

# JAPAN ECONOMIC CURRENTS

A COMMENTARY ON ECONOMIC AND BUSINESS TRENDS

## Corporate Social Responsibility: The Strength of Japanese Corporations

by Hiroshi Hirose, Nippon Keidanren's Subcommittee on Socially Responsible Management

Corporate Social Responsibility (CSR) has become an indispensable element of Japanese corporate management and has been promoted by Nippon Keidanren consistently since the 1970s. In 1991 Keidanren established a "Corporate Behavior Charter," and has recently promulgated CSR guidelines. Nor is our job over – we fully intend to further actively promote and strengthen CSR.

Many Japanese companies are baffled by the heated level of discussions in European and US business associations over CSR. Unlike corporations in the US and Europe that tend to place importance on short-term profits for the shareholders, Japanese corporations have long taken a balanced approach to managing their companies, with an eye to the overall stakeholders, including employees, customers, and local citizens, as

well as to shareholders. A significant number of Japanese corporations have established CSR-related departments, disseminate information through the publication of reports, and pay attention to relationships with stakeholders

If CSR is at the heart of a corporation's comprehensive activities aimed at maintaining harmony between the corporation, society, and the environment, all the while sustaining development, Japanese companies are certainly at least on par with the West. Moreover, by turning its resource-poor handicap to its advantage, Japan has targeted cutting-edge technology and know-how toward energy conservation, resource conservation, and environmental protection – to the good of the rest of the world.

### Nippon Keidanren and CSR

In October 2003, the Nippon Keidanren established the

Subcommittee on Socially Responsible Management, a union of two existing committees (Corporate Behavior Committee and the Committee for the Promotion of Contribution to Society). The new bureau has conducted a continuing review as to what constitutes social responsibility in a corporation.

CSR-related activities are wide-ranging and diverse; contributions to society include the thorough enforcement of corporate ethics, the establishment of sound corporate governance and employment policies, communication with stakeholders and consumers, conservation of the environment, protection of privacy, respect for intellectual property rights, etc. Most of these thorny issues have been dealt with over a long period of time by a variety of committees who have worked cooperatively within Nippon Keidanren and its

Currently No.51 December 2004

**FEWER: HOW THE NEW  
DEMOGRAPHY OF DEPOPULATION  
WILL SHAPE OUR FUTURE**

by Ben J. Wattenberg, American  
Enterprise Institute

4

Dear Readers,

The Keizai Koho Center wishes you a peaceful and prosperous holiday season and best wishes for a Happy New Year.

## Corporate Social Responsibility: The Strength of Japanese Corporations

related organizations, such as the Council for Better Corporate Citizenship (CBCC). On the basis of its acquired experience and knowledge, the Social Responsibility/ Management Bureau will be able to effectively and appropriately deal with CSR matters, both in Japan and abroad.

So that corporations are better able to promote CSR and to tie those goals to the betterment of corporate values in a rapidly changing society, an accurate assessment of what the various stakeholders expect from corporations is necessary.

In all candor, very few opportunities have existed in Japan for a frank discussion with concerned parties beyond employees, customers, shareholders, and local residents. To meet this need, the Social Responsibility/ Management Bureau would like to create a forum for dialogue that would include labor and consumer organizations, opinion leaders, non-governmental organizations, company valuation rating organizations, etc. Naturally, stakeholders will have different requests and hold different expectations. Although sharp differences in opinion may at times arise, we wish to create a more sustainable and improved society by accepting suggestions and advice from the concerned parties

“Japanese corporations have long taken a balanced approach to managing their companies, with an eye to the overall stakeholders, including employees, customers, and local citizens, as well as to shareholders.”

through continuing dialogue with a wider range of participants.

The Bureau would also like to conduct interviews and surveys with member organizations concerning CSR, as well as to analyze the nature of the activities of our multinational corporations located overseas. From these surveys, a variety of examples will be collected and offered to corporations as reference material for use in the conduct of their business.

In May and June of 2004, the Nippon Keidanren reviewed its “Corporate Behavior Charter” and “Implementation Guidelines” from the CSR standpoint, which are to become baselines for corporate behavior and ethics, in addition to legal compliance. In the future, the Social Responsibility/ Management Bureau intends to use the Charter and Guidelines as the basis of a review of CSR activities in order to make the data more practical for member companies.

### ISO’s Codification of SR

In mid-September 2004, the International Standards

Organization (ISO) held a meeting of its Technology Management Bureau, which is de facto the highest decision-making organization within the ISO. At the meeting, ISO announced its intention to a “Guidance Document Concerning Social Responsibility (SR\*),” which will not require approval by a third party, by the end of 2007.

Accordingly, the ISO said it would establish three or four Task Groups at the first meeting of its Working Group, scheduled to be held in late February 2005 in Brazil. Following that, experts representing business circles, labor organizations, consumer organizations, NGOs, governments, and standardization organizations from various countries will be included in discussions concerning the preparation of this guidance document.

Because CSR activities are appropriately considered voluntary and spontaneous and the end-result of diversified approaches, the Nippon Keidanren initially tried to be in step with the European and

American companies that resisted attempts to codify CSR. Interestingly, though, public opinion in many developing countries has tilted toward codification. Once the ISO decided in June 2004 to establish a guidance document, Japan opted to assume an active role in the establishment of such an effort, because when the ISO 9000 and ISO 14000 were promulgated, critical matters were determined under Western leadership, with Japan having no choice but to comply with the “given” specifications. Japan is determined not to make the same mistake again by ceding the field to other players.

**Footnote:**

\* SR: According to the ISO, the “Guidance Document Concerning Social Responsibility” applies, not only to corporations but also to all those whose interests are at stake, including government organizations, NGOs, etc. Thus, the ISO dropped the C for Corporate and uses only SR (Social Responsibility). ■

---

Hiroshi Hirose is Executive Managing Director, Sumitomo Chemical Co., Ltd. and Chairman, Social Responsibility/Management Bureau of Nippon Keidanren.

“Nippon Keidanren intends to take an active role in the preparation of ISO’s codification work.”

Accordingly, Nippon Keidanren has decided to dispatch three corporate experts to the ISO; we intend to take an active role in the preparation of the guidance document concerning SR, giving full consideration to the positions of Japan and other Asian countries.

# Fewer: How the New Demography of Depopulation Will Shape Our Future

by Ben J. Wattenberg, American Enterprise Institute

For at least 650 years, since the time of the Black Plague, the world's population has headed in only one direction: up. But within a few decades, the number of people on earth will level off and then likely fall over an extended period of time. Never have birth and fertility rates fallen so far, so fast, so low, for so long, in so many places, so surprisingly.

After all the attention paid to the "population explosion," we face a New Demography and we will be well served if we understand the magnitude of its implications. Joseph Chamie, director of the United Nations Population Division (UNPD), puts it this way: "There was the Industrial Revolution. There was the Information Age. Now there is the Demographic Revolution."

In countries – both modern and less developed – throughout the world, birthrates and fertility rates have fallen at an astonishing rate. Because of extremely low fertility, Europe has already begun losing population and is projected to fall from 725 million today by approximately 100 million people or more by mid-century, and continuing thereafter. Japan will fall from over 125 million to 110 million.

In the less developed countries (LDCs), fertility rates are typically falling even more rapidly than did

the modern countries a few decades earlier, although the LDCs are starting from a higher level. Until the late 1960s, women in the less developed region were bearing about six children per woman; that number is now about 2.7 and falling fast. About twenty-five LDCs are already at or below replacement level, 2.1 children per woman.

Among the modern nations, only the United States is an exception to the trend, as it is likely to grow from about 285 million to about 410 million people by mid-century because of higher fertility and continued robust immigration. The United States has a below replacement Total Fertility Rate of 2.01, which is just below replacement, but well above Europe and Japan at 1.38 and 1.32 children per woman, respectively.

What is driving these trends? The regnant "Demographic Transition" theory has shown that as modernization proceeds, populations shift from high mortality and high fertility to low mortality and low fertility. But why is that? There are many reasons, including more education and paid employment among women, a climb in contraception prevalence, wealthier populations, and the move from rural to urban areas. Poor women – breaking previous

patterns – are having many fewer children, perhaps because of the spread of the modern communications system that shows modernism to all.

But the decline in fertility was supposed to stop at about replacement level, 2.1. It did not, and now there is academic discussion of a "Second Demographic Transition," with more divorce, cohabitation, and the urge toward self-realization.

Societies are getting older as fewer young people are in the demographic mix. Lots of old people and relatively few younger people means that nations with "pay as you go" pension and health systems will not be able to meet their current obligations without increasing taxes or lowering benefits. This has already caused political turmoil, including general strikes in some European countries. The benefits promised to these soon-to-be seniors are so large they cannot be effectively measured, and are at least in the quadrillions of dollars according to some scholars.

The New Demography will also play a major role in the commerce of the next few decades. The steep decline of fertility and population will likely yield economic problems in the modern nations, the US

excepted. Where will the customers come from? We do not really know what happens to economies as populations shrink. There will also be fewer jobs, but also fewer people who need jobs. That may turn out to be a wash, though perhaps in demoralized and depopulating countries.

Alarmed by these demographic shifts, many wealthy nations are beginning to act. Germany, Canada, Sweden, and the United Kingdom have enacted policies to encourage fuller funding of their pension systems. Germany, Sweden and the UK have enacted measures to reduce benefits. More are certain to follow.

Japan passed laws in 2003 to discourage depopulation trends, namely a "Fundamental Law Against a Decline in the Fertility Rate" and "The Law to Support the Development of the Next Generation." The innovative Singapore Ministry of Community Development and Sports has launched a government campaign designed to increase fertility by sponsoring two new perfumes, "floral" for women and "musky" for men, each called "Romancing Singapore Eau de Parfum." "We shall see if these novel "solutions" are effective.

As American Enterprise Institute's demographer Nicholas Eberstadt has pointed out, a one-child family creates an arena where, if continued, children would grow up without brothers, sisters, uncles, aunts, and cousins, but with as many as two parents, four grandparents, and eight great-grandparents (assuming rising life expectancies). Would all that change the nature of human behavior? For one thing, parents with one child might not allow their child to take the reasonable risks linked to learning about the world. They might be less willing to let the child join the military, even when necessary.

In the environmental realm, we will first have more people, who will, in theory, yield more pollution. But soon – in the next few decades – that will begin to decline substantially. There will be fewer people driving cars, running air conditioners, and cutting down rainforests, and there will be more space per person.

Demographics have always played an important role in the geopolitical power games nations play. Defense is essentially a fixed cost and because of its growing population, the US will be able to afford an increase in defense spending without increasing the

proportion of GDP spent on defense. The converse will be true in Europe and Japan as they become less populous.

America's traditional principal allies will therefore likely be relatively weaker as the Europeans make up a smaller and smaller proportion of the world's population. In 1950, 22 percent of the world lived in Europe. By the year 2000, that proportion was down to 12 percent. In 2050, it will have fallen to about 7 percent. America – the only major modern nation that will continue to see growth in the next fifty years – is likely to go unchallenged by any of the other modern, shrinking nations as the world's sole superpower. America may have to go it alone – not because it wants to, but because it has to.

China and India are the only countries more populous than the United States – the only "billionaire" nations (in population terms). China, until the terrorist attacks of September 11 considered to be America's greatest long-term competitor, will continue growing for the next twenty-five to thirty years, nearly hitting the 1.5 billion mark by 2030, before it starts shrinking (and facing an enormous pension problem). With a standing army of two million men and 450 nuclear warheads, its autocratic

## Fewer: How the New Demography of Depopulation Will Shape Our Future

regime still represents a potential threat to the West's long-term interests. India, the world's largest democracy, will become the largest nation in the world in a few decades, surpassing China. Its per capita income is growing sharply, but from a very low base.

Many of the other LDCs will also see sharp growth in the near future as part of the "demographic dividend" that is expected to provide a window of great opportunity for real and substantial economic growth in the less developed countries. As fertility falls rapidly, as it is now doing in the LDCs, so do the national and personal costs of feeding, clothing, and educating children.

But this is not automatic. For the LDCs to capitalize on the favorably changing age structure, they must play by the rules of solid economic behavior – not something that has previously characterized most LDCs. There is new evidence of this kind of progress in many poor regions.

What about the Muslim nations, home of the vast majority of Islamic terrorists? There are more than a billion Muslims in the world. Contrary to popular belief, fertility rates in the Muslim world are also declining dramatically: Tunisia, Lebanon, and even Iran are already at or below replacement level, with Algeria and Indonesia coming along fast. The

Muslim share of global population will climb only marginally in the decades to come.

There are some difficult times ahead, particularly for the modern nations. But America is growing and will continue to be strong, at least demographically. Although it is facing a very difficult time now, it is likely to prevail. ■

---

Ben Wattenberg is a Senior Fellow at the American Enterprise Institute for Public Policy Research. He can be reached at: [Bwattenberg@aei.org](mailto:Bwattenberg@aei.org)

---

Publisher, Keizai Koho Center

Director, Katsunori Nemoto  
[nemotok@kkc-usa.org](mailto:nemotok@kkc-usa.org)

Editor, Valerie Ploumpis  
[vploumpis@kkc-usa.org](mailto:vploumpis@kkc-usa.org)

1900 K Street NW, Suite 1075  
Washington D.C. 20006  
202 293-8430

[www.kkc-usa.org](http://www.kkc-usa.org)

Keizai Koho Center (KKC) is an independent, non-profit organization designed to promote the understanding of Japan's economy and society at home and abroad. Its financial resources are derived entirely from the private sector.

KKC fosters a deeper understanding of Japan's basic social structure. Furthermore, it conducts public affairs activities to improve the Japanese people's recognition of Japan's global role.

The views expressed in this newsletter are of the contributors and do not necessarily represent those of the Keizai Koho Center.

