^\beta \end{aligned} \quad (10)$$

$$= AK^\alpha h^\beta \left( \frac{N}{2} \right)^\beta + AK^\alpha h^\beta \rho_f^\beta \left( \frac{N}{2} \right)^\beta \quad (11)$$



To see which implication the FLP has on GDP, the first partial derivative with respect to  $h$  has to be calculated as shown below:

$$\begin{aligned} (GDP)' &= \frac{\partial Y}{\partial \rho_f} = \beta AK^\alpha h^\beta \left(\frac{N}{2}\right)^\beta \rho_f^{\beta-1} \\ &= \beta AK^\alpha \left(h \frac{N}{2} \rho_f\right)^\beta \rho_f^{-1} \\ (GDP)' &= \beta AK^\alpha \left(h \frac{N}{2} \rho_f\right)^\beta \frac{1}{\rho_f} \end{aligned} \quad (12)$$

As the first derivative represents the slope, it is necessary to find out whether it is positive or negative.

$$\frac{\partial Y}{\partial \rho_f} = \beta AK^\alpha \left(h \frac{N}{2} \rho_f\right)^\beta \frac{1}{\rho_f} > 0 \quad (13)$$

This implies that GDP will rise with an increase in the FLP, if MLP is kept constant. Various estimations suggest that enhancing the FLP ratio to the level of the MLP ratio could boost the GDP by between 12, 5 per cent (Matsui et al. 2014) and 14 per cent (Scott-Gall and Manohar 2013).

As the gross domestic product per capita ( $Y/N$ ) is more expressive when comparing economies, it is reasonable to have a look at it as well.

$$\begin{aligned} GDP_{capita} &= \frac{Y}{N} = \left( AK^\alpha h^\beta \rho_m^\beta \left(\frac{N}{2}\right)^\beta + AK^\alpha h^\beta \rho_f^\beta \left(\frac{N}{2}\right)^\beta \right) * \frac{1}{N} \\ (GDP_{capita})' &= \frac{\partial \frac{Y}{N}}{\partial \rho_f} = \beta AK^\alpha \left(h \frac{N}{2} \rho_f\right)^\beta \frac{1}{N} > 0 \end{aligned} \quad \begin{matrix} (14) \\ (15) \end{matrix}$$

Consequently, there is a positive connection between an increase of the FLP ratio and GDP per capita as well. Moreover, a higher FLP rate would increase the disposable income of women and boost consumption. Although consumption has tended to be anaemic in the recent years of deflation in Japan, female spending trends have been resilient (Scott-Gall and Manohar 2013). Women tend to spend more on clothing and luxury goods, and they make most of the daily household spending decisions (Scott-Gall and Manohar 2013). In Japan, women control almost 65 per cent of all purchasing decisions (Scott-Gall and Manohar 2013). Additionally, there are multiplier-effects of a rising FLP, such as reducing entry barriers for women when entering the labour market and women's tendency to invest in other women's ideas. Therefore, it would start a virtuous cycle (Scott-Gall and Manohar 2013), meaning more women in the labour force would encourage even more women to join it - with all the aforementioned benefits.

Furthermore, there is clear evidence that companies with a higher share of female senior management and board members perform better in terms of return on equity and earnings margins than those with a lower fraction (Süssmuth-Dyckerhoff et al. 2012). This is due to the behaviour and attitudes women bring along, e.g. they take less inconsiderate and risky decisions, they emphasise employee development more, they encourage creativity and expression of opinion in the decision-making process and they widen the perspective for, especially female, consumer behaviour (Süssmuth-Dyckerhoff et al. 2012).

Given that many women work as non-regular workers, either willingly or by force, the gender divide contributes to the duality of the Japanese employment system which in turns reduces total factor productivity (Danninger et al. 2012). In addition, this duality has a direct impact on women as they enjoy only limited opportunities in terms of training and education. Furthermore, working as a non-regular worker unwillingly means that the employee would prefer a regular position, and this is likely to affect his/her morale and job efforts negatively (Danninger et al. 2012). Further, the duality has a negative impact on job satisfaction and social cohesion as it increases income inequality and could lead to the perception that economic growth

is not distributed fairly (Danninger et al. 2012). This is important since, again, 70 per cent of all non-regular positions in Japan are held by women.

However, it seems that there is the danger that an increasing FLP will decrease the birth rate even more. This view is especially popular in Japan and it is one of two myths that have solidified and seem to be extremely difficult to discredit. On the one hand, the myth that more working women means fewer jobs for men and on the other hand, the myth that raising the FLP rate will lower the birth rate further (Matsui et al 2014). The first myth does not hold if one considers that women often work in different fields than men. The second myth does not stand much to the test, since several variables – other than the FLP rate – explain the declining fertility rate in almost every advanced economy.

Evidence shows that economies with a high FLP such as Sweden, the Netherlands, Denmark or the UK also have a higher birth rate. The same is visible regarding the prefectures of Japan. Prefectures with a higher FLP have a higher fertility rate (Matsui et al 2014), although we should remind the fact that correlation does not imply causality. The connection between the two variables is closely connected with surrounding conditions, but Japan is in a lucky position to borrow suitable policies from countries with similar demographic issues.

For example, the ‘family-friendly Scandinavians’ policy could provide Japan with some ideas on how to extend and harmonize its current childcare system. Not only the country needs more child care facilities, something already enshrined in Abenomics, but it also needs to be more adjusted to the necessities of the parents without extra fees; a nurse needs childcare at different times compared to an office worker, but probably she earns less to pay for it. Especially for jobs with rotating shifts in the health sector, which is in demand due to the aging population, supporting on-site or 24/7-facilities would be beneficial. Furthermore, making the child allowance conditional on workforce participation could help to raise the FLP (Matsui et al 2010). Moreover, the parental leave benefits in Scandinavia are generous; on the one hand, it extends over 16 months and represents 80 per cent of the salary but on the other hand, it is only available if the father takes at least two of these 16 months. Such a provision could raise the share of Japanese men taking parental leave and develop more empathy for their wives and the children (Matsui et al. 2014). With reference to the Dutch system, an adjustment of part-time work regulation could be advisable. In the Netherlands, part-time work is equal to full-time work in every respect. There is no wage gap, promotion opportunities are good and taxation and social security benefits are equal. Although the Japanese government has made a step to better secure part-timers by October 2016, it is only a drop in the ocean, as the new provision only applies to companies with more than 500 employees, and is conditional on annual income, weekly working hours and duration of employment (Matsui et al. 2014). Comprehensive social security codes could be implemented and the dependent exemption abandoned. It would be even better to narrow the gap between non-regular employees and regular employees by bringing down the labour market duality, e.g. by extending the rights and benefits for non-regulars. The UK’s ‘right to request’ empowers parents to ask for flexible work arrangement regardless of their position (Matsui et al. 2014). Moreover, this right would help to implement more flexible work arrangements, especially concerning the times at office, e.g. by supporting home-office. This would also be beneficial for men, because as more and more women stay unmarried, obviously more men stay unmarried as well and they will have to take care of their parents on their own (Matsui et al. 2010).

In addition, easing immigration laws could help to fill labour market gaps and unburden women. Prime Minister Abe addressed this issue in 2014, but nothing has happened yet. Furthermore, helping women with re-employment after childbirth could raise the FLP as only 43 per cent are able to find a job although 77 per cent of them wish to work again (Matsui et al.

2014). Establishing recruitment and re-training centres would enable more women to re-enter the labour force. Moreover, although the government has almost reached its 30 per cent target of women in ministerial positions, they do not hold any leadership positions and the number of female parliamentarians remains low as stated earlier (Macnaughtan 2015). Increasing the number of women in politics would definitely help to build more awareness of the problem. Moving away from the current seniority-based promotion practice and launching a transparent advancement system with fair and objective evaluation would definitely encourage more women to participate meaningfully in the labour force. Especially the aforementioned ‘push factors’ would lose their strong impact. That is very hard to change in Japanese companies, but it will be particularly beneficial for global firms (Matsui et al. 2014). Generally, introducing more flexible employment contracts could be an idea for a soft drift into a less dual labour market. For women at the start of their career, it would be most beneficial if they no longer have to choose between career and family (Steinberg and Nakane 2012).

Norway was the first country that introduced a women-on-board-quota to ensure their participation in the labour force as Norway understands the importance of the female point of view (Scott-Gall and Manohar 2013). Introducing quotas could be an idea for Japan to ensure more women in leadership positions. Clear targets must be set in the first place in order to achieve them. Australia has recognised that only men can change their attitude towards women, and not the other way around. And since men are more easily influenced by other men it introduced the “Male Champions of Change” to bring the message of diversity and strategies to men by men who have already acknowledged the importance of the issue. A similar approach are the “30 per cent Clubs” of UK and Hong Kong which try to build awareness for diversity among business leaders. Similar organisations already exist in Japan, but they focus on women and their training and thus they tend not to be fully adequate (Matsui et al. 2014).

However, the only way to achieve gender equality is the change of society’s mindset, but this is the hardest job to fulfil and the one which will take the longest time. Nevertheless, Japan’s gender equality has to start in its homes (Matsui et al. 2014) and in its minds.

As stated before, encouraging men to take parental leave could help to raise awareness for household and childrearing (Matsui et al. 2014). Equality can only start at home and if it has settled once it will be handed over to the children growing up in this home. To support this mechanism the government could launch programmes to encourage fathers to spend more time with their children. Educational units about diversity could be implemented already at early stages of schooling; this would strengthen awareness among children (with essays about their father’s job or their mother’s daily life).

Moreover, myths and beliefs need to be abandoned (Matsui et al. 2014) and clarification campaigns have to be initiated. They could be promoted by utilising prominent and popular faces like actors and singers, as well as managers or politicians.

## **Conclusion**

Japan’s aging population increases its demographic burden and thus it endangers its economic growth. Since its population is not only aging but shrinking as well, the danger amplifies as less people in the workforce have to bear the rising costs. The low current birth-rate implies that this issue will be exacerbated in the future. For that reason, it is sensible to aim at an increase of the birth-rate, on the one hand, and to backfill the labour force as well, on the other. This issue is already in the focus of Abe’s government by targeting an increase in the FLP, but it appears to be much harder to achieve than initially planned as only little has happened so far, except for increasing the number of childcare places.

These struggles are rooted in Japan's labour market system. Japan's economic slow growth after the burst of the bubble has led to changes in the labour market and has caused a lot of uncertainty, resulting in lowering the birth rate. The employment system worked well in the past, but it is no longer adequate to respond to current labour market problems. Raising the FLP is indeed one way to improve Japan's position as it can help to improve the economic situation, to hamper the demographic burden and, under a number of appropriate conditions, even end up in an increase of the birth rate. Nevertheless, a meaningful increase of the FLP can only be achieved if it is accompanied by a reduction of the labour market duality as well as by the promotion of gender equality. As long as women are bearing the sole responsibility of all caring-related issues, they cannot participate in the labour force in the same way as their male counterparts. Although Japan has many opportunities in terms of suitable policies ahead, when looking at the example of more equal countries such as the Netherlands, it appears that the hardest point to change is its society's mindset. Obviously, this change cannot happen of its own accord, but it can be gradually shaped by appropriate government policies. By only aiming at an increase in child-rearing facilities, Abenomics provides only part of the solution.

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# Corporate Sustainable Strategies, Corporate Growth Value and Stock Price: An Analysis of Post-M&A Sustainable Growth Strategy through Balanced Scorecard Framework

**Ikuro Kato**

**Abstract** Many companies tend to choose corporate growth strategies that focus on their stock values and sales performances rather than corporate sustainable growth strategies that focus on intangibles. Mergers and Acquisitions (M&As) are often indispensable to corporate growth strategies and allow for the possibility of further expansion. However, as the case of Toshiba's failed cross-border M&A has shown, a problem may lie with overseas subsidiaries. Investors' concerns are raised when parent companies cannot fully control overseas subsidiaries. If the business performance of the acquiring company deteriorates, there is a possibility that a large amount of goodwill will turn into a loss. So, in the case of a company that has implemented an M&A, especially a cross-border M&A, attention towards sudden huge losses is amplified. Investors look for "M&A Adepts" which can be expected to generate profit growth through M&As.

Recently, Sustainable Development Goals (SDGs) have been adopted by the United Nations and compliance with them has become more expected. The Japanese Government Pension Investment Fund (GPIF) also became a signatory to the United Nations Principles for Responsible Investment (PRI) in 2016 and has steered its focus towards a greater emphasis on Environmental, Social and Governance (ESG) factors. Therefore, in order to maintain a stable stock price in the future, companies need to shift to a long-term, sustainable growth strategy that incorporates SDGs, especially post cross-border M&As. Taking SoftBank Group Corporation as an example, a company that possesses a large amount of goodwill among the top market capitalization companies in the first section of the Tokyo Stock Exchange (TSE), this study concludes that using the Balanced Scorecard (BSC) framework to shift from a growth strategy to a sustainable growth strategy is effective.

**Keywords** Balanced Scorecard (BSC), Sustainable Development Goals (SDGs), Japanese Government Pension Investment Fund (GPIF), SoftBank Group Corporation as an example

**JEL Classification** O 20, I0, M10

## Introduction

The Japanese stock market has been generally steady as of April 2017 due to the Bank of Japan's (BoJ) zero-interest-rate policy and the purchasing of exchange traded funds (ETF),

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as well as due to the increase in equities in the investment management ratio by GPIF. ETFs are managed funds linked to stock indices such as TOPIX and the Nikkei Stock Average Index (Nikkei 225). BoJ is planning to buy 6 trillion yen worth of ETFs annually. Fast Retailing Co. Ltd. and SoftBank Group Corp., which are large components of the Nikkei 225, are expected to benefit from this. GPIF manages 80% of its equity investment portfolio using stock indices (equivalent to 70% of all pensions). Mutual funds also manage 80% of their equity portfolio using stock indices. One reason for this is that compared to active management of a stock portfolio where individual stocks are researched and picked, the cost of simply using the Index funds is 20% lower on average.<sup>1</sup> There is concern that the market function of favoring individual companies based on their performance may almost be disappearing.

However, when considering individual companies listed on the Tokyo Stock Exchange (TSE) first section, their commitment towards sustainable SDGs must be taken into account. SDGs addressing climate change among other issues have been adopted by the United Nations as a response to global concern.<sup>2</sup> Furthermore, arising from the East Japan Great Earthquake which occurred on March 11, 2011, significant repercussions continue in the energy industry, which is one of Japan's major industries. Nuclear power generation was one of the countermeasures against global warming that was promoted by the Japanese government. However, due to the accident at the Fukushima Daiichi Nuclear Power Plant caused by the Great East Japan Earthquake, Tokyo Electric Power Corporation (currently Tokyo Electric Power Company Holdings, Inc.: TEPCO Holdings), a promoter of nuclear energy, has fallen into major insolvency. Despite already having a large amount of debt, TEPCO Holdings must take responsibility for Fukushima in matters such as compensation and decontamination. TEPCO Holdings is allowed to survive without going bankrupt with the temporary support of the Japanese Government. This is with a view towards the expected decommissioning of the furnace within the next 30 or 40 years.<sup>3</sup> TEPCO Holdings is planning to further strengthen its financial base in order to enable innovation, undertake large M&As, and the expansion of its power transmission and distribution business overseas.

The accident at the Fukushima Plant brought to the attention of general investors the large inherent risks in M&As. To expand its nuclear power business, Toshiba Corporation acquired Westinghouse, a nuclear energy-related company in the United States, through an M&A.<sup>4</sup> However, due to mismanagement, Westinghouse filed for Chapter 11 under the United States Bankruptcy Code. Toshiba calculated a loss of 1,200 billion yen from discontinued operations.<sup>5</sup> M&As are often indispensable to corporate growth strategies that focus on their stock values and sales performances and allow for the possibility of further expansion. However, as the case of Toshiba's failed cross-border M&A has shown, a problem may lie with overseas subsidiaries. Investors' concerns are raised when parent companies cannot fully control overseas subsidiaries.

<sup>1</sup> See The Nikkei, April 16, 2017, morning edition, p. 1, "Sweeping the stock price index operation market".

<sup>2</sup> See The United Nation Home Page (Available at: <<http://www.un.org/sustainabledevelopment/>> [accessed 18 May 2017]). On 1 January 2016, the 17 SDGs of the 2030 Agenda for Sustainable Development, as adopted by world leaders in September 2015 at the United Nations Summit, officially came into force.

<sup>3</sup> Tokyo Electric Power Company Holdings, Inc. Home Page (Available at: <<http://www.tepco.co.jp/decommissiontraject/index-j.html>> [accessed 18 May 2017]).

<sup>4</sup> Toshiba Corporation Home Page (Available at: <<http://www.toshiba.co.jp/worldwide/index.html>> [Accessed 18 May 2017]). The Toshiba group is a diversified electric/electronic manufacturer and provides a wide range of products and services globally in four business domains: Energy, Social Infrastructure, Electronic Devices and Digital Solutions. Headquarters Address: 1-1, Shibaura 1-chome, Minato-ku, Tokyo, Japan. Founded in 1875. Common Stock: ¥200,000 million.

<sup>5</sup> Toshiba Corporation (2017). *Outlook for FY2016 Business Result*, (Available at: <[http://www.toshiba.co.jp/about/ir/jp/news/20170515\\_1.pdf](http://www.toshiba.co.jp/about/ir/jp/news/20170515_1.pdf)>) [Accessed 18 May 2017]).

Thus, it becomes necessary for companies post-M&A to take a long-term stance and shift as early as possible to a sustainable growth strategy. It is necessary to show how the cross-border M&A is aligned with a sustainable growth strategy.

Taking SoftBank Group Corporation as an example - a company that possesses a large amount of goodwill among the top market capitalization companies in the first section of the TSE, this paper will consider a method to shift to a post-M&A sustainable growth strategy using the BSC corporate performance evaluation method.

### Status of M&A in Top-Ranking Companies by Market Capitalization in the TSE

Table 1 shows the top TSE companies by market capitalization as of April 28th, 2017.

**Table 1. Companies in the Tokyo Stock Exchange First Section Ranked by Market Value as of April 28<sup>th</sup>, 2017**

Rank	Name Code	Company name
1	7203	Toyota Motor Corporation
2	9437	NTT DOCOMO, Inc.
3	8306	Mitsubishi UFJ Financial Group, Inc.
4	9432	Nippon Telegraph and Telephone Corporation (NTT)
5	9984	SoftBank Group Corp.
6	9433	KDDI CORPORATION
7	2914	Japan Tobacco Inc.
8	7182	Japan Post Bank Co., Ltd.
9	6178	Nippon Yusei Kabushiki Kaisha
10	7267	Honda Motor Co.,Ltd.

Source: Stock prices from Quick Corp.

The top companies ranked by amount of goodwill as of the end of 2016 are shown in Table 2.

**Table 2. Top Companies Ranked by Amount of Goodwill as of the end of 2016**

	Company name	Amount (Billion yen)
1	SoftBank Group Corp.	48,589
2	Japan Tobacco Inc.	16,019
3	Nippon Telegraph and Telephone Corporation (NTT)	12,790
4	Canon Inc.	9,364
5	Takeda Pharmaceutical Company Limited.	7,773
6	DENTSU INC.	7,187
7	Panasonic Corporation	5,598
8	FUJIFILM Holdings Corporation	5,049
9	Sony Corporation	5,032
10	KDDI CORPORATION	4,539

Source: The Nikkei, March 18<sup>th</sup>, 2017, morning edition, p. 6.

Toshiba announced that goodwill impairment in fiscal 2016 is expected to be 716.6 billion

yen.<sup>6</sup> In addition to Toshiba, Rakuten (Rakuten, Inc.) recorded an impairment of 21.4 billion yen for VIKI, Inc. (USA), a consolidated subsidiary for the three months ended December 31, 2016.<sup>7</sup> If the business performance of the acquiring company deteriorates, there is a possibility that a large amount of goodwill will turn into a loss. So, in the case of a company that has implemented an M&A, especially a cross-border M&A in a hasty manner so as to implement business diversification, attention towards sudden huge losses is amplified. Therefore, post-M&A management strategy becomes important. Investors look to “M&A Adepts” which can be expected to generate profit growth through M&A. With M&As, it is necessary to pay attention to the cash flow situation of the acquiring company. Firms sometimes undertake investment activities only to the extent of not exceeding the cash flow of their operating activities, so that the amount of borrowing does not increase. However, when an M&A is undertaken for expansion, a company often takes on a large amount of bank loans and capital injections to raise funds. In 2016, SoftBank Group acquired ARM Holdings, a leading semiconductor design company (3,030 billion yen). From Table 3, it can be seen that SoftBank Group’s cash flow from the M&A largely exceeded the cash flow from its operating activities.

**Table 3. Changes in Consolidated Financial Information of SoftBank Group**

	2012	2013	2014	2015	2016
Net Sales (million yen)	3,202,536	6,666,651	8,504,135	8,881,777	8,901,004
Operating Income (million yen)	799,399	1,077,044	918,720	908,907	1,025,999
Income before income tax (million yen)	712,526	1,527,769	949,563	919,161	712,526
Net income attributable to owners of the parent (million yen)	1,426,308	800,129	652,538	558,241	1,426,308
Total Assets (million yen)	7,218,172	16,690,127	21,034,169	20,707,192	24,634,212
Equity per share attributable to owners of the parent BPS (yen)	1353.55	1624.33	2,393.47	2,278.85	3,292.40
Basic Earnings Per Share (yen)	332.51	436.95	562.20	402	1,287.01
Diluted earnings per share (yen)	328.08	434.68	558.75	388.32	1,275.64
Equity attributable to owners of the parent (million yen)	1,612,756	1,930,441	2,846,306	2,613,613	3,586,352
Common Stock (million yen)	238,772	238,772	238,772	238,772	238,772
Interest-bearing debt (million yen)	3,707,853	9,170,053	11,607,244	11,922,431	14,858,370
Cash Flows from Operating Activities (million yen)	813,025	860,245	1,155,174	940,186	1,500,728
Cash Flows from Investing Activities (million yen)	△ 874,144	△ 2,718,188	△ 1,667,271	△ 1,651,682	△ 4,213,597
Cash Flows from Financing Activities (million yen)	471,477	2,359,375	1,719,923	43,270	2,380,746
Cash and Cash Equivalents (million yen)	1,439,057	1,963,490	3,258,653	2,569,607	2,183,102

Source: SoftBank Group Corp. (2017). *SoftBank Group Corp. Consolidated Financial Report for the Fiscal Year Ended March 31, 2017 (IFRS)*.<sup>8</sup>

<sup>6</sup> Toshiba Corporation (2017), op. cit., p.17. (Available at: <[http://www.toshiba.co.jp/about/ir/en/pr/pdf/tpr2016fy\\_reve.pdf](http://www.toshiba.co.jp/about/ir/en/pr/pdf/tpr2016fy_reve.pdf)> [Accessed 18 May 2017]).

<sup>7</sup> Rakuten, Inc. Press Release (Available at: <[https://global.rakuten.com/corp/news/press/2017/0213\\_02.html](https://global.rakuten.com/corp/news/press/2017/0213_02.html)> [Accessed 18 May 2017]).

<sup>8</sup> Available at: <[http://cdn.softbank.jp/en/corp/set/data/irinfo/financials/financial\\_reports/pdf/2017/softbank\\_](http://cdn.softbank.jp/en/corp/set/data/irinfo/financials/financial_reports/pdf/2017/softbank_)

Table 4 shows the comparison of Consolidated Financial Information between SoftBank Group and other telecommunications companies. Compared with other companies in Table 4, SoftBank Group's Net Sales and Operating Income are excellent. On the other hand, SoftBank Group has the largest interest-bearing debt compared to other companies in Table 4. In other words, SoftBank Group uses large debts to finance cross-border M&As, which allows the company to realize similar levels of sales as other competitors.

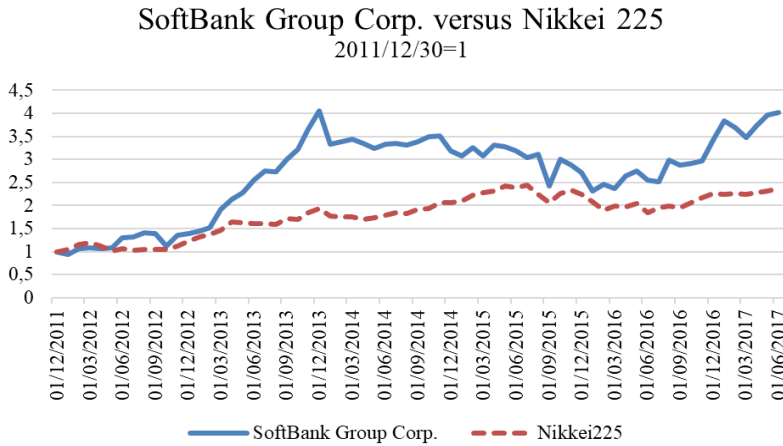
**Table 4. Comparison of Consolidated Financial Information between SoftBank Group and Other Telecommunications Companies as of March 2017.**

	SoftBank	NTT	NTT DOCOMO	KDDI
Accounting Standard	IFRS	SEC	SEC	IFRS
Net Sales (million yen)	8,901,004	11,391,016	4,584,552	4,748,259
Operating Income (million yen)	1,025,999	1,539,789	944,738	912,976
Income before income tax (million yen)	712,526	1,527,769	949,563	895,897
Net income attributable to owners of the parent (million yen)	1,426,308	800,129	652,538	546,658
Basic Earning Per Share (yen)	1287.01	390.94	175.12	221.65
Diluted earnings per share (yen)	1275.64	-	-	221.60
Equity per share attributable to owners of the parent BPS (yen)	3292.4	4491.73	1,492.91	1,446.15
Total Assets (million yen)	24,634,212	21,250,325	7,453,074	6,263,826
Equity attributable to owners of the parent (million yen)	3,586,352	9,052,479	5,530,629	3,554,423
Common Stock (million yen)	238,772	937,950	949,680	141,852
Interest-bearing debt (million yen)	14,858,370	4,117,587	221,880	1,151,650
Cash Flows from Operating Activities (million yen)	1,500,728	2,917,357	1,312,418	1,161,074
Cash Flows from Investing Activities (million yen)	△ 4,213,597	△ 2,089,311	△ 943,094	△ 637,225
Cash Flows from Financing Activities (million yen)	2,380,746	△ 981,511	△ 433,097	△ 485,784
Cash and Cash Equivalents (million yen)	2,183,102	925,213	289,610	226,607

Sources: The securities reports and financial results briefs of SoftBank Group., Nippon Telegraph and Telephone Corporation (NTT), NTT DOCOMO, Inc. and KDDI Corporation.

The changes in the stock price of SoftBank Group and the comparison with the Nikkei Stock Average are as shown in Figure 1.



**Figure 1. Changes in SoftBank Group stock price vs. the Nikkei 225**

Source: Stock price from Quick Corp.

Even after considering that Softbank Group's cash flow from investments greatly exceeds its cash flow from its operating activities, and that it is burdened with numerous interest-bearing debts, it can still be observed that Softbank Group's stock price is on an uptrend and has outperformed the Nikkei 225. This situation can also be seen as a reflection of the recent Japanese stock market mechanism where, as sales of goods and services to consumers increase, total market capitalization rises. Then, as market capitalization increases, the BOJ and index portfolio funds of institutional investors, such as GPIF, increase their purchases of Softbank Group shares through ETFs.

However, as mentioned above, SDGs have been adopted by the United Nations and compliance with them has become more expected. GPIF has also become a signatory to PRI in 2016 and has steered its focus towards a greater emphasis on ESG factors. Therefore, in order to maintain a stable stock price in the future, companies need to shift to a long-term, sustainable growth strategy that incorporates SDGs, especially post cross-border M&As.

## Management of M&A Strategy

As we have seen in the case of Toshiba, problems arise, especially in cross-border M&As, when management's attention does not reach the whole group. It tends to increase the risk of inappropriate accounting that could lead to huge losses. Goodwill arising from the M&A is tested for impairment; but it is difficult to find signs of impairment because future cash flow estimates will be arbitrary figures. However, if an M&A, especially a cross-border one, fails, the parent company may incur huge losses. In addition, the sales upswing due to the M&A will decrease. Because these will adversely affect the stock price, an impairment test is required. Thus, a company that fails in an M&A is in most cases one that mismanages its post-M&A strategy.

Kaplan and Norton (2004) emphasize that most organizations fail with their new strategies due to the lack of ability to successfully execute those new strategies (Kaplan and Norton, 2004, p. 6). The reason is that "executives' attention and effort are overly focused on factors that would affect short term financial measures"; not enough attention is given to "investing in and managing the intangible assets that provide the foundation for future financial success" (Kaplan and Norton, 2004, p. 9). By using the BSC framework, one can outline a sustainable growth strategy for value creation through Intangibles including SDGs. The sustainable growth strategy can then be tied in with management

systems, allowing for its better administration. Financial measures already summarize the results of corporate activities. In addition, drivers for future financial performance, such as customer perspective, internal perspective, learning and growth perspective, are also necessary. In other words, there must be a balance between performance-based measures and non-financial measures.

BSC offers a framework to outline strategies for creating value (Kaplan and Norton, 2004, p. 7). A strategy map outlines how the organization creates value, and the four-perspective model “provides a language that executive teams can use to discuss the direction and priorities of their enterprises” (Kaplan and Norton, 2004, p. 9). They can view their strategic measures as a series of cause-and-effect linkages among objectives in the four BSC perspectives.

Kaplan and Norton (2004) state that a large percentage of M&As fail to deliver synergies because of “cultural incompatibility” between the acquiring and the acquired companies (Kaplan and Norton, 2004, p. 281). Cross-border M&As by Japanese firms often seem to be in a similar situation. There is difficulty in the assimilation of new organizations acquired by cross-border M & As into their own culture.

Therefore, in order to shift to a post-M&A sustainable growth strategy using BSC, it is necessary to analyze whether the vision and strategy of the parent company and the acquired company are aligned in the same direction.

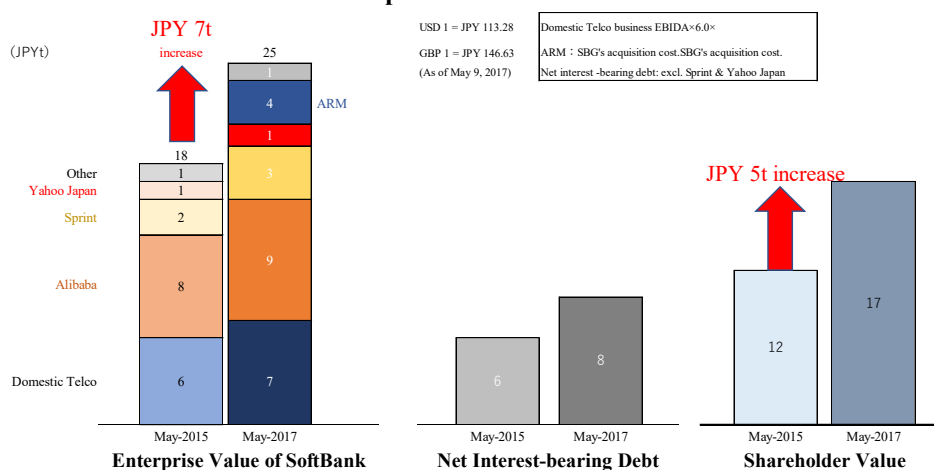
### Analysis Framework for Aligning Acquired Company Values Using BSC for M&A

The SoftBank Group acquisition of Sprint through a cross-border M&A is an attempt to advance in the U.S. telecommunications market. Softbank aims to turn Sprint’s business around by leveraging its experience and expertise developed in Japan (SoftBank Group Corp., 2016, p. 5). The Softbank CEO stated that the effort led to significant improvement in the customer churn rate (SoftBank Group Corp., 2016, p. 10).

In other words, SoftBank Group’s strategy post-M&A is not to assimilate the company acquired through cross-border M&A into the Japanese domestic headquarters, but to apply its domestic business model itself onto the acquired company to acquire new market share.

The corporate value of the SoftBank Group is shown in Figure 2 below.

**Figure 2. Value of the SoftBank Group**



Source: SoftBank Group Corp. (2017). *Earnings Results for the Fiscal Year Ended March 31, 2017*, pp. 76-77.<sup>9</sup>

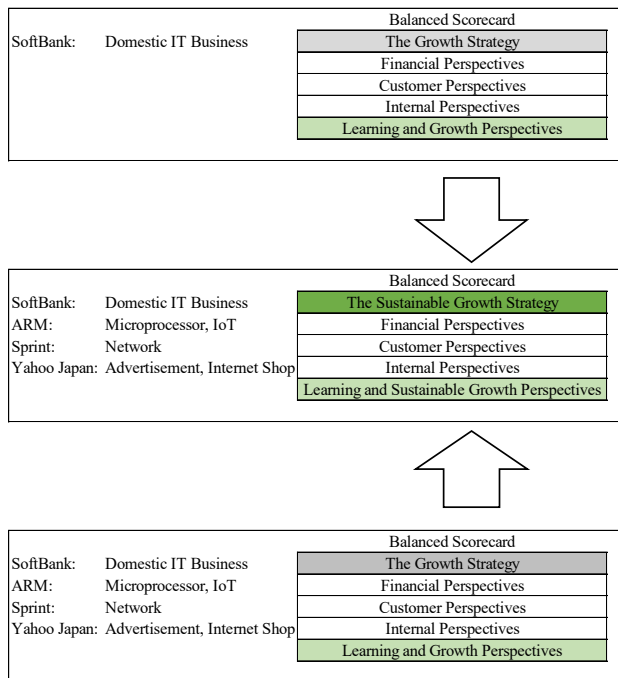
<sup>9</sup> Available at: < [http://cdn.softbank.jp/en/corp/set/data/irinfo/presentations/results/pdf/2016/softbank\\_presentation\\_2016\\_004.pdf](http://cdn.softbank.jp/en/corp/set/data/irinfo/presentations/results/pdf/2016/softbank_presentation_2016_004.pdf) > [Accessed 18 May 2017].

ARM, Yahoo Japan, Sprint are subsidiaries and Alibaba is an affiliate of SoftBank Group Corp. Figure 2 shows the Enterprise Value and the Net Interest-bearing Debt of SoftBank Group. Enterprise value is shown as the amount represented by each subsidiary and affiliate, in terms of their respective ratios of shares held and corresponding market capitalizations. Softbank Group has stated that its Enterprise Value exceeded Net Interest-bearing Debt. As SoftBank Group uses share market capitalization as a measure of corporate value, its post-M&A strategy is considered to be the same as other third-party investors making corporate valuations. Since the Enterprise Value of SoftBank Group is expected to be influenced by the stock prices of its foreign-based companies, it becomes difficult even for investment experts to predict its future stock price. When using BSC, as mentioned above, the aim is to look for the convergence of the organizational culture of the acquiring and acquired entities. In other words, the growth strategy focusing on stock prices is important; but, as a whole group, it is necessary to shift to a sustainable growth strategy focusing on sustainable growth value that incorporates not only stock prices but also SDGs.

In that case, the most important consideration is whether the business of the acquired company is strategically consistent with the declared vision of the acquiring company. So, initially, the acquiring company needs to ascertain whether the vision of the acquired company matches their own, and then shift to a sustainable growth strategy.

Figure 3 shows that the SoftBank Group shifts to a sustainable growth strategy by constructing a BSC that integrates the BSC of SoftBank Group’s domestic business and the BSC of the acquired companies--ARM, Sprint and Yahoo Japan, while also taking SDGs into account. We assume that the vision of the parent company and subsidiary is consistent with “the creation of sustainable growth value”.

**Figure 3. The BSC framework to shift from growth strategy to sustainable growth strategy.**



Source: Diagram by Kato, using Kaplan and Norton (2004), p. 8, Figure 1-2 as reference.

By shifting to a sustainable growth strategy, Sustainable Growth Value is created in the Internal Perspective using Intangibles in the Learning and Sustainable Growth Perspective. Each process in the Internal Perspective creates and provides a value proposition for customers, production improvement for shareholders and social behavior for communities and nations.

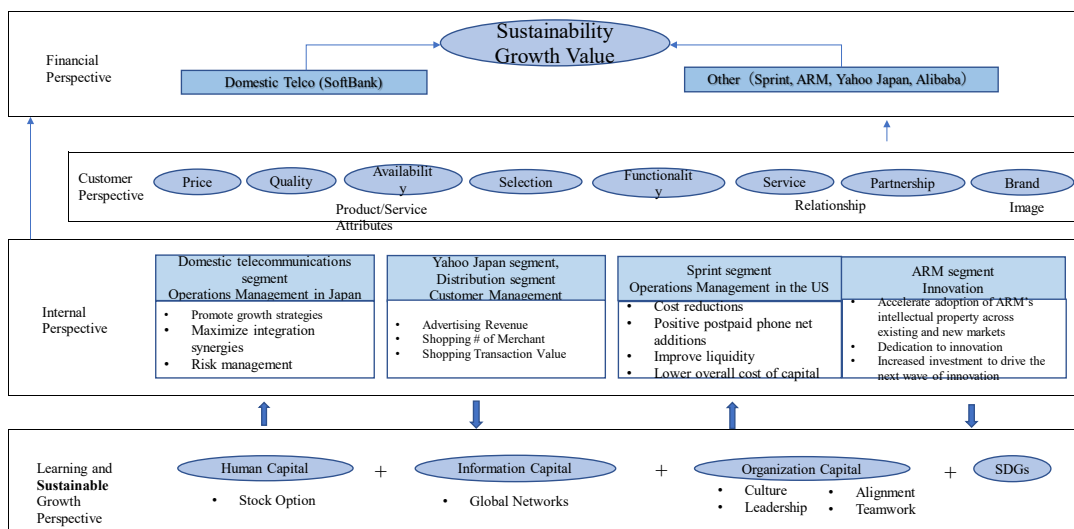
The strategic objectives in the Learning and Growth Perspective show how to align with Intangibles to carry out an internal perspective and to continuously improve. Intangibles can be organized into the following three types of capital (Kaplan and Norton, 2004, p. 49):

- Human Capital: The ability of skills, talent and know-how, required to support the strategy
- Information capital: The ability of information systems, networks, and infrastructure, required to support the strategy
- Organizational Capital: The ability of the organization to mobilize and sustain, required to execute the strategy

Furthermore, in this paper we add SDGs to intangibles.

This paper explores information related to sustainable growth strategy from SoftBank Group’s website, Annual Report, Securities Report, CSR Report etc. Particularly important points are selected and used to create a simple example of a strategy map (Figure 4).

**Figure 4. Strategy Map Based on Sustainable Growth Strategy**



Source: Diagram by Kato using Kaplan and Norton (2004), p. 51, Figure 2-9.

Figure 4 illustrates the focused strategic objectives of each subsidiary company acquired by SoftBank Group in the Internal Perspective. Intangibles needed for supporting the Internal Perspective are described in the Learning and Growth Perspective. SDGs also should be considered in the Learning and Sustainable Growth Perspective. The strategic objectives of the acquired company indicated in the Internal Perspective are aligned with the Financial Perspective and Customer Perspective. This strategic alignment creates sustainable growth value.

## Conclusion

This paper proposes that BSC is an effective tool for enterprises to shift to a sustainable growth strategy post-M&A. Many companies are using M&A as a corporate growth strategy. M&As may be increasing in number in the future. However, many M&As are failures, especially cross-border M&As, requiring the writing down of huge amounts of goodwill which causes significant damage to corporate profits. The risk that profits will decline sharply even if an M&A is carried out is a situation that makes investors uneasy. Therefore, business managers should shift to a sustainable growth strategy post-M&A. Using the example of SoftBank Group's cross-border M&A, this paper shows that it is possible to create value by shifting from a growth strategy to a sustainable growth strategy through the following process: first, show the focused strategic objectives of each subsidiary company acquired by the SoftBank Group in the Internal Perspective; second, identify Intangibles that support the Internal Perspective in the Learning and Growth Perspective; third, align the strategic objectives of the acquired subsidiary company indicated in the Internal Perspective with the Financial Perspective and Customer Perspective; and finally, the strategic alignment creates sustainable growth value. The study concludes that using the BSC framework to shift from a growth strategy to a sustainable growth strategy may be effective.

Because information on M&A strategy is highly confidential and is not readily disclosed outside the companies involved, empirical research would be difficult and is expected to be limited. However, the author would like to continue further research based on a collaborative effort with institutional investors and companies in the future.

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*Here ends the First part of the Special Japan Issue.*

*The Second part can be found in the Journal Transition Studies Review,  
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## **EU Centre Commentary Series**

### **3rd January 2018 A Partnership of The Year Ahead For Europe – Three Things To Watch**

**Dr Yeo Lay Hwee**

**Overview of 2017** Spring arrived in 2017 with a sprinkle of hope for the European Union (EU) after a “horrible year” in 2016 with Brexit and the election of Trump as US president. The elections in the Netherlands in March did not result in a clear victory for Geert Wilders of the far right, anti- immigration Freedom party as feared. The fear of a rising tide of populism “drowning” Europe further subsided with the election of Emmanuel Macron as the youngest president of the French Fifth Republic. His openly pro-European platform and his campaign to strengthen Europe sparked mini-euphoria amongst Europhiles. By the time President of the European Commission Jean Claude Juncker made his State of the Union address to the European Parliament on 13 September, confidence with the EU has started to climb from an all-time low in 2015, and Juncker chimed that “the wind is back in Europe’s sails”.

The election of Trump and Brexit negotiations have helped focus the minds of Europeans. The beginning of the Brexit negotiations provided the Europeans the opportunity to present a united front against Britain. The difficulties and problems Britain faced in the Brexit negotiations have made euroscepticism much less attractive. Several polls after the Brexit vote showed that positive feelings about the EU have actually increased and there is little desire of any EU member state to quit the EU. The erratic and unpredictable Trump and his questioning of the transatlantic alliance have led to a new found resolve within the EU to strive for “strategic autonomy”. After Trump’s “disastrous” visit to NATO in May, German Chancellor Angela Merkel proclaimed that “Europeans have to take destiny in their own hands” as they can no longer rely on the US.

Hence in 2017, the EU were able to make advances in addressing some immediate issues facing the Union – from the Brexit negotiations, to cooperation with third countries (Turkey and several African nations) to stem the tide of migration, to taking the lead in climate change negotiations. Another achievement was the steps taken to strengthen defence cooperation. Russia’s assertiveness, Trump’s demands that Europe “pay” more for defence and the imminent departure of the United Kingdom (UK) as a key security player came together to move the EU towards a series of defence initiatives in order to achieve “strategic autonomy” as envisaged in the 2016 EU Global Strategy.

At the final European Council Summit in December 2017, the EU leaders endorsed the bloc’s new defence pact, known as Permanent Structured Cooperation (PESCO) in which 25 member states will start working on a series of joint projects in 2018. A European Defence Fund worth €5.5 billion per year was launched earlier for joint military procurement and the

European Defence Industrial programme launched to foster joint research and development of military technologies. In the economic arena, the EU has continued to lead the charge in trade liberalisation negotiations. It has initiated legal process to embark on free trade agreement (FTA) negotiations with both Australia and New Zealand. The most significant move to counter Trump's tirade against free trade was the signing of a political agreement on Japan-EU Economic Partnership Agreement (JEEPA) on the eve of the G20 meeting in July 2017 and the year-end conclusion of JEEPA negotiations (although separate talks on investment protection will continue in 2018). The Comprehensive Economic Trade Agreement (CETA) with Canada has also been provisionally applied. A landmark Court of Justice rulings issued in May on the pending EU-Singapore FTA effectively expanded the EU (exclusive and shared) competence on trade policy, buttressing Brussels' credibility as a reliable and legitimate interlocutor when it comes to trade talks with Europe. Economic recovery in the EU has picked up in strength and growth is expected to be close to 3% for the year.

Overall, 2017 has turned out to be a fairly good year for the EU. However, challenges remained, and these are the things in 2018 that we should be watching to see where the EU is heading:

### **Populism and Nationalism**

The election of Macron may have stemmed the tide of rising populism, but there is no doubt that populist forces will remain an important driver in European politics. This was reflected in the German elections in September 2017 with the anti-immigration and Eurosceptic Alternative for Germany (AfD) party winning 12.6% of the vote. This was the first time in Germany's post-war history that a far right party has captured such a significant number of seats. AfD – which was previously unrepresented in the Bundestag (German Parliament) – became the third largest party with 94 seats. Support for Merkel's centre-right Christian Democratic Union (CDU) and its sister party Christian Social Union in Bavaria (CSU) and the other mainstream centre-left party Social Democratic Party (SPD) plunged. CDU/CSU won 33% of the vote, a drop of more than 8% from the last election, and SPD won only 20% of the vote, its worst result since the 2<sup>nd</sup> World War. Merkel is now in talks with SPD to form another “grand coalition” government and if this comes to pass, AfD would become the largest opposition party in the Bundestag with potentially considerable influence on the trajectory of German national and regional policies in the years ahead.

Austria also swung to the right. In the October election, the centre-right Austrian People's Party under 31-year-old Sebastian Kurz emerged as the winner. The Austrian People's Party has entered into coalition with the far-right Freedom Party to form the government, with candidates from the Freedom party controlling the defence, interior, and foreign affairs ministries and others.

The EU's exasperation with developments in Poland and Hungary over their “illiberal” turn, and their challenges to rule of law is another sign that populism remains a potent challenge to European democracy and values. In Viktor Orban's Hungary and Poland ruled by the Law and Justice Party (PiS), populism joins forces with nationalism to undermine supra-nationalism and European integration. The cross-fertilisation of populist-nationalist forces has already moved Europe towards a more conservative direction. The election to watch in 2018 would be the Italian election in March. Marred by a fragile banking system, a comparatively huge debt burden, and continued struggle to come up with an effective response towards structural reforms, the EU establishment is understandably concerned with where Italy will be heading. Also bear watching is how Spain would respond to Catalan nationalism. The snap election in Catalonia in December 2017 brought back to power the parties who favoured independence from Spain. The situation in Catalonia remained deadlock and a snap election in Spain itself cannot be ruled out.

## Migration

The refugee crisis of 2015 was perceived as one of the key contributing factors leading to the rising support for far-right anti-immigration parties across Europe. A significant part of the European population embraced the narrative put forward by populist and anti-immigration parties that painted the migrants and refugees as threats to security and imposing great socio-economic cost to European societies – undermining the welfare state, social cohesion and the “cultural identity” of Europe.

In 2016 and 2017, the EU had managed to slow the arrival of migrants through its agreement with Turkey, and other security-oriented partnership agreements with several African countries; and unilateral actions taken by several EU member states to close the Balkan route. However, migrants continued to arrive via the Central Mediterranean route, and reports of migrant boats in the Black Sea showed that the EU had not found a long term solution to the challenges of migration. This was also reflected in the mini-row that arose ahead of the December 2017 EU summit. The President of the European Council, Donald Tusk caused an intra-EU fight on migration policy when he outlined his plans to scrap the mandatory relocation quotas.

The mandatory relocation quota was introduced at the height of the refugee crisis in 2015. The aim was to relocate 160,000 asylum seekers from Italy and Greece to the other EU member states on the “objective, quantifiable and verifiable” basis of the sizes of economy and population of each member. However, several EU member states such as Hungary, Poland and the Czech Republic flouted the scheme and refused to accept the mandatory re-allocation.

Tusk said that this mandatory quota was divisive and ineffective in stemming the migration flow. His remarks, however, drew harsh reactions from the Commissioner for Migration and Home Affairs and some European parliamentarians. The row over migration highlights the continuing divide over how to deal with the aftermath of the 2015 refugee crisis. The year ahead will conceivably see more debates and tensions over migration and asylum policies and risks polarising Europe and undermining the Schengen and Dublin agreements. How the underlying tensions over refugees, borders and security are addressed in 2018 will be critical in eroding the appeal of populist parties and stemming the divisions and polarisation resulting from identity politics.

## EU’s relations with other major powers

In its 2016 Global Strategy the EU recognised that in a more connected, contested and complex world, there is a need for new diplomatic initiatives to stabilise various geopolitically contested regions of the world. No longer is “soft power” centered on normative clout sufficient to deal with the evolving reality and the EU will have to use its economic instruments effectively to pursue overall strategic interests. More importantly, it recognises the need for soft and hard power to go hand in hand, and hence the Global Strategy “nurtures the ambition of strategic autonomy for the European Union”.<sup>1</sup> The Strategy also called for a “joined-up” approach and looked at the security of the EU from a comprehensive perspective where internal and external security, foreign policy, defence policy and trade and development have to be seen in a connected way.

Following up on the Global Strategy, the EU had taken concrete steps in 2017 to deepen defence cooperation with PESCO and other initiatives. However, member states are still divided on the broader strategy of how to deal with the increasing assertiveness of Russia and China, and the bombastic twitter policy of Donald Trump. The lack of unity for instance can be seen in the

<sup>1</sup> Sven Biscop. “The Great Powers have their way”, Egmont Institute Security Policy Brief, No 93, December 2017 <http://www.egmontinstitute.be/content/uploads/2017/12/SPB93-The-Great-Powers-Have-Their-Ways.pdf?type=pdf>

latest vote in the United Nations (UN) over the condemnation of President Trump's decision to recognise Jerusalem as the capital of Israel. The Visegrad 4 (Poland, Hungary, Czech Republic and Slovakia) together with Romania, Croatia and Latvia broke ranks with the EU and other member states, abstaining from the General Assembly vote to condemn the US decision. There are reports that Romania, Czech Republic and Slovakia are considering moving their embassies to Jerusalem, following Washington's lead.

The EU relations with Russia would be in need of review too with Russia's diplomatic offensive in the Middle East and alleged attempts to influence elections and subvert the democratic process in the West. The EU sanctions against Russia imposed after the latter's annexation of Crimea and EU's overall policy toward Russia would be further tested with the Russian presidential election in March 2018. Putin has announced that he would be contesting in the upcoming elections. Polls indicate that he looks set to win another term. The current EU unity against Russian aggressive policies in its "sphere of influence" may be tested as Germany struggles to form its next coalition government and European leaders friendly to Russia get (re-)elected in the Italian and Hungarian elections.

The EU's relation with China is also entering a rocky phase. Its refusal to grant China market economy status and increasing concerns over Chinese investments in Europe came at a time when China looks set to embrace "globalisation with Chinese characteristics". There would be more state control and greater use of industrial policies to advance its goals of boosting innovation and manufacturing. China-EU economic relations are likely to become more contentious by what Xi has decided to do following the 19<sup>th</sup> Party Congress.

Differences over the role of the state in their respective economies, and the implications these have with regards to the economics-security nexus, might lead to more strategic competition between the EU and China in the geo-economic sphere. While the deep economic engagement between the EU and China means their economic fates have become strongly interlinked, the increasing divergence in political outlook has led to the EU's fear that such interdependence might be "weaponised" for political gains by the Chinese. The "renationalisation" of China's Europe policy with its focus on bilateral and cross-cutting ties, such as the 16+1 framework for China's cooperation with Central, Eastern and Southeastern European countries, has raised concerns in Brussels over China's rising influence and potential impact on European unity and policies.

## **Conclusion**

French President Emmanuel Macron in his new year's speech said that 2018 will be decisive for Europe. He pledged to work with all European partners, especially Germany, to push forward reforms of the EU. His ambitious reform plans which include scheme to revamp the Eurozone have been put on hold as EU awaits the formation of the German government. Nevertheless, in 2017, France together with Germany did manage to work together closely in, among others, the realm of defence as noted. With hindsight, Brexit and Trump probably act as catalysts towards EU's strive for strategic autonomy, and to deepen their defence cooperation.

Looking ahead, internal and external factors in 2018 would keep the EU on its toes and continue to test the EU's unity. Accordingly, the Union's capability to secure its border while coming out with a long term migration policy, to make its citizens feel safe again thereby dampening the tide of populism, and to think strategically in a highly volatile and unpredictable multipolar world would be the key to the EU's resilience and resurgence. However, as argued by Andrew Moravcsik in his article in the Foreign Policy written on the 60<sup>th</sup> anniversary of the

Treaties of Rome in 2017, “we ignored European unity at our peril”.<sup>2</sup> Sensationalist headlines often conjured images of the demise, the decline or disintegration of the EU. Yet, in facing the last decade of challenges – from the global financial crisis to the EU sovereign debt crisis, and then the refugee crisis in 2015; to facing up to the rise of China and resurgence of Russia, the EU has shown itself to be remarkably resilient in muddling through the different minefields.

Here in Southeast Asia, we should therefore be taking our engagement with the EU seriously. The EU in its 2015 policy paper has expressed desire to strengthen engagement with the Association of Southeast Asian Nations (ASEAN) and fashion an inter-regional partnership with a strategic purpose. Without a more positive and proactive response from ASEAN in the coming years, the EU distracted by more immediate challenges in its own backyard might slide back to the earlier policy of “benign neglect”. The opportunity for a more robust EU-ASEAN partnership to address the common challenges arising from populism, protectionism and heightened geopolitical competition between US, China and Russia would be lost.

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<sup>2</sup> Andrew Moravcsik “Europe is still a superpower” in *Foreign Policy*, 13 April 2017



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# INTERNATIONAL POLITICAL SCIENCE REVIEW



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## **Challenges of the International Agenda 2018**

### **Humanity needs to strengthen the multilateral system**

**Fernando Ayala\***

The international order that emerged in 1989 left the United States as the sole global power, which has since then been making itself felt by asserting hard power: political, economic and military. However, the current international scenario and the complexity of the interests of the great powers, as well as the so-called 'regional powers', are causing a process of mutation or readjustment of an international scene influenced by new threats to security that have alarmed the inhabitants of the big cities throughout the globe. The conflict zones are where these interests intersect, and the International Organizations are where diplomatic battles are being fought.

#### **Trump's break-in**

The administration of President Donald Trump has inaugurated a sort of "new foreign policy" that has perplexed the diplomatic and international world. He has announced measures contrary to what has hitherto been the globalizing vocation of his country. He began office by indicating that he would not join the Trans Pacific Partnership. The TPP had already been negotiated and was widely expected to stimulate and liberalize trade and investments in the Pacific basin, which is likely to be the most dynamic region during this century.

Subsequently, Trump proceeded to abandon the Conference on Climate Change known as COP-15 or the Paris Agreement, signed by 195 countries in 2015. He hinted that the idea of global warming was a deception, and denied that the planet will be affected [1]. This was followed by his announcement of the withdrawal of the United States from UNESCO, immediately emulated by Israel. All this has contributed to weakening the multilateral system, especially as regards social agendas. Furthermore, President Trump is going ahead with his project of raising a wall with Mexico and threatening to end NAFTA, the North America Free Trade Agreement, which has been in effect between the United States, Mexico and Canada since 1994.

This President created dismay when he recently announced that he will move his embassy from Tel Aviv to Jerusalem, igniting the protest of virtually the entire Muslim world. Even the US's closest allies, such as the United Kingdom and most of the EU countries, rejected this initiative [2].

#### **The new Tsar**

The Russian Federation led by Vladimir Putin has managed to reawaken a strong nationalist sentiment that has enabled it to occupy an important place on the international stage, as we have seen in the wake of the crisis in Syria. Other factors that have contributed to strengthening

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Russian nationalism seem to be the progressive installation of NATO bases on its borders and the permanent invitation to the former Soviet republics to join the Western military pact. Moscow now has the Chechen terrorism stirred up by Wahhabism under control and is successfully ignoring the international rejection of its annexation of the Crimea, which seems to be irreversible. Putin, according to public opinion polls, enjoys high popular support [3], and even though the country has failed to achieve a substantial economic growth, Russian national pride has actually been reinforced by the sanctions applied by the United States and the EU. The Russians are proud of being winners of the Second World War and of being the first to send a human being into space, among other successes. Furthermore, for a country that lost 26 million inhabitants in the war - of whom almost 9 million were soldiers - it is hard to imagine that it will be defeated by this type of measure. Rather, they seem to be paving the way for Putin to obtain a new mandate enabling him to govern until the year 2024.

### **The Awakening of the Asian Dragon**

The People's Republic of China is consolidating itself every day as a global force due to the power of its economy and its growing, unchallenged military might. Moreover, President Xi Jinping, since the XIX Communist Party Congress, has acquired something of the mythical status of Mao Zedong. Nobody would have imagined a couple of decades ago that this poor, backward and overpopulated country would practically dispute the supremacy of the United States. The strength of its economy, which between 2000 and 2016 has grown at an average rate of around 10% per year, has led to a steadily-expanding internal market together with strong foreign direct investment, which in 2015 reached its maximum with 135 billion dollars invested [4]. Naturally, these come mainly from western companies, which accumulate hundreds of billions of dollars and generate thousands of jobs while stimulating the flow of trade worldwide. Vested interests seem to be the best guarantee against any external threat to their security. Or, as the Romans said: "Trade brings peace".

### **Europe in a labyrinth**

For its own part, the European Union, traditionally aligned to the United States on the multilateral and military level, has progressively weakened due to the growing divergences between its members and its inability to be a leading actor in times of crisis [5]. Its greatest achievement in recent years has been the nuclear agreement with Iran, which the United States has already threatened to break. Of the 28 countries that make up the EU only 6 have more than 20 million inhabitants, and it is largely under the hegemony of Germany and France. The United Kingdom is in the process of withdrawing and the so-called Višegrad group, consisting of the Czech Republic, Poland, Hungary and Slovakia, is moving further and further away from Brussels. To this we can add, among the rest, the tensions between Poland and Germany, the arrival of a hard-right government in Austria, Catalan separatism [6] and the border disputes between Croatia and Slovenia [7].

The idea of European integration is threatened by economic asymmetry between its members, but it is also eroded by cultural differences. The EU has recognized countries like Kosovo, whose future is uncertain and whose subsistence depends on its entry into the EU. Serbia, Turkey, Albania, Montenegro, Bosnia, Macedonia and other countries from the former Soviet orbit have expressed their desire to join the EU. But the existence of a single currency, with all its advantages, continues to work against the weakest economies in the absence of a common monetary policy. As a result it has been suggested that a "two-speed" EU could be established. All these factors contribute to weakening its claim to be a major player in an international crisis. Local stresses, global effects

Regional powers such as India, Pakistan, Israel, Turkey, Iran, and Saudi Arabia, have acquired considerable geopolitical importance in that they have become the potential ‘triggers’ for possible future crises. North Korea deserves special mention here: it has given evidence of its nuclear capacities and is now threatening to jeopardize global stability. The Middle East remains the ‘hottest’ zone, where skirmishes or armed conflicts are likely to break out. In addition to the war in Syria, a civil war has been under way in Yemen since 2014 causing the population great suffering and leaving thousands dead. It is being waged between religious sectors supported mainly by Iran and Saudi Arabia.

Nor can we forget the situation in Palestine and Israel, where the failure to reach an agreement to establish two independent states has above all undermined the legitimacy of the international system. Neither international law nor the resolutions of the United Nations have been respected. The right of the United States to veto the Security Council has provided support, among other things, for the expansion of settlements in territories considered by the international community as belonging to the Palestinian nation [8].

This shifting international reality and the actions of its players has led many countries to re-examine and modify their relations with Washington given the growing threats to international order. This is especially evident in the European Union as a result of security threats from terrorism that has struck several cities, of immigration, of the risk of nuclear conflict and of an economic crisis that has dragged on for years in most of the member countries. The internal divisions of the EU and the different perceptions of international reality, as well as the national interests of each member country, are making it difficult to build a single agenda. The long negotiation for the withdrawal of the United Kingdom is giving countries like France, in the hands of President Emmanuel Macron, a chance to exercise leadership along with Germany, where Chancellor Angela Merkel’s government has been weakened by the migration crisis. Three months after the elections, there is still no agreement for the formation of a government, much to the dismay of its own citizens and European public opinion. In addition, Germany’s sole negotiating power is that it is the strongest economy in Europe. Not being a member of the Security Council or possessing a nuclear arsenal means that it is left out of many of the big decisions.

## **A new order**

The world is thus undergoing a reordering on a global level, haunted by old, re-emerging ghosts like populism and nationalism, especially in Europe where the two world wars that humanity has known both originated. The crisis of politics in general and of social democracy in particular, has opened the way to conservative forces and has strengthened xenophobic, racist and populist movements, which are steadily increasing their presence in the political scene of most European countries. National agendas must face these new challenges and confront them in the multilateral field, which is where important battles for the future of humanity will be fought. Unfortunately, the legitimacy of the international system as expressed in the behaviour of the main actors in United Nations organizations seems no longer to be meeting the demands of citizens because of its inability to resolve the humanitarian crises to which we now seem to have become accustomed. The United Nations is the main stage for negotiations and should seek to respect the international legality created by its members. The current structure and distribution of power have turned the latter into a chimera.

It is crucial to strengthen the international system in order to achieve the 17 Sustainable Development Goals agreed in 2015 by the United Nations in the so-called 2030 agenda [9]. Climate change is here to stay and if effective measures are not taken in the short and medium term, we will endanger human existence, because global warming can only aggravate major problems like population growth, water shortage, poverty and hunger.

Although human beings have made extraordinary progress in science and technology, expanding the frontiers of knowledge, today 2.1 billion people live in poverty and more than 815 million people in the world go hungry [10]. The elimination of these scourges are thus the first two objectives of the 2030 agenda. The prospects are even bleaker and more dramatic if we consider what the world will be like by the year 2050 if nothing changes. Some figures: there will be 9.730 million human beings, two thirds of humanity will live in urban areas, around 50% of forests will have disappeared, groundwater sources will have decreased considerably. Agriculture will need to produce 50% more than it produced in 2012 to meet demand, and arable land, water, forests, fisheries and biodiversity will decrease under the impact of climate change, among other problems. Humanity needs to strengthen the multilateral system, since this is the only space where rich and poor countries, large and small, can solve their problems. Democratizing institutions and respecting international legality through compliance with United Nations resolutions should be the duty of all. Unfortunately, the reality is different: powerful countries are exploiting the weapon they reserved for themselves when creating the United Nations: the Security Council. The 5 members with the right of veto are ultimately the controllers of an international order created in response to the world that emerged at the end of the Second World War but which ceased to exist with the fall of the Berlin Wall.

Rome, December 2017.

## Notes

[1] [https://elpais.com/internacional/2017/06/01/estados\\_unidos/1496343144\\_186083.html](https://elpais.com/internacional/2017/06/01/estados_unidos/1496343144_186083.html). President Trump said in 2012 that “The concept of global warming was created by and for the Chinese to make non-competitive manufacturing in the United States.”

[2] [https://elpais.com/internacional/2017/12/11/actualidad/1513019006\\_124306.html](https://elpais.com/internacional/2017/12/11/actualidad/1513019006_124306.html).

[3] 82.1% of Russians approve of Putin’s administration, according to the Russian Public Opinion Research Center in last May. Of these, 55.8% supported the government and 32% were critical.

[4] <https://es.portal.santandertrade.com/establecerse-extranjero/china/inversion-extranjera>

[5] At the celebrations for the 70th anniversary of the creation of the European Union today, its leaders highlighted having “70 years of peace in Europe”. They forgot to mention the Yugoslav civil war at the beginning of the 90s that left an estimated 200,000 civilians dead throughout the territory of the former Yugoslavia and 2.7 million displaced. The Muslim population of Bosnia was the most affected.

[6] It is interesting to observe the reaction of the EU to the unilateral declaration of independence of the Catalan Parliament. With certain differences, the Parliament of Kosovo did the same in 2008, but was immediately recognized by the United States and most of the EU countries.

[7] <http://www.lavanguardia.com/internacional/20170630/423774044808/conflicto-eslovenia-croacia-bahia-piran.html>

[8] On December 16, 2017, 14 of the 15 members of the Security Council voted in favour of a resolution condemning the decision of the United States to move its embassy to Jerusalem. For the first time in 7 years Washington used its right to veto, and the US Ambassador warned that they would not forget the actions of these countries. Even the United Kingdom, the most faithful ally of the United States, joined in this condemnation. For his part, President Trump said: “They take our money and then vote against us. We will be observing those votes. The votes against us will save us a lot. We do not care”. [https://elpais.com/internacional/2017/12/20/estados\\_unidos/1513796002\\_536422.html](https://elpais.com/internacional/2017/12/20/estados_unidos/1513796002_536422.html)

[9] <http://www.un.org/sustainabledevelopment/es/2015/09>

[10] Source: Intended Nationally Determined Contribution (INDC) of Chile to the Paris Agreement on Climate Change, 2015 National Strategy on Water Resources 2012-2025

# The “Socialization” of Maritime Global Governance and Taiwan Perceiving the Benefits

Leonard Hammer<sup>1</sup>

**Abstract** Certain maritime global governance frameworks exist and can at times even be effective. Yet, serious implementation matters and dire environmental circumstances persist. Control mechanisms are mainly in the hands of states or outmoded international organizations facing off against powerful economic intermediaries engaged in exploitation and driven by strong demand from export markets. Political interests also weaken the system, such as disallowing important maritime actors like Taiwan from taking a part in the process. Given that maritime global governance is constantly shifting due to a host of changing processes, proper governance requires structural alteration as well as temporal accountability.

A socialization context for maritime global governance, that emphasizes partnership models incorporating both private and public actors (such as market-based bodies with civil society actors to inform and direct regulatory bodies), can not only improve maritime governance but also allow for participation by Taiwan. Including a wider range of stakeholders like media, politicians, interest groups, and consumers along with an assistive reference to new forms of technologies, can result in activating infrastructures that combine varying interests (like economic and environment) and result in a more effective form of maritime global governance. At the same time, it can open the door for Taiwan to effectively join in environmental initiatives and international projects relating to maritime governance.

**Keywords** Maritime Global Governance, Socialization, Taiwan, Global Process, Global Policy

**JEL Classification** F5, Q56

## Introduction

Global maritime governance should be constructed in a manner that is enabled to address seemingly dichotomous themes. Matters like hyper industry competition as opposed to controlling monopolies, government intervention (such as providing subsidies) as opposed to moves for privatization, a strive for greater economic development at all costs as opposed

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to respect for environmental concerns, and matters of state defense and security versus a desire for maintaining open and navigable seas are converging concerns that tend to emerge all at the same time. Understanding governance as a means to establish processes and structures that steer actors towards desirable outcomes, it is apparent that there exist many reasons for moving towards a form of global maritime governance. The most evident are external concerns regarding the environment and fishing stocks, potential human rights matters involving labor rights in the shipping and fishing industries, important economic acknowledgments that account for notions of development and the resultant economic impacts, and even aspirations towards global governance that adequately capture the opinions and desires of the world, writ large.<sup>2</sup> These varying and diverse interests demand a broad array of involvement by many actors, including the state, international regulatory bodies, and other surrounding actors who have knowledge and insight into the means for effectuating maritime global governance.

Of course, the strive for maritime governance is shaped by forms of overarching structures (be it international, regional, or domestic) that direct, control, and influence maritime matters. The 1982 Convention on the Law of the Sea (LOS) and its attendant bodies (like the LOS Tribunal) for example can be a central feature in maritime governance. The International Seabed Authority governs issues pertaining to state claims over the 200 nautical mile line (where states may claim up to 350 nautical miles) as well as operates in to regulate High Seas matters. The International Maritime Organization serves to assist with navigation, anti-piracy efforts, and environmental concerns.<sup>3</sup> Regional bodies are another potential form of maritime governance. Many regional and local-oriented forms of maritime governance existed for quite some time to ensure for regulated and sustainable use of resources.<sup>4</sup>

The differing approaches are quite stark for a country like Taiwan, an important actor in maritime activities and a willing participant in the governance thereof, yet subject to forms of isolation due to an ongoing political dispute with mainland China.<sup>5</sup> Taiwan is not a member of the Asia Pacific Fishery Commission for example because the Commission operates under the Food and Agricultural Organization of the United Nations,<sup>6</sup> thus excluding Taiwan given the participation by mainland China and its refusal to have Taiwan as a separate or independent member in a UN based organization. Yet, in reality Taiwan is the third in the world (using available figures from 2014) for tuna fishing (after Indonesia and Japan),<sup>7</sup> quite a feat for a small country. As a result, Taiwan has become a member (usually as Chinese Taipei or the Fishing Entity of Taiwan) in more regional organizations that deal with fishing and conservation, such as the Commission for the Conservation of Southern Bluefin Tuna (CCSBT),<sup>8</sup> the North Pacific

<sup>2</sup> See e.g. E. Selkou, and M. Roe, *Globalisation, Policy and Shipping. Fordism, Post-Fordism and the European Union Maritime Sector* (Edward Elgar, Cheltenham, 2004).

<sup>3</sup> See e.g. M. S. Karim *Prevention of the Pollution of the Marine Environment from Vessels: The Potential and Limits of the International Maritime Organisation* (Springer Intl., Switzerland, 2015)

<sup>4</sup> See e.g. M. Schwerdtner, et. al., *The Future of the Oceans Past: Towards a Global Marine Historical Research Initiative* (2014) available at: <https://doi.org/10.1371/journal.pone.0101466> (hereinafter: Schwerdtner, et. al.) noting for example the use of “sasi laut” by Indonesia that placed temporal and spatial harvesting restrictions as a means of regulating marine resources.

<sup>5</sup> See e.g. J. Charney and J. Prescott *Resolving Cross-Strait Relations between China and Taiwan* 94 *American Journal of International Law* 453 (2000) at 463. The authors conclude that given the reality of Taiwan’s status, it maintains the capacity to unilaterally declare independence.

<sup>6</sup> See <http://www.fao.org/countryprofiles/en/> and <http://www.fao.org/apfic/background/about-asia-pacific-fishery-commission/en/>

<sup>7</sup> See chart at: <http://www.pewtrusts.org/en/research-and-analysis/reports/2016/05/netting-billions-a-global-valuation-of-tuna>

<sup>8</sup> <https://www.ccsbt.org/>

Fisheries Commission (NPFC),<sup>9</sup> the South Pacific Regional Fisheries Management Organisation (*sic*) (SPRFMO),<sup>10</sup> and the Inter-American Tropical Tuna Association (IATTC).<sup>11</sup> These regional organizations are important as they begin to address issues of over fishing and other illegal activities, with the goal of managing fishing in a sustainable manner.<sup>12</sup>

The need then for a realist approach towards maritime global governance, in a manner that incorporates all relevant actors who impact upon fishing stocks and other environmental concerns, should be of paramount importance when addressing matters of sustainable development and conservation (key desirable outcomes for maritime global governance).

## Problems to Note

Yet, serious implementation matters and dire environmental circumstances persist that indicate the need for a reoriented form of maritime global governance. Control mechanisms are mainly in the hands of national and local governments (who cannot or sometimes will not act to uphold standards) or international organizations that are based on unrealistic notions of unlimited ocean resources and outmoded concepts of perceiving the oceans as being divided into territorial jurisdictions.<sup>13</sup> International organizations and their state members have been ineffective thus far in creating a viable governance policy.<sup>14</sup> These organizations are up against extremely powerful economic intermediaries many times engaged in exploitation and largely driven by strong demand from export markets. And all are subject to (and even involved in) corrupt and illegal activities that current rules and norms do not adequately address.

Granted forms of governance emerge when thinking about the LOS. The so-called “constitution of the oceans”, while acknowledging a state’s sovereign right to its resources, contains provisions calling on states to protect the marine environment<sup>15</sup> and only catch species up to their maximum sustainable yield.<sup>16</sup> Additionally, one can refer to opinions concerning the obligation on flag states to regulate their vessels (an arguably broad interpretation of the LOS Convention)<sup>17</sup> or the 2009 move by the FAO to impose responsibilities on port states for illegal, unreported, and unregulated (IUU) fishing<sup>18</sup> (which came into effect in 2016).<sup>19</sup> Nonetheless, creating new standards or discerning new approaches through older treaties does not remove the

<sup>9</sup> [https://www.npfc.int/about\\_npfc](https://www.npfc.int/about_npfc)

<sup>10</sup> <https://www.sprfmo.int/>

<sup>11</sup> <https://www.iattc.org/HomeENG.htm>

<sup>12</sup> Z. Scanlon Incorporating Taiwan in International Fisheries Management: The Southern Indian Ocean Fisheries Agreement Experience 48 *Ocean Development and International Law* 35 (2017) (noting, at 36, that “failing to incorporate Taiwan into the international high seas fishing regulation system would be problematic” given its significant presence in high seas fishing).

<sup>13</sup> T. Stephens Warming Water and Soaring Seas: Climate Change and Ocean Acidification 777 in D. Rothwell, A. Elferink, K. Scott, and T. Stephens (eds.) *The Oxford Handbook of the Law of the Sea* (Oxford University Press, UK 2015) (hereinafter: Stephens) at 778.

<sup>14</sup> See e.g. S. Kopela Port-State Jurisdiction, Extraterritoriality, and the Protection of Global Commons, 47 *Ocean Development & International Law* 89 (2016) (hereinafter: Kopela).

<sup>15</sup> Article 193 of the LOS

<sup>16</sup> Articles 61(3) and 119(1) of the LOS.

<sup>17</sup> See e.g. V. Schatz Fishing for Interpretation: The ITLOS Advisory Opinion on Flag State Responsibility for Illegal Fishing in the EEZ, 47 *Ocean Development & International Law*, 327-345 (2016)

<sup>18</sup> Agreement on Port State Measures to Prevent, Deter and Eliminate Illegal, Unreported and Unregulated Fishing available at <http://www.fao.org/documents/card/en/c/915655b8-e31c-479c-bf07-30cba21ea4b0/> (hereinafter: FAO Port Agreement).

<sup>19</sup> The Agreement went into effect in 2016. [https://www.un.org/apps/news/story.asp?NewsID=54140#WZ7cDf\\_frL8](https://www.un.org/apps/news/story.asp?NewsID=54140#WZ7cDf_frL8). See also discussion *infra*.

overarching problems involving proper and effective governance and oversight over maritime issues, matters of standards' implementation and enforcement,<sup>20</sup> and integration of norms into domestic spheres (as well as integration and observance by other key actors, such as private economic actors). Further, it is worth recognizing and inculcating the changes to the shape and character of nation states (the presumed key stakeholder and operator) that has occurred since the latter half of the previous century. For example, one might specifically observe the tensions that exist between the globalization of commerce (and the attendant power of the fishing industry) and the diminished capacities of the nation-state.<sup>21</sup> The tertiary state-based rules are not geared for a globalized fishing industry. Ships can be composed of many nation members flying a different flag than the state in which it operates, employing people from around the world on one ship, and operating worldwide over areas that are not controlled by states (such as the High Seas, yet catching migrating species that enter into a state's EEZ and thus impact its catch limit).<sup>22</sup> Coupled with state concessions for various ocean industries, and other state created tax incentives to entice and encourage investment and economic activity, the reliance on commerce as grounds for justifying actions that generate wealth at any cost (resulting in potentially viable, yet clearly short-term, goals) easily mute calls for upholding pre-established norms and standards, protecting overworked laborers, and respecting the marine environment. Additionally, states encourage the habit of creating flags of convenience (usually with very little oversight),<sup>23</sup> thereby further entrenching the ability to effectuate any form of maritime governance, with many times states complying with another state's rules simply as a matter of comity. There still are difficulties in maintaining port state control, and shipping companies continue to play the boundaries and flout rules relating to the environment to make it even more difficult for static states to "govern" porous territorial agents.

How then might a viable maritime global governance structure be developed that includes relevant actors like Taiwan who maintain a large stake in fishing and other ocean industries while moving beyond the political squabbling and territorial-centric approach of states and attendant treaties? How might a governance structure further incorporate important and at times seminal actors outside of the formal state structure such as private economic entities, environmentally conscious organizations, and the scientific community, in a manner that also accounts for notions of sustainable economic development?

## Policy and Process

One approach that can begin to address maritime governance would be to acknowledge the necessary integration between policy and process as grounds for creating a meaningful form of governance. Policy may be understood as an attempt to create dynamic stabilities that are produced within a continuous flow of ongoing conduct (by the subjects whom one is trying to stabilize).<sup>24</sup> The

<sup>20</sup> See, e.g., N. Matz-Luck and J. Fuchs Marine Living Resources 491 in D. Rothwell, A. Elferink, K. Scott, and T. Stephens (eds.) *The Oxford Handbook of the Law of the Sea* (Oxford University Press, UK 2015) (hereinafter: Luck and Fuchs) at 499 and 504.

<sup>21</sup> See generally M. Roe *Maritime Governance and Policy-Making* (Springer, UK, 2013)

<sup>22</sup> A fishing boat might be used to merely send out different satellite boats to the high seas with all of them being subject to different flag states (or none at all) thus making it easier to evade domestic and international controls and oversight.

<sup>23</sup> R. Warner *Conserving Marine BioDiversity in Areas Beyond National Jurisdiction: Co-Evolution and Interaction with the Law of the Sea* 752 in D. Rothwell, A. Elferink, K. Scott, and T. Stephens (eds.) *The Oxford Handbook of the Law of the Sea* (Oxford University Press, UK 2015) (hereinafter: Warner) at 755.

<sup>24</sup> M. Roe *Maritime Governance and Policy-Making: The Need for Process Rather than Form* 29 *The Asian Journal of Shipping and Logistics* 167 (2013) (hereinafter: Roe) at 174.

desired end-role of policy is to allow for the emergence of a framework that provides a clear avenue for direction and management, while capturing the reality of diverse interests of the actors, and the massive, ongoing, changes to the environment and territory that is being governed. Process on the other hand captures the continuous flow of conduct by recognizing the ongoing dynamic of inherent change, unstoppable time, and continuing dynamism of the subject involved. The maritime governance process is dealing with constant change to the area it is trying to “govern” and the subjects involved (including marine life) are constantly shifting, it is clearly linked to time based events (including fishing as well as ongoing environmental change), and the forces involved are clearly experiencing rather dynamic and extreme changes. Thus, process is a causal factor that goes towards defining and shaping policy<sup>25</sup> and can assist with the creation of maritime global governance by capturing the fluidity to account for change, yet also the fixity that is needed to actually have a policy eventually emerge.<sup>26</sup>

Important factors then for encouraging an emergence of a dynamic policy as deriving from an actual process is recognizing the need for a clear (and desired) result through the creation of viable norms. For example, one may look to the *Convention on International Trade in Endangered Species of Wild Fauna and Flora*<sup>27</sup> (CITES) as a good example of dynamic policy and continuously changing process combining to create a form of effective governance.<sup>28</sup> Key provisions of the CITES treaty (and other relevant global agreements) have become embedded in national decision-making standards and laws, and cooperation and differentiated responsibilities exist between different states pursuant to their economic status and capabilities. There also is a bevy of solid science and ongoing reporting documents that outline the immediate and long-term needs as well as measuring the different levels of success that are involved. Additionally, there exists important and on-going public awareness campaigns and continuous public concern over the subject of the treaty (preserving endangered species) that is heavily aided by media interest. These are further assisted by coordinated international efforts to address global problems involved with CITES such as compliance, preventing smuggling, novel ways to address corrupt behavior on the part of officials, regulating consumer behavior, and other factors going towards upholding the norms and entrenching the desired policy deriving from the CITES treaty. What resulted from the confluence of these factors in shaping the CITES process is more funding for capacity building within states that need it most to combat protect endangered species and even for the development of alternatives to undesirable activities (like poaching or corrupt governmental activity).<sup>29</sup> CITES has proven dynamic in that there are regular revisions to the basic agreements. Coupled with continued political cognizance and desire to tackle the problem at the global level by the UN, at the national level by states, as well as key involvement and awareness raising by non-governmental bodies (and even to some extent by industry) one witnesses the emergence of a viable governance model that is based on an ongoing and ever-shifting process yet rooted in policy that creates a form of stability.

<sup>25</sup> Roe, at 175.

<sup>26</sup> M. Gertler *Some Problems of Time in Economic Geography* 20 *Environment and Planning A: Economy and Space* 151 (1988) at 157

<sup>27</sup> Available at: <https://cites.org/eng/disc/text.php>

<sup>28</sup> A. Hanson, *Global Governance for Environment and Sustainable Development* (Institute for Sustainable Development, Canada, 2007) at 11, available at: [https://www.iisd.org/pdf/2007/igsd\\_global\\_gov.pdf](https://www.iisd.org/pdf/2007/igsd_global_gov.pdf)

<sup>29</sup> See, e.g., D. Roe, F. Nelson, and C. Sandbrook (eds.) *Community management of natural resources in Africa: Impacts, experiences and future directions* (International Institute for environment and Development, UK, 2009)

Compared to maritime global governance (where alleviating important matters like the impacts of overfishing, dealing with predatory species, or protecting coral reefs, are paramount and immediate) the common characteristics for addressing these obstinate issues is that the control mechanisms lie largely in the hands of national and local governments. These static bodies are up against extremely powerful economic intermediaries who are subject to land-oriented norms that are rooted in sovereignty and jurisdiction for areas that are simply not suited for such contexts and are generally ineffective in addressing current environmental problems. Further, there is strong dissonance between relevant actors such as states and non-governmental organizations or between international agencies and states that might not always operate in tandem, consumer awareness, education, and involvement is sorely lacking, and scientific information is not utilized in a proper and effective manner or is too quickly dismissed.

### **Socialization as an Inroad**

As noted above, governance is not just about creating a viable governing structure, but also entails incorporating a dynamic process to create a viable policy.<sup>30</sup> It is conceivable that a greater socialization of maritime governance to incorporate the variety of actors and influences such as those witnessed by the CITES framework (and to a certain extent is already happening in the maritime context) can lead towards a more effective and meaningful development and application of standards and protections. Thus, the mode of socialization when considering maritime global governance should incorporate not just spatial perceptions concerning who controls or governs a certain area (such as within an Exclusive Economic Zone), but also ongoing temporal applications as patterns shift, environments change, and various actors play out their roles.

Utilizing constructivist notions concerning the socialization of norms, as sometimes found within international human rights and international environmental law, can serve as an initial avenue for further explication. The socialization of norms involves the incorporation of a host of actors (beyond just the state) and creating an ongoing reference to, and reliance upon, norms by international organizations, non-governmental organizations, domestic actors, and other groups or individuals including private and economic actors. The goal is to eventually lead to a greater acceptance of such norms by the relevant targeted actors (such as a state as well as surrounding private actors who might have a role to play in adhering to such norms).

Importantly, when considering the key role of Taiwan in maritime governance matters, a socialization approach will inherently open the door for Taiwan participation, be it through the development of relevant cooperative management bodies that incorporate all states and entities affected by fishing policies,<sup>31</sup> or as a result of potential initiatives proposed by Taiwan over areas it currently controls.<sup>32</sup>

While social constructivist scholars recognize the importance of international legitimacy between states as a form of influential currency, they also adopt an ideational approach that centers on the importance and use of a norm or emerging standard as grounds for fomenting change deriving from non-state actors as well. The focus lies on the role of non-state actors, such as nongovernmental

<sup>30</sup> T. Borzel and T. Risse, *Governance without a state: Can it work?* 4 *Regulation and Governance* 113 (2010)

<sup>31</sup> See e.g. C. Mora, et. al. *Dredging in the Spratly Islands: Gaining Land but Losing Reefs* 14 *PLoS Biol* (2016) available at: [10.1371/journal.pbio.1002422](https://doi.org/10.1371/journal.pbio.1002422) (proposing the creation of a cooperative management framework for the South China Seas in a manner similar to the Antarctica Treaty).

<sup>32</sup> See e.g. J. McManus, K. Shao, and S. Lin *Toward Establishing a Spratly Islands International Marine Peace Park: Ecological Importance and Supportive Collaborative Activities with an Emphasis on the Role of Taiwan* 41 *Ocean Development and International Law* 270 (2010).

actors or international organizations, in influencing states’ and other actors’ decisions to comply with norms<sup>33</sup> in a variety of different ways. Because relations between various international and domestic actors are linked to institutional constructs (such as treaty based processes or international and regional organizations) the socialization approach emphasizes compliance-pull constructions like legitimacy given the inherent structural constraints embedded in the system that demand a state act in a certain manner. The turn to legitimacy however is coupled with emergent existing forces that result from ongoing discourse and norms that assist to shape the actions of states and other actors, such that a social constructivist approach provides the stages and processes through which norms become “socialized” into domestic settings. Even in Taiwan, where accession to treaties proves problematic given the influence of mainland China on world affairs, the state has adopted policies that reflect the norms and principles of the LOS, with a view towards integrating the rules into its domestic laws.<sup>34</sup>

A relevant example that can also go a long way towards including Taiwan in maritime global governance is the Arctic Council (AC). The AC is principally composed of eight states, ten observer states, and six non-governmental organizations all of which take an active part in the AC’s discussions and agreement drafting. The AC’s binding Agreement on Enhancing International Arctic Scientific Cooperation from 2016,<sup>35</sup> resulted from ongoing meetings and various task forces composed of not only states, but also scientific experts and non-governmental organizations representing indigenous peoples in the region along with other interests.<sup>36</sup>

Of course, the compliance pull forces exist from within the state, such as from a domestic social movement or particular group making a claim, and from outside the state, such as transnational social networks or an international treaty body that pressures a state or other actor to act in accordance with the norm. By also allowing for the inculcation of a norm within a domestic context, changes within the governance structure can ensue that allow protections to take root in the state and its infrastructure.<sup>37</sup> Socialization is especially useful in instances where no judicial challenge exists because the state might not have consented to international judicial oversight, the existing governance structure does not provide the means for judicial involvement, or a tribunal would simply be ineffective (or potentially even cause greater harm due to a state ignoring a decision).<sup>38</sup> Yet, the norm can serve as part of the ongoing use of ideas and principles as challenges

<sup>33</sup> See e.g. B. Greenhill *The Company You Keep: International Socialization and the Diffusion of Human Rights Norms* 54 *Intl. Studies Q.* 127 (2010) (noting at 129 how international governmental organizations better influence states’ human rights practices through the socialization process as opposed to the traditional methods of punishment and coercion).

<sup>34</sup> N. Hu *Taiwan’s Oceans Policymaking: Its Development and Assessment* 40 *Coastal Management* 195 (2012) (noting the need for additional legislation and creation of a viable policy).

<sup>35</sup> The document, from May, 11, 2017, is available at: <https://oaarchive.arctic-council.org/handle/11374/1916>

<sup>36</sup> Thus, the Russian co-chair of the Task Force for Enhancing Scientific Cooperation in the Arctic, Vladimir Barbin, noted that: The uniqueness of the process of negotiating this document was that the permanent participants and the observers were given an opportunity to take part in preparing concrete provisions of this Pan-Arctic intergovernmental document. This shows once again that all Arctic countries are committed to enhancing international cooperation in the Arctic and welcome the contributions from the other interested parties.

Arctic nations agree to more scientific cooperation, *Radio Canada International*, The Independent Barents Observer, July 14, 2016, available at: <https://thebarentsobserver.com/en/arctic/2016/07/arctic-nations-agree-more-scientific-cooperation>

<sup>37</sup> T. Risse and K. Sikkink *The socialization of international human rights norms into domestic practices: introduction I* in T. Risse, S. Ropp, and K. Sikkink (eds.) *The Power of Human Rights: International Norms and Domestic Change* (Cambridge U. P., UK, 1999) (hereinafter: Risse and Sikkink) at 2

38 Arguably that seems to be the case with the recent Philippines-PRC arbitral ruling from the



to, and part of the language of, actors making the claim for protection and by those with an actual interest in creating new forms of standards (be they economic actors or environmentalists). As different stages of socialization emerge, be it through legal changes, argumentation and persuasion, ongoing dialogue or strategic bargaining,<sup>39</sup> reliance on the norm can take root and become more firmly entrenched in the state and society. Actors within a state are constantly shaping their identity and perceptions pursuant to internal and external forces, including other states, transnational actors, and domestic groups espousing ideals that are important to them.

Granted, governmental policies are not solely driven by domestic actors, but also by non-state transnational actors, like NGOs, international organizations, and treaty bodies who sway and influence the state. These actors can apply normative pressure on states through shaming and denunciation. Norms achieve stronger prescriptive status as they enter the discourse with the state, become further internalized in the legal system, and begin to guide state behavior as well. For example, the General Assembly's 2016 Resolution on Sustainable Fisheries<sup>40</sup> can serve as groundwork for further engagement not just by states, but by all relevant actors to refer and entrench the desired standards. It can serve as a form of benchmark and discursive framework for making claims and providing the contours to proper action, in a manner that includes non-state entities as well as states like Taiwan who play a major role in the issues to be regulated.

As the norm becomes part of the discourse, the discourse becomes a form of exchanging information, as well as a means of clarifying what form of protection is sought after.<sup>41</sup> Actors will form their own collective understanding that is related to their identity as a means of sharpening their interests and desired scope of protection.<sup>42</sup> Relying on the norm internalizes the norm, validates reliance on the norm as part of accepted discourse, and leads to a form of institutionalization of the norm within the state,<sup>43</sup> all of which open up avenues of protection. For example, the notion of corporate social responsibility as applied to fishing boats engaged in illegal, unreported, or unregulated (IUU) fishing would be better enforced if the desired standards are properly codified and entrenched in the enforcement mechanisms of the state.<sup>44</sup>

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LOS Tribunal of July, 2016 where the PRC stated at the outset that it will ignore the award, and even the Philippines has turned a blind eye to the award in its subsequent dealings with PRC. Cf. E. Franckx *The effects of the South China Sea Dispute and the Arbitral Ruling on UNCLOS and International Law* 47 in M. Hiebert, G. Poling, and C. Cronin (eds.) *In the Wake of Arbitration* (Rowman & Littlefield, UK, 2017) (concluding that the rise in the number of states using the LOS Tribunal mechanism over the past ten years also indicates an inclination towards better adherence to the decisions).

<sup>39</sup> See discussion *infra*.

<sup>40</sup> 2016 General Assembly Resolution 71/123, December 7, 2016, available at: [http://www.un.org/depts/los/general\\_assembly/general\\_assembly\\_resolutions.htm](http://www.un.org/depts/los/general_assembly/general_assembly_resolutions.htm)

<sup>41</sup> C. Marsh and D. Payne, *The Globalization of Human Rights and the Socialization of Human Rights Norms* 2007 *Brigham Young University L. Rev.* 665 (2007) (hereinafter: Marsh and Payne) at 675 noting for example the emergence of the freedom of religion in different states and regions as a result of the right becoming part of the subjective understanding of culture (and asserting, at 680, that socialization requires both enculturation of norms as well as legal acceptance of same).

<sup>42</sup> Risse and Sikkink at 14; Marsh and Payne at 678 (noting the importance of recognizing the different social and historical contexts in which religious freedom emerged, as but one avenue for addressing the matter of relativism in human rights).

<sup>43</sup> Risse and Sikkink at 17; R. Goodman and D. Jinks *How to Influence States: Socialization and International Human Rights Law* 54 *Duke L. J.* 621 (2004) (hereinafter: Goodman and Jinks) at 626 (highlighting the distinctiveness of the acculturation process – as opposed to coercion and persuasion – as the former allows for states to adopt the perceptions and patterns of surrounding cultures).

<sup>44</sup> Granted, a stable underlying infrastructure is needed as well that includes more participants like the media, consumers, and non-governmental organizations. See discussion *infra* for more discussion on the

The presumption is that the state will then have an internal social mobilization process whereby local actors and activists become more emboldened in relying on norms, and states would in turn become less inclined to deny the validity of norms.<sup>45</sup> The state becomes engaged in a dialogical process that incorporates relevant norms as part of the legitimate and usual form of ongoing discourse.<sup>46</sup> These norms can be mobilized to become a part of the legislative framework, allowing for a further form of internal institutionalized entrenchment (and possible challenges) to take place.<sup>47</sup>

Socialization then recognizes the role of domestic and transnational actors to not only engage in political transformations through discourse and pressure, but also to alter internal domestic structures with a view towards stronger entrenchment of norms.<sup>48</sup> Included in the various benefits of socialization of norms is the mobilization of domestic opposition to states not adhering to such standards, such as to incorporate the voices of NGO, social movements, and international organizations acting to uphold the emerging or applicable standards.<sup>49</sup> Rather than get caught up in an interest-oriented framework that might be centered on economics, military capacities, or other forms of power influence, socialization looks towards the ideas and existing communicative processes that tend to define the material and important factors and state interests at stake, and use this understanding to influence state preferences and political decisions.<sup>50</sup> Taiwan would be presented with an opportunity to express its interests while also taking part in the development and application of emerging maritime global standards.

Undeniably, operating within the confines of the state to allow for entrenchment and enforcement of standards will not wholly address the aforementioned problems associated with maritime governance. This is particularly the case for maritime governance where the actors are either operating outside of formal state borders and states simply do not have the wherewithal to “govern” all areas of the ocean.

Thus, securing states to adhere to standards is but one step towards creating viable policy that emanates from a dynamic process. Additional key factors include forms of voluntarism and soft law to develop effective norms that are more readily applicable and suited for maritime global governance. This too allows for participation opportunities by Taiwan to develop and apply proper governance standards by working not just with states, but also the surrounding actors who play a role in effective maritime global governance.

An example of how a set of governance norms might emerge is the FAO Port Agreement that went into effect in 2016. The agreement is interesting in that there remain serious jurisdictional issues concerning the scope and capacity of a port state to actually engage a vessel for illegal activity performed outside a state’s area of control (such as on the High Seas).<sup>51</sup> Yet, the agreement stipulates that states may take measures beyond just denying right of port facilities<sup>52</sup> to include as

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importance of these participants in creating effective global maritime governance.

<sup>45</sup> Risse and Sikkink at 25-6.

<sup>46</sup> Risse and Sikkink at 28; Marsh and Payne referring to this as a form of strategic bargaining.

<sup>47</sup> Risse and Sikkink at 29-30.

<sup>48</sup> Risse and Sikkink at 4; Goodman and Jinks at 626 (referring to this stage as the acculturation of rights).

<sup>49</sup> Risse and Sikkink at 5; Marsh and Payne noting the capacity to raise the “moral” consciousness of states and engage in argumentation and persuasion is largely driven by domestic actors within a state.

<sup>50</sup> Risse and Sikkink at 7; Marsh and Payne noting that this is a form of institutionalization and habitualization of state behavior.

<sup>51</sup> See e.g. E. Molenaar, *Port State Jurisdiction: Toward Comprehensive, Mandatory and Global Coverage* 38 *Ocean Development and International Law* 225 (2007) (noting how a port state might make use of its duties towards the international community as one of the means by which to move from a voluntary-based structure to a more mandatory framework).

<sup>52</sup> FAO Port Agreement Article 4(1)(b)

well standards that are required of regional fishing management organizations or other internal laws of the state (as long as they are in accordance with international law).<sup>53</sup>

Injecting a socialization approach to the agreement can provide further possibilities not only for a state say to criminalize IUU high seas fishing of endangered species (a possibility under the agreement and one envisioned when incorporating the FAO's desired norms), but also for the involvement of external actors who might be involved in monitoring the ships. Indeed, when discussing the potential for shaping and enforcing a code of conduct to protect the marine environment, involvement includes international conservation groups, intergovernmental bodies, non-governmental organizations, consumer groups, and civil society actors with a view towards engaging the public through educational initiatives, re-orienting consumer behavior and habits, and providing guidelines for practitioners and conservation groups.<sup>54</sup> Actions such as creating a certification scheme for IUU fishing sources or publishing rebukes<sup>55</sup> as well as establishing external reporting by non-state actors all assist the state to address potential jurisdictional issues and also allow for alternative means of enforcement by external actors that might be more effective than having a state authority arrest a fishing boat and its crew. Moving towards more ecologically oriented forms of territory, such as shared governance arrangement, would incorporate all interests involved as well as allow for a role of Taiwan in the policy shaping process.<sup>56</sup> Taiwan's involvement is especially necessary given its territorial possessions in the area like Itu Aba (Taiping) island, its active role in the fishing industry, and its stated desire to protect the environment.<sup>57</sup>

Importantly, the maritime governance process must incorporate a wider range of stakeholders to include media, politicians, interest-groups, and consumers while also carrying out international institutional reform at the level of sub-systems to allow for support systems for finance, economic development, and the environment all at the same time (in a manner similar to CITES). The links between these different actors operating in the sub-systems are essential to target and enhance as a means of building a shared vision that tends to earmark common problems and achieves common solutions.<sup>58</sup> This is already witnessed by the work of the Arctic Group where the permanent participants (six indigenous peoples groups) work not only with the member and observer states, but also with the task forces and expert groups who are comprised of non-state representatives as well. Further, diverse interactions amongst a variety of different actors will lead to the emergence of better normative instruments that tend to coalesce different

<sup>53</sup> Kopela at 99 (noting at 100-101 the emergence of state practice indicating a willingness to act against IUU activity on the high seas and noting at 108-109 the potential for a universal jurisdiction based on the global commons, to protect the environment).

<sup>54</sup> N. Bennett, et. al., An appeal for a code of conduct for marine conservation 81 *Marine Policy* 411 (2017) at 415.

<sup>55</sup> Id.

<sup>56</sup> See e.g. M. Lim and N. Liu *Condominium Arrangements as a Legal Mechanism for the Conservation of the South China Sea Large Marine Ecosystem* 2 *Asia-Pacific Journal of Ocean Law and Policy* 52 (2017); J. McGee, B. Gogarty, and D. Smith *Associational Balance of Power and the Possibilities for International Law in the South China Sea* 2 *Asia-Pacific Journal of Ocean Law and Policy* 88 (2017) (calling for a rule-based approach towards dealing with issues in the South China Seas).

Both of these proposals would by necessity inherently involve Taiwan.

<sup>57</sup> See the Ministry of Foreign Affairs, Republic of China (Taiwan)'s official statement on the South China Seas, entitled: Sustainable Governance and Enduring Peace in the South China Sea available at: <http://www.mofa.gov.tw/en/theme.aspx?n=E5A0D5E2432C234D&s=83376F561B7165E6&sms=BCDE19B435833080>

<sup>58</sup> See e.g. C. Benham, *Aligning public participation with local environmental knowledge in complex marine social-ecological systems* 82 *Marine Policy* 16 (2017) (discussing the importance of including local communities at the initiation stages of environmental impact assessments rather than ex post facto, when environmental damage is already done).

interests (such as trade and the environment) to ameliorate the dire environmental issues that are only getting worse. Included herein would be the need for good scientific information, utilizing for example reliable organizations like the Intergovernmental Panel on Climate Change (IPCC) or Intergovernmental Oceanographic Commission (IOC) who are noted and respected bodies providing measured and apolitical data. Marine spatial planning could open the door for new approaches as to how space and the desired protected environment is perceived and regulated as it moves away from a state-oriented territorially based model.<sup>59</sup> Upon considering the importance of conservation for example, one can potentially achieve a new approach in delineating ocean spaces by adopting a non-tertiary oriented framework in a manner that alters the meaning of the “freedom of the seas” and attendant fishing and navigation rights.<sup>60</sup> Involving external parties also can be accomplished by using new and inexpensive technologies that can go a long way towards upholding governance and standards (such as tracking shipping movements through Google earth to address unreported fishing) as well as allow for a greater spread of technology systems to lesser-developed countries.

Granted it is important to realize that the socialization process is beset by what appears to be an over-deterministic (and possibly over-idealistic) argument, especially since one must also account for different and widely varied forms of reactions (by states and other key actors).<sup>61</sup> The social environments of states radically differ,<sup>62</sup> and social norms tend to be a lot more diffuse and complex.<sup>63</sup> Further, certain states desire over fishing or lenient shipping standards for example simply to feed their population, allow for ongoing employment of large sectors of the population, or as a means of bringing in more funds to the state coffers. Policies and reactions of states and relevant actors like the fishing industry, the indigenous population in the area, the shipping industry, local and foreign consumers, the variety of different civil society actors, and relevant international organizations might indicate and lead towards different conclusions and means for addressing problems.<sup>64</sup>

The socialization process is not discounting realist approaches that states and other actors affected by maritime global governance will inherently defer to their interests and fall back on their economic or security needs. Rather, the notion here is to acknowledge and incorporate the fact that diverse interests are involved; it is a matter of proper engagement and creating a viable

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<sup>59</sup> See e.g. Lucks and Fuchs, *supra*, at 513-514. See also V. Roeben *The Equitable Distribution of Marine Resources by Agreement of States—The Case of the South China Sea* 1 *Chinese Journal of Global Governance* 36 (2015) (proposing the use of negotiated settlements as a means of addressing territorial disputes such as those found in the South China Seas).

<sup>60</sup> M. Young, *Then and Now: Reappraising Freedom of the Seas in Modern Law of the Sea* 47 *Ocean Development and International Law* 165 (2016). See also K. Manez, et. al., *The Future of the Oceans Past: Towards a Global Marine Historical Research Initiative* July 2, 2014, 9 *PLOS ONE* available at: <http://journals.plos.org/plosone/article?id=10.1371/journal.pone.0101466#s4> (discussing the importance of historical studies of the marine ecosystem to provide context and better insight into ecosystem changes).

<sup>61</sup> E. Shor, *Conflict, Terrorism, and the Socialization of Human Rights Norms: The Spiral Model Revisited* 55 *Social Problems* 117 (2008) at 118; Marsh and Payne at 668 noting the overly-linear and teleological bent of the socialization argument.

<sup>62</sup> Goodman and Jinks noting the need to account for different social environments of states when considering the coercive approach to create change.

<sup>63</sup> Goodman and Jinks noting the weakness of the persuasive approach when considering the variety of diffuse social norms.

<sup>64</sup> See e.g. N. Bennett and P. Dearden, *Why local people do not support conservation: Community perceptions of marine protected area livelihood impacts, governance and management in Thailand* 44 *Marine Policy* 107 (2014) (hereinafter: Bennett and Dearden). The authors found that rural fishing communities in Thailand located near marine protected areas maintain a negative view of such areas because they are understood to affect their livelihood.

framework that will allow for viable solutions. Transparency and accountability for example are essential for any governance program to be effective and acceptable to those who are affected, be they the fishing industry, local workers, or conservationists. Creating economic/private oriented incentives that are enticing to all the actors involved also would move forward forms of governance in a legitimate and fair manner<sup>65</sup> that can include conservation efforts as well. Indeed, a number of avenues exist for addressing the economic impact of conservation in a viable manner. Inclusion of relevant stakeholders like local economic actors (who might be most affected) and indigenous peoples (who maintain an important stake in any decision) in the decision making process is a first step. Compensating local users for opportunities forgone, and investing in community education and welfare to understand and be involved with potentially new-form opportunities,<sup>66</sup> are but some of the avenues available for an economically viable and enduring framework. Indeed, investigations concerning local marine protected areas indicate that it can actually necessitate poverty alleviation, especially when program development that incorporates economic development with conservation is carried through past the implementation period.<sup>67</sup>

A solid governance structure also might start to place an emphasis on partnership models (such as public-private partnerships to engage broader audiences and account for all forms of interest).<sup>68</sup> Linking up progressive, market-based, entities, civil society organizations (which can reflect a wide gamut of interests including environmental concerns along with the need for economic development)<sup>69</sup> and intergovernmental and other state-driven bodies is also an avenue for the emergence of viable policy. Consensus building and inclusive, participatory approaches with partnerships of diverse actors can result in clear and feasible objectives and a well-defined implementation authority. The importance of inclusivity is especially the case when supported with suitable knowledge and economic capacity development that are created and managed to incorporate changing situations and progress assessments. Such approaches also point towards the involvement of Taiwan in any form of maritime global governance. Taiwan's interests merit being accounted for upon recognizing, in a realistic manner, Taiwan's impact and role in economic and conservation decisions that are relevant not only to its immediate geographic area in the South China Seas, but also the ocean in general.<sup>70</sup>

<sup>65</sup> Bennett and Dearden at 114 note the importance of creating alternative forms of livelihood, connecting those affected economically with available assets, and having them share in the benefits offered by conservation efforts as new industries emerge. See also P. Jones, W. Qiu, and E. De Santo, *Governing marine protected areas: Social-ecological resilience through institutional diversity* 41 *Marine Policy* 5 (2013) (hereinafter: Jones et.al.) at 12 (noting the importance of equity and fairness in resource distribution as one of the key grounds for viable marine governance).

<sup>66</sup> P. Jones et. al. at 12.

<sup>67</sup> See e.g. G. Gurney, et. al. *Poverty and protected areas: An evaluation of a marine integrated conservation and development project in Indonesia* 26 *Global Environmental Change* 98 (2014)

<sup>68</sup> Bennett and Dearden, at 114 (noting the benefits of involving local people in management decisions and long-term development plans); T. Mellado, et. al. *Use of local knowledge in marine protected area management* 44 *Marine Policy* 390 (2014) (importance of local ecological knowledge given impact on effective management of marine protected areas).

<sup>69</sup> P. Jones et.al. at 12 noting for example the importance of using non-governmental organizations as an avenue for implementing incentives and proper management in marine protected areas..

<sup>70</sup> Taiwan maintains one of the largest distant water fishing industries (in terms of scale), see 2015 ROC Fisheries Agency Report, available at: <http://www.fa.gov.tw/en/FisheriesROC/content.aspx?id=2&chk=05d9ffd2-651d-4686-a2d1-a44413152366&param=pn%3D1> and it is subject to much stress to maintain existing fishing levels, see e.g. S. Murphy EU gives yellow card to Taiwan SeafoodSource, October 1, 2015, available at: <https://www.seafoodsource.com/news/environment-sustainability/eu-gives-yellow-card-to-taiwan>.

Finally, it is important to point out that even with the advent of some forms of regional agreements regarding fishing management schemes (many of which include Taiwan simply by virtue of realistic necessity), a more integrated and effective structure is needed to address current maritime governance, rather than the existing patchwork systems.<sup>71</sup> IUU and environmental changes are wreaking havoc with the fishing industry and extreme climatic events will only get worse as the ocean absorbs the majority of the climate alterations that are happening throughout the world.

## Conclusion

In some ways, maritime governance has been going on for some time (albeit not on a global scale). For example, states are beginning to create marine protected areas as a means of conserving species and preventing overfishing. In certain instances, these forms of protection have even reflected a form of socialization as states have begun to incorporate appropriate norms into their domestic laws and have included relevant surrounding actors into the process. The means for protecting the Arctic for example includes not just states, but also indigenous peoples and other experts. There is a push towards inculcating norms as grounds for fomenting change, such as the FAO's recent move to have the Port State Agreement turn into binding international law (for signatory states).

What is missing however, and what seems to be sorely needed, is a form of maritime global governance that will effectively incorporate all relevant actors, create viable and enforceable norms that reflect a variety of interests, and allow for the emergence of applicable global management regimes that will adequately ensure for the protection of marine resources in a sustainable manner. To be effective, such a global framework should incorporate all relevant actors in the process who can play an important role in developing effective policy and lead to proper oversight and enforcement as well.

Despite Taiwan being an isolated state in many respects, it is a significant participant in maritime issues and can have a broad and lasting impact on policy development that can lead to effective maritime global governance. Taiwan possesses territory, is an important economic actor in the fishing industry, desires to act for and protect the environment, and is ready and able to incorporate the views of the wide gamut of relevant external actors, from environmental organizations to private economic firms.

A socialization approach opens up the possibility to reconsider existing normative structures and think beyond the territorial based notion of state control, thus allowing for participation by states like Taiwan along with non-state actors who can assist in creating policy. Incorporating the interests of conservationists and the need for sustainability to provide for the ocean's survival will allow states to work with relevant civil society actors and globally engage maritime governance that properly prevents those with immediate, short-term, economic thinking who are acting at the expense of everyone else (and future ocean users as well). Thinking beyond territorial notions regarding the ocean allows for perceptions that measure environmental viability over economic opportunities, and encourages states to seek out alternative energy sources (like wind or solar power rather than fossil fuels) and more sustainable fishing methods (like aquaculture).

At the same time, economic concerns such as the need for development can be incorporated into decision-making processes that will capture the needs of those whose jobs have been displaced or have relied upon the ocean as a food source. Incorporative management and involvement of all relevant actors at the decision making and implementation process will allow for a movement away from focused and immediate economic needs as the defining factors of one's interests. Rather, local communities with the most at stake will not only better comprehend the process and reasoning behind the shifts (such as preventing overfishing), but will also become part of

<sup>71</sup> Warner at 775



the process (such as to utilize the new areas for other purposes, like environmentally viable fish farms or eco-tourist areas, to name but a few of the possibilities). Taiwan can and should play a major role in these developments given its geographic position, economic and scientific capacities, and stated willingness to assist and be a responsible participant. A socialization shift then will move towards models that recognize the breadth of influential actors beyond the state who can and do play an important role in the ever-changing process that maritime governance involves, leading to the creation of viable and effective policy.



# The Conflict In Nagorno-Karabakh Within The International Scenario

**Walter Morana**

**Abstract** In April 2016, Azerbaijan and Armenia resumed their conflict in Nagorno-Karabakh, reawakening tensions that had not been settled since the first years of the Soviet Legacy and, most of all, the end of the 1992-94 war. The first part of the present article aims at investigating the main historical and political reasons behind this “frozen conflict”. In order to reach this goal, the author will analyze the main issues in support of the status quo in the area, such as the Turko-Russian influence, the role of the European Union (EU) and the situation of minorities and IDPs. The article also offers an analysis of the Minsk Group, originally formed by the OSCE for conflict prevention and resolution in the territory, and proposes new perspectives to overcome the power games affecting its current structure and activity. Particularly, in the conclusion, the author promotes the benefits of an exercise of soft power such as a ground-level cooperation between the EU and Azerbaijan. Especially if placed within a wider reform of the European Neighborhood Policy (ENP), this promotion of structural reforms in Nagorno-Karabakh might represent a valuable model to look at within the relations entertained by the EU with its Eastern Partners.

**Key words** Armenia, Azerbaijan, Nagorno-Karabakh, EU, Russia, Four-Day War

**JEL Classification** F52

## Introduction

The four-day war burst in Nagorno-Karabakh in April 2016 unearthed an unresolved conflict whose increasing voltage has been threatening for more than twenty years the balance in South Caucasus. Although both local and International actors have committed themselves to prevent any future conflict in the area, the political and economic relevance of the tensions between Armenian separatists and Azerbaijan has been eventually underrated under political and socio-economic aspects.

In “Il Conflitto del Nagorno-Karabakh e il Diritto Internazionale” (2014), Professor Natalino Ronzitti of International Affairs Institute (IAI) had considered the possibility for peace to return in Nagorno-Karabakh only after the outbreak of a new war. Actually, the tension have never ceased in this small region since, after the 1992-94 war, a temporary truce had the effect of paralyzing each side’s positions into a “frozen conflict”, where an apparent peace had led to increasingly

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violent disruptions instead. As well as in South Ossetia, Ukraine and Kosovo, Russia's traditional paternalism towards its "minor" allies also plays a role within the troubled instability in Nagorno-Karabakh. Although Gorbachev's *Perestroika* had actually encouraged a critical review of the Soviet Union and its policies, a smooth democratization process has never taken place in many former Soviet states, not allowing historical ethnic divisions to be totally settled. However, prolonging the existing *status quo* might no longer be a sustainable solution to preserve the precarious balance in South Caucasus.

Starting from Professor Ronzitti's opinion, the present article aims to explore the historical, political and socio-economic developments behind the four-day war in Nagorno-Karabakh and what peace scenarios it opens. In this regard, the article also invites the "Powers" involved in the conflict to focus on the opportunities that a sustainable peace process might bring, rather than the perspectives of short-term solutions.

The developing role of Turkey as the watchdog of Russia's responsibilities within the OSCE Minsk Group and, most of all, the need for the European Union to deepen its sight towards the Southern Asian Market might drive the change towards this direction. Therefore, the article will also focus on the issue of IDPs in Azerbaijan, showing that promotion of democratization and structural reforms are the requirements needed for a harsh quest for stability to turn into an effective stabilization.

## 2. The two-year war (1992-1994)

Nagorno-Karabakh's vicissitudes date back to the immediate post-World War I period. In 1922, the USSR merged Georgia, Armenia and Azerbaijan in to the Transcaucasia Republic, where Catholic Armenia and Muslim Azerbaijan had already faced each other about the respective positions towards Turkey, already at war with the Soviet Empire. In 1937, once Transcaucasia was dissolved, Stalin conceded to Turkey a forcible annexation of the territory of Nagorno-Karabakh to Azerbaijan, despite the Armenian community constituted a great majority of its population (around 94%).

In 1988, similarly to other independence processes occurred after the fall of the Soviet Giant, Armenian separatists gradually pushed Yerevan to claim back Nagorno-Karabakh from Azerbaijan until when, on December 10<sup>th</sup>, 1991, an internal referendum established the independence of Nagorno-Karabakh. Such controvert political act led to new claims from Baku and, eventually, to a bloody two-year war of large scale violence bringing about the deaths of 25,000 victims. In May 1994, delegations from Armenia and Azerbaijan signed the Bishkek Protocol, through which the participants declared their willingness to stop the conflict *sine die* and asked for a mechanism aimed at preventing a future resumption of hostilities. However, the ceasefire called upon in the Protocol did not bring any concrete change for the political status of Nagorno-Karabakh: what before 1992 was a geographical *oblast'* (area) maintained its status of a seceded State that the International Community has always refused to recognize. At this point, two main issues seem to feature the 1994 truce, as well as the uncertainty over the socio-political situation in Nagorno-Karabakh. First, the ceasefire lacks of a *dies ad quem*, making it inherently temporary. The document sets a deadline as «no later than 22 May» of the same year, when a trilateral "agreement on the cessation of the armed conflict" would have completed the negotiation. However, such an agreement is still pending. As a main consequence, «if duration is not defined», states the IV Hague Convention on the Laws and Customs of War on Land, Article 36 of the Regulations, «the belligerent parties may resume operations at any time, provided always that the enemy is warned within the time agreed». Using John Galtung's definition, Nagorno-Karabakh is experiencing a "Negative Peace", whose unsettled matters are ready, at any moment, to burst into a new war.

## **FOCUS: Internally Displaced Persons and Minority Rights**

Several reprisals and short cease-fire have taken turns in Nagorno-Karabakh since the end of the two-year war, slowly cracking the weak provisions included in the 1994 truce. Due to a lack of concrete peace conditions and the total absence of any exercise of power from Baku, the Republic of Nagorno-Karabakh is, today, a land of nobody. In fact, as the International Crisis Group denounced in 2011, from the territory it does not transpire the current situation in terms of arms trafficking, military expenditures and even the status of peace talks.

Nevertheless, the local humanitarian situation is sadly known. Most notably, in 2009, the UN High Commissioner for Refugees (UNHCR) reported an estimated 15,000 Armenian Internally Displaced Persons (IDP) inside Nagorno-Karabakh and 600,000 Azeri IDPs forced to flee to Azerbaijan. The result of this unceasing internal migration process is that, nowadays, 7% of the population in Azerbaijan consists of IDPs: it is truly one of the highest per capita concentrations in the world. From the last Census conducted in 2005 in Nagorno-Karabakh, it results that the progressive *diaspora* occurred from the 90es would have caused a tragic reduction of Azerbaijani people living in the territory. Nowadays, *sic stantibus rebus*, this minority would represent less than 0.1% of the whole population, in comparison with the 40.7% registered in 1989.

Since Nagorno-Karabakh is a mere territorial entity, all people fled from the war scene to Azerbaijan have to be regarded as Internally Displaced (and not refugees). Nonetheless, the 1998 UN Guidelines Principles on Internal Displacement oblige Azerbaijan to protect Armenian people in Nagorno-Karabakh from displacement, particularly due to their status of minorities, granting IDPs the right to benefit from internal self-determination.

However, the quest of Armenian separatists would clash against the International law. In 1960, the UN General Assembly had remarked that secession can occur only if based on «complete equality» between peoples and 1995 Council of Europe's Framework Convention for the Protection of National Minorities (FCNM), states, in Article 21, that the rights of minorities shall be granted in compliance with the fundamental principles of international law «and in particular of the sovereign equality, territorial integrity and political independence of States».

In few words, an Armenian Government based in Stepanakert would not be representative of the Azerbaijani people that forcedly left the Region (or that might still live in it) and respectful of Azerbaijan's territorial integrity. Since the UN Security Council Resolutions 822, 853, 874 and 884 simply talk about «Armenian people in Nagorny Karabakh», therefore underlining their status of minorities, the Government of Yerevan (that never officially claimed Nagorno-Karabakh as part of its territory) is entitled to protect their rights in Azerbaijan, but not also to back them up in their fight for external self-determination.

### **3. The main actors within the conflict settlement in Nagorno-Karabakh**

For these reasons, in 1993, the UN Security Council issued Resolutions 822, 853, 874 and 884, oriented to protect the territorial integrity of Azerbaijan, resume negotiations for the resolution of the conflict and endorse newly formed CSE Minsk Group's efforts for peace building in the area. Probably, the most significant outcome in terms of conflict settlement in Nagorno-Karabakh was reached by the 1994 OSCE Budapest Summit and the resulting establishment of the OSCE Minsk Group ("Minsk Group", from now on). This *ad hoc* steering group, chaired by Russia, France and the US was built to promote the continuation of the cease-fire and to conduct negotiations for the conclusion of a «Political Agreement on the Cessation of the Armed Conflict». However, despite the activity carried out by the Minsk Group, which has worked well so far in terms of crisis management, its mandate does not include any task related to conflict prevention. In fact,

this limits the Personal Representative to three main tasks. Besides achieving «an agreement on the cessation of the armed conflict and in creating conditions for the deployment of an OSCE peace-keeping operation», the Minsk Group shall assist the parties «in implementing and developing confidence-building, humanitarian and other measures facilitating the peace process» and cooperate «with representatives of the United Nations and other international organizations operating in the area of conflict». In occasion of the 2007 Madrid Summit, the three co-Chairs presented the “Basic Principles for a settlement of the conflict” (otherwise known as “Madrid Principles”) that should have led the way to comprehensive peace talks in Nagorno-Karabakh. They particularly call for:

- The return of the territories surrounding Nagorno-Karabakh to the control of Azerbaijan;
- An *interim* status for Nagorno-Karabakh providing guarantees for security and self-governance;
- A corridor linking Armenia to Nagorno-Karabakh;
- Future determination of the final legal status of Nagorno-Karabakh through a legally-binding expression of will;
- The right of all Internally Displaced Persons (IDPs) and refugees to return to their former places of residence;
- International security guarantees that would include a peacekeeping operation.

Although the principles address correctly the current issues in the area and provide solutions in compliance with the tools permitted by International Law, they provide a vague solution about the political *status* of the Nagorno-Karabakh and lack of any references to the violations committed by Armenia. At the end of the document including the Madrid Principles, the Parties stated that «the rights and privileges of the inhabitants of NK» would have been finalized «during the interim period with the participation (in a form to be agreed) of NK representatives». However, at the opening of the Third Armenian-Azerbaijani Public Peace Forum (24 March 2009) France’s Ambassador Bernard Fassier confessed the impossibility to implement this point of the Programme, stating that «The status of Nagorno-Karabakh cannot be agreed on now, as both [...] - international recognition of Karabakh as an independent state, and its return back into Azerbaijan - are now impossible».

In addition, the internal composition of the Group (beyond Armenia and Azerbaijan, four EU members - Germany, Italy, Sweden, Finland - Belarus and Turkey belong to it) has caused repercussions onto the conflict prevention promoted by the “Minsk Process”. On one hand, the interest of the EU Members about the stabilization in Nagorno-Karabakh has always been rather marginal, as the adoption of policies for development is essential to attract EU’s focus. The European Neighborhood Policy (ENP), through which the EU regulates its relations with Southern and Eastern Partners, is based on a “More for More” principle: the more reforms national Governments adopt, the more access they earn from European Market. Since 2006, Azerbaijan’s oil revenue has increased from €1 billion to €19 billion, and such enhanced dependency on oil business made the country more vulnerable to external shocks, consequently weakening any promotion of structural reforms. Therefore, the fragility of the current *status quo* in Nagorno-Karabakh is unattractive for European investments in Azerbaijan. In 2007, Professor Stefan Wolff of the University of Birmingham had underlined that, in relation to Azerbaijan, the ENP had been «more focused on the actual settlement of the conflict (“increase diplomatic efforts”, “increase political support to OSCE Minsk Group”, “intensify EU dialogue with the states concerned”) rather than on “accompanying” measures (civil society initiatives, de-mining, IDP assistance) ». On the other hand, Turkish and Russian moves in the Bosphorus are hemmed in a vice of mutual control. The clash between Ankara and Moscow upon Nagorno-Karabakh is mainly reflected in

the contention between two fundamental UN Principles: whereas Russia backs Armenia up for respecting the principle of self-determination of people (UN Charter, Article 1.2), Turkey stands for Azerbaijan's right of territorial integrity (Article 2.4).

Russia's position as a mediator within the Minsk Group coexists not only with the responsibility of security provider for Armenia, but also with the necessity to consolidate its economic power in the region. Russia keeps a solid economic partnership with Armenia, which entails massive investments on infrastructures such as energy, metal, telecommunication and banking. Furthermore, Russia is Armenia's natural political ally in South Caucasus, recognizing Armenian genocide in 1995 and protecting its national borders within the framework of the 1992 Charter of the Collective Security Treaty Organization (CST), of which Azerbaijan is no more a member State. Therefore, any future peace resolution might hinder Armenia's economic dependency from Russia, which would be deprived of an important outpost between Georgia, Iran and, especially, Turkey. However, Russia's role as mediator within the Minsk Group aligns with the Kremlin's ambivalent cooperation with Azerbaijan, on both military and energetic fields. Since 2013, the Russian state's oil group Rosneft benefits from a trade cooperation with SOCAR, the State Oil Company of Azerbaijan. Furthermore, Azerbaijan's proximity to Syria and Iran has attracted a massive arms flow from Russia over the last years, satisfying the willingness of the country to prepare for an eventual war in its territory. Notably, Azerbaijan received 85% of its weaponry from Russia between 2010 and 2015, with an impressive increase of 249% over the five previous years. Most important, Azerbaijan provides an attractive "energy alternative" outlet towards Europe, thanks to the Baku-Tbilisi-Ceyhan oil pipeline and Baku-Tbilisi-Erzurum gas pipeline.

The ambiguity of the policies pursued by the Kremlin in Nagorno-Karabakh has certainly allowed Turkey to compete with Moscow for the role of mediator within the Minsk Group, clashing, so far, against its indispensable pro-Azeri position.

#### **4. The four-day war. A predictable event leading to unpredictable effects**

In February 2016, Armenia's First Deputy Minister of Defense David Tonoyan declared that Yerevan's strategy in Nagorno-Karabakh turned from defense to deterrence, shaking the apparent satisfaction that both opponents seemed to show to hold up the *status quo* in Nagorno-Karabakh. In fact, while Azerbaijan could count on its military superiority and social stability caused by the economic growth, Nagorno-Karabakh's unrecognized independence has been so far a great achievement also for the self-determination of Armenian minorities, supported by limited economic sources and Russia.

Yet, the outbreak of the four-day war on April 1<sup>st</sup>, 2016 was the inevitable outcome of the unsettled matters outlined above and fatally aggravated by mutated power relations between Yerevan and Baku. The status of Nagorno-Karabakh has continuously exposed Armenian settled separatists to repeated provocations from Azeri forces, and these episodes were featured by increasing violence over the years immediately preceding the conflict. In the meantime, also the slope between the two countries has seemed to be progressively reducing. Whereas Armenia's disadvantage in economic terms has been compensated by the benefit of disposing of more militaries in the enclave, Russia's support (helped by the increasing tensions with Turkey) and the tremendous raise of its Defense budget (up 71% in 2015 compared with 2006), the superiority of Azerbaijani Government has been proving to be as brittle as the oil business itself. The sharp fall in oil prices in 2015 and the consequent depreciation of manat (100% against the US dollar) and oil exports favored rising inflation and stopped a positive trend of poverty reduction that Azerbaijan had been experiencing for over a decade.

The tension between the two countries has progressively pushed the Azerbaijani troops to cross the border arbitrarily drawn in 1994 and quickly conquered 14 front posts in the Talish-Seysulan area and 7 in Lale Tepe. After this first limited *blitzkrieg*, Baku proclaimed unilaterally a ceasefire, arousing new tensions and leaving the conflict open to any possible outcome. During the following days, Russian Prime Minister Medvedev met his counterparts in Armenia and Azerbaijan to discuss the terms for a comprehensive agreement on a new ceasefire, expressing the necessity to avoid a large-scale war «that could have the most tragic consequences for the region». Although the four-day war took place exclusively within the borders of Nagorno-Karabakh, the high costs in terms of human lives still denounce a huge gap between the opportunities showed by diplomatic talks and the permanent urgency of conflict settlement. Whereas Armenian official sources reported more than 80 fatalities and at least 120 injured, Azerbaijan has referred to its fatalities as a state secret and has not yet updated its April 2016 confirmation of 31 combatants and 6 civilians killed.

In short, this new massive violence brought the territory back to the exact post-1994 conflict situation, both in terms of domestic policy and diplomacy. Particularly, through the Minsk Group co-Chairs meeting held in St. Petersburg in June 2016, Russia maintained its interests as the mediator in South Caucasus under the sole request to increase the existing ceasefire monitors. It seems clear that, says Thomas de Waal of the Carnegie Endowment for International Peace, the current ceasefire framework «no longer fits», as further highlighted by the casualties that welcomed Minsk Group's last visit in June 2017.

## 5. Conclusion: Stabilization as the ideal condition

Although more parts expressed the need for a definitive resolution, the present analysis underlines that some actors, formally involved in the peace process, have not demonstrated sufficient ability – or willingness – to change the *status quo*, while it seems that others showed rather a strong interest in maintaining it. Nevertheless, determining a recognized socio-political status of Nagorno-Karabakh remains a much-needed achievement.

Taking as a model the strategies adopted by the USSR and the US during the “Cold War”, Sergey Minasyan of the Caucasus Institute suggests that a gradual stabilization is possible only if the two opponents will decide to adopt a steely deterrence about the use of weaponry and a political and diplomatic containment. Nonetheless, leaving the future status of Nagorno-Karabakh to the sole will of the direct opponents might lead to new unpredictable violations of the International law under the profiles of protection of IDPs and minorities, use of force and territorial integrity. For this reason, an effective containment can take place only if helped by «third countries and great powers», Minasyan says.

In this regard, Russia might be interested to maintain an advantaging *status quo*, at least as long as Turkey will not be able to represent a concrete challenge within its race for the Chairmanship of the Minsk Group and the EU will not push for major involvement. Although the Madrid Principles have lacked of effectivity, they undoubtedly represent the legal framework that needs to address the future peace process. However, the current contrasts on the status of the territory is currently influencing management of the “frozen conflict”, as well as their effective endorsement.

In its capacity of Chair State within the Minsk Group, the US might hold the balance of the power and turn its non-recognition of the Government of Nagorno-Karabakh into a push for a mediation in favor of Azerbaijan's sovereignty over its own territory. Indeed, the weak trade ties with Yerevan and the difficult relations with Russia have not ever helped Washington accept the infringement of the International Law committed in 1992 by Armenian separatists. Nonetheless,



the absence of US diplomatic corps in Nagorno-Karabakh has been showing a substantial neutrality from last three White House administrations on this matter. Nevertheless, in the light of Azerbaijan's weight as oil and gas exporter, especially towards Europe and Central Asia, the instability in South Caucasus might still threaten a rise in the oil price, therefore representing a meaningful challenge for the interests of the US and its allies.

For these reasons, the stabilization in Nagorno-Karabakh could be rather reached through a targeted ground-level cooperation. This solution might represent a better solution to reach an effective stabilization in South Caucasus, and the European Union has now the opportunity to play a leading role in it. The Southern Gas Corridor reaching Europe through Azerbaijan and Turkey would provide the Old Continent with energy that reduces notably the mid-term dependency from Russia and whose supply would bypass the current price disputes between Moscow and Kiev. Through the EU-Azerbaijan Strategic Partnership, the two partners are working closely towards this direction, for an improvement of energy security and diversification of energy supplies. Indeed, as stated by the EU Commission within the 2015 European Neighborhood Policy in Azerbaijan: «The commitment to implementing the Southern Gas Corridor continued to be of utmost importance for EU-Azerbaijan dialogue».

Most important, the challenge ahead of an effective cooperation within the ENP is to shift the application of the "More for More" principle from State actors to non-State actors in cases, for instance, of oil-dependent Partners, such as Azerbaijan. In this regard, the EU would be able to maintain a strong influence on States that do not focus on mid and long-term reforms, by giving voice to representatives of their civil societies. European soft power in the South Caucasus, the IAI encourages, needs to be a sharp instrument of diplomacy: such a different approach would allow Azerbaijan to create the conditions for Azeri IDPs to return to Nagorno-Karabakh, in order to involve them directly in any decision process concerning the future political status of their Region. This goal is also encouraged by the Minsk Group through the first Madrid Principle: «The final legal status of NK will be determined through a plebiscite allowing the free and genuine expression of the will of the population of NK. The modalities and timing of this plebiscite will be agreed by the parties through future negotiations [...]. The population of NK is understood as the population of all ethnicities living in NK in 1988, in the same ethnic proportions as before the outbreak of the conflict».

Already in 2012, the EU Parliament had recommended to the Council, the Commission and the European External Action Service to provide an impetus for internal reform in Azerbaijan. In this view, they shall aim to ensure a mechanism for active incident-prevention, an investigation of cease-fire violations, the right of all IDPs and refugees to return to their homes and «a genuine multinational peacekeeping operation», in order to create suitable conditions for a free vote concerning the final status of Nagorno-Karabakh. The Commission seems to have already undertaken this path, increasingly focusing its dialogue with Azerbaijan on economic diversification, support to infrastructures, civil society empowerment and fair elections.

Supporting democracy at grass root level and opening new market prospects in South Caucasus seems to be the right way for a "great Power" to trigger an endemic peace process in Nagorno-Karabakh. Most important, no third Power should shape the identity of this small territory, driven by the hunger to assert its fragile predominance. Only by aiming to a durable security for the civilians in Azerbaijan, Nagorno-Karabakh will be enabled to find its straight way to a socio-political stabilization.



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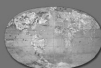
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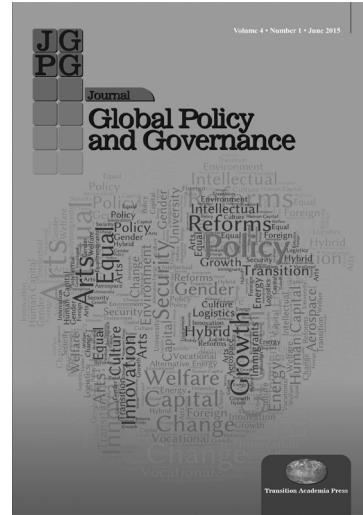
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## Journal of Global Policy and Governance Aims and scope

Global governance is a challenge of our era and us as human beings no matter where we live and what values we believe in. After a 100 years of development, international relations are so closely and tightly knit. A problem in a community might affect the life of the people in a remote part of the world and its solution might also be in the hands of these people but can't be assumed outside the more global International Relations theories and practices approach, an interrelated already practiced at every policy decision making, economic and financial levels and first of all by the main powers.

How can we manage this complex of various relations matters for our life and common future? It is the time for us to invest our wisdom and energy to make global governance work now and to give a sense to the United Nations already reduced to a zero-sum-game playing on the major emergencies and conflicts due first of all to the obsolete veto system that would be at least extended to all the 15 countries of the Security Council, being them permanent or at rotation, with the weighting of votes bringing less hypocrite the present five Jalta powers partition already 70 years ago. We are talking of the world not existing anymore.

There is no simple way and framework for global governance. Global governance is a general term which means to think globally and act globally. It is complicated because problems might be local. It is complicated because problems might be also global. It is complicated because the solution of problems might be local but also in a global framework global. That is why we need to check issues case by case carefully. We need to sort out what solution is the best choice for the problem. We need to identify who should be the persons of good will taking the challenge and adding their intellectual and scientific capabilities to the human destiny. We have to take an action worldwide. Global issues are definitely the subjects of global governance. Meanwhile, global governance takes care of issues with local reasons and local solution because we believe the experience might be helpful for people living in other parts of the world. Interdependence of International Relations with finance, economy, technology, research and advanced knowledge

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until a few years ago unimaginable, new military might introduced by innovation must be some of the crucial challenges, where also our Journal Global Policy and Governance intends to contribute opening its pages, issue after issue, to faculty, experts, testimonies, articles and relevant review of books, junior researches working papers. But we know also that traditional conflicts would not have any perspective in the medium term and will bring to the defeat of the ones who are imagining a return to the past.

We intend to embrace and reach all the possible interested colleagues and fellows around the world, as choices and strategies in all the sectors involving public and private governance, nobody excluded, are under questioning and innovative evaluation. Global world is not anymore a provocative statement, a kind of utopian return to realism and the theories dominant up to the German reunification, the end of Soviet Union and the war in the Balkans have now become obsolete by definition.

Middle East, Black Sea, Eurasia, Ukraine, Baltic, Turkey have the capability to reshape the future. Even if they are now in the middle of the fire, soon the devastations and impressive mass killings will be overcome and reconstruction taking the lead in many of these countries.

But why not underline the successful 30 years development and growth of China, a unique case in the last 500 years. China is the third world power, after European Union and USA, and has now similar problems we have encountered and are still facing nowadays, needs to find a political solution to reforming and giving voice to an accountability to its almost 1 billion 500 million inhabitants.

We really have to rethink the International Relations and the theories of Global Governance and Policy Choices, accepting the pluralities of institutional architectures and ways to give voice and accountability to the citizens. The European Union represents a “non Statehood” institutional governance, without even a Constitution and the Sovereignty belonging to the member countries. Do you believe the EU will change its architecture established by the Treaty of Rome in the future? This is an illusion of the antagonists of the different strategies and policies that were adopted right up to the Euro and the high welfare and technologic standards already achieved, even in the face of a crisis on 2008 that from the Atlantic arrived to Europe three years later and is now affecting East Asia. By 2020 we will be out of this tunnel everywhere in the world.

To add a valuable contribution to this scientific debate is our very aim and scope



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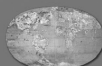
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