



The Role of Japanese Investors in Environmental Protection through Environment, Social and Corporate Governance Investment

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Abstract

In recent years, the global environment has experienced major changes. The rise in the average global temperature due to greenhouse gas emissions is one of them. This study explores investment activities, focusing on environment, social and corporate governance (ESG) in Japan. In the past, ESG investment in Japan was less attractive than that in Europe and the US. However, awareness of ESG investment in Japan has increased, and Japan's ESG investment initiatives significantly contribute to environmental protection. This study considers the current status and future tasks of ESG investment in Japan.

Keywords: ESG; investment; Japan

Introduction

In recent years, the global environment has experienced major changes. To maintain the global environment for future generations, the United Nations (UN) has advocated the Sustainable Development Goals (SDGs).¹ Although it appears that the SDGs are irrelevant to investment and finance activities, financial efforts contribute greatly to environmental issues. In general, investors invest for their personal interests and have no interest in other issues (e.g. environmental protection). Moreover, in some cases, their investment activities can lead to environmental damages (e.g. investment in businesses that emits pollutants). Such

investment activities are negative externalities in economics.² Although investors can earn short-term returns on such investment activities, from a broader perspective, they can be disadvantageous to investors in the long term. In recent years, investment activities that consider the environment, social and governance (ESG) are attracting the attention of investors. This study briefly summarises the current state and future tasks of ESG investments in Japan.

Current State and Future Tasks of Esg Investment in Japan

In this section, we briefly summarise the current state and future tasks of ESG investments in Japan. Table 1 presents the global sustainable investing assets in 2016,

¹ SDGs are an urgent call for action by all countries in a global partnership [1]. The SDGs advocate that ending poverty, improving health and education, reducing inequality, spurring economic growth, tackling climate change and working to preserve our oceans and forests need to be achieved via the proposed strategies [1].

² Negative externalities are the outcome of activities that negatively affects a third party, whereas the parties of corresponding transactions do not compensate for the negative effect [2].

2018 and 2020. Compared with those of other regions (i.e. Europe and the US), both the amount of global sustainable investing assets and the proportion of global sustainable investing assets in total managed assets were lower in Japan

in 2016, 2018 and 2020. However, the growth rate of the amount and proportion in Japan in these years is higher than those of other regions.

Region/ Year	2016		2018		2020	
	Amount (USD billions)	Proportion (%)	Amount (USD billions)	Proportion (%)	Amount (USD billions)	Proportion (%)
Europe	12,040	52.6	14,075	48.8	12,017	41.6
The US	8,723	21.6	11,995	25.7	17,081	33.2
Canada	1,086	37.8	1,699	50.6	2,423	61.8
Australia	516	50.6	734	63.2	906	37.9
Japan	474	3.4	2,180	18.3	2,874	24.3
Total	22,839		30,683		35,301	

Source: Global Sustainable Investment Alliance 'Global Sustainable Investment Review 2020' [3].

Table 1: Global Sustainable Investing Assets (Amount and Proportion relative to the Total Managed Assets) in 2016, 2018 and 2020

One of the reasons for the activation of ESG investment in Japan is the Principles for Responsible Investment (PRI) signature of Japan's Government Pension Investment Fund (GPIF).³ Financially-powered Japanese investment funds such as GPIF can be expected to contribute to environmental protection. A typical environmental initiative in ESG investment is the Paris Agreement, which aims to curb the rise in the average temperature on the earth.⁴ Many investment funds, including GPIF, are working to curb the rise in average temperature (i.e. Climate Action 100+).⁵

As mentioned above, ESG investment can contribute to environmental protection. Japanese investment institutions (i.e. GPIF) play a significant role in ESG investment because they have abundant funds. However, as presented in Table

1, the efforts for ESG investment in Japan are not sufficient yet compared with those in Europe and the US. Therefore, the amount of investment funds that are actively being committed to ESG investment in Japan should be increased. Moreover, awareness of environmental protection in Japanese firms should be increased and the transparency of their businesses should be ensured.

Conclusion

This study focuses on ESG investment in Japan to consider environmental protection from a financial perspective. Japan has been overtaken by Europe and the US in ESG investment. Although in recent years, its awareness has been increasing, the amount of investment in Japan is still smaller than that in Europe and the US. Thus, further efforts for ESG investment are required. To achieve this, more investment institutions should engage in ESG investment. Moreover, firms' business transparency should be ensured, and greenhouse gases should be reduced. A more detailed analysis is needed to confirm this issue. Due to the word count limit for this study, we leave the detailed analysis for a future research opportunity.

Conflicts of Interest

The author has no conflict of interest associated with this manuscript.

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3 PRI is a proponent of responsible investment working to understand the investment implications of ESG factors [4]. PRI advocates six principles, which are incorporating ESG issues into investment analysis and decision-making processes, being active owners and incorporating ESG issues into PRI's ownership policies and practices, seeking appropriate disclosure on ESG issues by the entities in which PRI invest, promoting acceptance and implementation of the principles within the investment industry, working together to enhance PRI's effectiveness in implementing the principles, and reporting on PRI's activities and progress toward implementing the principles [4]. GPIF became a signatory to UN's PRI on 16/09/2015 [5].

4 The Paris Agreement is a legally binding international treaty on climate change [6]. It was adopted by 196 Parties at COP 21 in Paris on December 12, 2015 and entered into force on 4 November 2016 [6]. Its goal is to limit global warming to well below 2 compared to pre-industrial levels [6].

5 GPIF has joined Climate Action 100+ as an official supporter [7]. Climate Action 100+ is a global initiative led by institutional investors who engage systematically important greenhouse gas emitters to improve corporate governance on climate change, curb emissions and strengthen climate-related financial disclosures [7].

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