

The Cooperation Imperative and the Future of the Japan-China Relationship

Lecturer, Yale and Brown University
Co-founder, Sustainable Finance Institute
Cary Krosinsky

Solving climate change is the imperative of our times and additional areas of social and environmental concern remain unsolved, such as are well outlined by the UN's Sustainable Development Goals (SDGs).

We strongly feel more cooperation between China and Japan is worth exploring as an important potential pathway for encouraging and developing badly needed positive outcomes against such societal goals.

Climate change alone threatens to generate a host of disastrous effects, from more extreme weather to a lack of arable land to grow adequate food, to potentially billions of climate refugees. The health of oceans and adequate fresh water and biodiversity also loom as pressing issues. All of these are systemic challenges, requiring responses from all parts of the global economy to take necessary effect, including as relates to policy, corporate strategy, investment practices and consumer behavior. An all-in approach to solving climate change requires all such levers moving in the same cohesive direction, including global cooperation and collaboration. Isolationist approaches only make solving climate change less likely to achieve as countries prioritize what only matters to them locally, ignoring global trends, setting up a sort of inevitable “tragedy of the commons” scenario. It will also take overcoming historic bias to achieve necessary levels of global cooperation.

While there is a challenging history of China-Japan relations that can be hard to ignore, including what sadly occurred during World War Two and years prior, with a

“blank piece of paper,” and an objective point of view, one can easily see how progress can be made towards what we call the Cooperation Imperative as was featured in our recent book *Modern China*, excerpted by the *Stanford Social Innovation Review* in September 2020.

As we highlight in that chapter, Asia is already roughly half of the world's economy, home to two thirds of the world's largest cities and most of the world's population. Few doubts that we are living in something of an “Asian Century,” with China only more influential on the back of its recent economic rise. If relying on older concerns and assumptions, it would be easy for a tremendous opportunity to be lost. If we really care about solving climate change, the need to cooperate with China is the new imperative of our times.

The Cooperation Imperative is essential for many reasons including:

- 1) China is expected to become the world's largest economy during this decade, already clearly second depending on measures, and China and Japan are numbers two and three globally on GDP already. China has the world's largest middle class making it an essential diversification opportunity for global brands. Acting together, China and Japan as closer partners would form something of the world's largest economic force, especially if acting in tandem on issues such as climate change (and pandemics/health, so sustainability more generally) this could be globally powerful and compelling.
- 2) Both China and Japan have clearly established

national targets for achieving “Net Zero”, or what is referred to in China as carbon neutrality. Efforts to create alliances of fund managers and separately corporations, asset owners and banks have reached significant levels around Net Zero targets continue to expand. Many governments are expected to announce Net Zero targets throughout 2021 leading up to COP 26 in Glasgow and beyond.

Less clear are realistic pathways for achieving these ambitious, while essential outcomes. China and Japan could collaborate to develop and deploy such pathways together in their own countries and in other more challenging countries around the world including where coal remains the cheapest energy option. More progress could also be made on other social and environmental issues through collaborative approaches as well, including on future potential pandemics and vaccines. This could include agreements on what to finance across the developing world, and such financing could become green/brown ratios to measure banks, as well as regional net health benefit improvement metrics.

Such commitments would make a China-Japan alliance even stronger from a standpoint of becoming a unified force driving positive change around the world, making this a competitive opportunity for both countries.

- 3) Japan, historically pointed towards the West, can act as a bridge between China and the West. The West seems stuck on being confrontational to China at least for now, arguably counterproductive for solving climate change given the Cooperation Imperative in front of us. The same way the UK desires to be a bridge between the US and Europe, Japan can play the same role between China and the US.

This could strengthen Japan’s hand. As Asia seeks

expertise as it continues to tackle low carbon challenges, Japan could be seen as a strong, willing actor, especially as it builds up its own expertise, drawing on strengths from China and the West including becoming a potential bridge on technology as well.

To best resolve all of the challenges between China and the West, technology could be a great starting point for creating what arguably are necessary safe spaces for resolving differences which could then ensure competition and equal opportunity for Chinese and Western companies alike.

Japan playing a unifying role on this would play well to its existing strong hand on technology and could add to the future vibrancy of this historically important industry in Japan. Even more contentious issues could be resolved by Japan-led safe spaces, even including the difficult challenge of the future of Taiwan and avoiding regional related conflict. No one wants to go to war over Taiwan, or due to the other resource disputes in the South China Sea. While China doesn’t seem to want to budge on Taiwan, they have somewhat understandable national security concerns, as the US did during the Cuban Missile Crisis.

Surely there’s merit in trying to be a go between for Japan to help find pathways to commonly agreed resolutions, even if only perpetual stalemate is achieved.

- 4) Japan risks missing out as the ASEAN region rises up if ceding this larger category of opportunity to China alone. ASEAN is fully expected to become one of the larger economic blocs in the world over the next decade and is one of the strongest regions partnered with China today.

Cooperating with China would strengthen Japan’s

hand for doing business across all of ASEAN and across Asia more generally, hence the importance of Japan being seen as a useful and willing intermediary. Widening any China-Japan circle to the rest of Asia only figures to be beneficial for economic and societal benefit success in Japan. Korea has moved recently towards cooperating more with China recently, likely for this same reason.

- 5) There is also an opportunity to share best practices between China and Japan on sustainability related policies and practices among public and private companies in both countries, including on governance, something of a challenge historically in both China and Japan.

Simultaneously to writing this piece, we are authoring a chapter for a Hong Kong Stock Exchange book on the importance of policy for resolving sustainability challenges in Asia. Listing requirements could represent a minimum standard for investors, such as leading pension funds including the New York State Common Retirement Fund are deploying across sectors now.

A sectoral approach to sustainability was always Japan's first approach to sustainability reporting and policy. When it comes to sustainability, transparency is the first step, leading many to consider the importance of disclosure, something else China and Japan could work on together if both countries are so willing. Ultimately, most important is the culture of organizations and their chosen strategies. Strategies attempting to solve outcomes such as the SDGs by 2030 can be measured on their effectiveness and scalability. We feel the missing dimension of time is essential for measuring sustainability outcome success including how systems are progressing, not just a snapshot in time as ESG data often provides.

This way we can really see if systems and strategies are succeeding at making necessary progress. Processes such as have long been championed in Japan such as TQM get at this very well, and corporations coming on board with ambitious targets is its own opportunity.

Other signals can emerge as a best way of developing and encouraging leadership across asset classes on sustainability, making this an imperative also for asset classes such as Private Equity and Venture Capital, such as can be seen in the relatively new area of Climate Tech VC. Sustainable Real Estate standards continue to evolve.

Banks continue to develop expertise on SPACs and Renewable Energy finance. Infrastructure initiatives continue to emerge from development banks, involving financial institutions and the Belt and Road Initiative are also areas which would benefit from more Japan-China collaboration.

- 6) Japan is at risk of missing out on opportunities across Asia if pairing only with the West while spurning China, which also runs the risk of Japan partnering only with arguably less stable countries and regions given political challenges seen during recent US and UK administrations. While a recent phenomenon, this is a clear, new risk to consider carefully for Japan.

The UK is seeing the economic challenges of going solo through the current Brexit era. Countries need to resist nationalist instincts to ensure they aren't minimizing global opportunities. China seems stable for the most part, certainly on a relative basis, and Japan could benefit from being diverse and if seen as more open to working with all countries. What if, for example, the US reverts back to something similar to the previous administration in 2024, and attempts to dismantle its renewed efforts on climate while China

continues to make progress?

- 7) Japan also has a well noted expected shortage of future workers given recent birth rate trends. Japan figures to be best positioned as a result being open to citizens from across Asia for filling such roles. Historically a closed society, the Japanese economy will require more openness from this perspective. Why not be open to qualified workers from Asia's most populous country in China, especially given efforts being put in place across China today towards achieving its own low carbon and innovation ambitions.
- 8) Perhaps obviously, Japanese innovation can enjoy maximum market share through a better relationship with China. Whether on battery storage, green hydrogen or enabling technologies and similar, Japan can be a bridge across Asia, an enabler and an innovation marketplace. North America doesn't seem to want to play this role, the UK and much of Europe struggles to lead on technology more generally. This is a clear opportunity for Japan.
- 9) Cooperation on policy could also help move climate progress forward. One example would be William Nordhaus's recent "Climate Country Club" concept, whereby non-participating countries receive tariffs if not participating in a global price on carbon (including where consumers get more money back than they spend).

If collaborating on such schemes, China and Japan could take the lead on helping drive necessary progress. The same could be true on minimum thresholds of green finance issued by banks as China has been considering.

The Biden administration approach to creating good paying jobs while mitigating economic damage to declining industries likely to suffer from the low

carbon transition is also something Japan could consider. Japan itself supporting and enabling these sorts of approaches would strengthen the arguments and likelihood of global transition success, which would strengthen Japan as well.

While there is a difficult history of Japan-China relations, there is now an opportunity to work together to establish minimum standards on supply chain standards, on renewable energy uptake, on innovation, and on working through remaining disagreements and challenges together. There is an opportunity to make progress together on these fronts through cooperation, collaboration or some form of co-competition, which was the conclusion of Henry Kissinger's book *On China*, thinking about how competing nations can best manage and improve relations to the benefit of everyone.

It's time to look forward, not backwards. It's what the best investors already do.

(Assistance provided by Zizhan Luo, Research Associate, Sustainable Finance Institute)

Author Introduction



Cary Krosinsky is a Lecturer, Yale and Brown University, Co-founder, Sustainable Finance Institute. Globally respected lecturer, author and advisor with a primary focus on accelerating sustainable finance across the world through education, regional focus, strategy and culture. His most recent book, Modern China, encourages

cooperation for solving climate change and other pressing societal challenges.