

7 Make It Work for Business: Crafting Win-Win-Win-Win Outcomes

Of all the advocacy strategies presented in this book, perhaps the one that comes the closest to guaranteeing success is “make it work for business.” For this strategy, advocates find the sweet spot where proenvironmental outcomes also generate economic profit. In doing so, they create win-win-win-win outcomes that are good for business, good for governments, good for society, and good for the planet. Furthermore, through the networks they create with diverse stakeholders, proenvironmental advocates are better able to scale their success from one business to many, sometimes shifting entire markets and policies in ways that encourage better environmental behavior and outcomes.

This chapter will begin with a discussion of why probusiness advocacy is such a powerful tool, and why it is especially prevalent in East Asia. The chapter will then use two corporate examples—Walmart and Toyota—to explain how integrating environmental considerations into core business can generate large profits by reducing costs or generating new value. Additionally, since a critical challenge for advocates is not just identifying a handful of vanguard companies but rather convincing all companies (and citizens and governments) to behave in more environmentally responsible ways, the largest section of the chapter will examine how eco-labeling, green financing, and government policies can transform entire markets by generating positive profit incentives that reward firms for environmentally beneficial behavior and punish them for actions that harm the environment. The chapter will conclude with some examples of how nongovernmental organization (NGO) advocates can support allies who are employing a “make it work for business” strategy to encourage proenvironmental changes on the part of businesses, consumers, and the government.

Business Takes the Lead

For many years it was thought that business was the natural enemy of the environment, seeking maximum profit without a care for how the pollution it created harmed people and planet. As described in chapter 4, environmental concerns in East Asia, as in most parts of the world, have been driven by human health crises—environmental pollution was poisoning people, and citizens demanded that governments and businesses fix the problem. Early corporate responses were often to deny, shift blame, and make only cosmetic adjustments, as businesses viewed environmental issues primarily as public relations problems rather than issues that required a systemic, corporation-wide solution.

Since companies were focused on solving a public relations problem rather than addressing their environmental irresponsibility, citizens, journalists, and scholars soon observed the unequal distribution of pollution and environment-related violence, watching it fall disproportionately on the poor and politically vulnerable.¹ As economic globalization expanded, many feared a “race to the bottom” would doom us all to a world where businesses seeking additional profit would avoid environmental regulations as much as possible and relocate their polluting factories to areas with the lowest regulatory standards and lax enforcement. Then, localities seeking economic growth would reduce their regulations and loosen their enforcement to attract investment and jobs to their communities and countries. The result would be a rapid spread of environmental degradation into the remotest corners of the planet.²

As it turns out, although a number of industries, such as textiles, waste, and natural resources, have experienced a race to the bottom,³ the pattern has not been universal and in several areas has been shifting in a more positive direction.⁴ There is considerable evidence that the global trend now is closer to a race to the top than a race to the bottom. Rather than migrating to areas with the lowest environmental standards, globally competitive corporations frequently seek locations with higher environmental standards, more uniform government enforcement, and better living conditions for their workers.⁵ Perhaps surprisingly, it is often the largest, most polluting firms that are the ones pushing governments to increase their environmental regulatory standards and enhance local enforcement.⁶

What can account for this puzzling behavior? Why would large companies seek higher environmental standards? Why is this dynamic especially common in East Asia? When discussing this topic, my interview subjects gave four main reasons for East Asian firms' proenvironmental policy orientation: high prevalence of export-oriented businesses, business innovation, the cultural importance of personal relationships and reputation, and the pattern of financing.

As is well known, East Asian economies grew rapidly by relying on export-oriented development that focused on manufacturing goods that would ultimately be purchased by consumers in North America and Europe.⁷ Since those export markets started setting high environmental standards for products aimed at their consumers, East Asian-based firms found it economically advantageous to develop products that equaled or exceeded the environmental requirements of those markets. As the East Asian firms grew in size and global reach, it made economic sense for them to produce all products using the highest standard, since complex supply chains made it costly to produce similar products using different product specifications.⁸

Additionally, with the development of communication technologies, journalists and NGOs increasingly targeted global brands for investigation. When they discovered that multinational corporations, their subcontractors, or their subsidiaries were abusing workers, selling harmful products, or polluting the environment, activists would hammer the companies across numerous global media platforms, costing the brands millions of dollars in lost sales and requiring millions more to restore consumer trust.⁹

As the region prospered, East Asia became not just a base of production but also a valuable market. Global multinational corporations soon discovered that they were at a commercial disadvantage compared with local firms, since the latter did not need to meet European or North American production standards. As a result, large multinational corporations increasingly found themselves working with NGOs to pressure East Asian governments to raise local environmental standards. Local standards that were on par with those in Europe and North America benefited these global firms, since their production facilities and methods already met the higher standard. These regulatory changes would even the competitive playing field within East Asian markets by disallowing local producers to take advantage of low standards.¹⁰ The following section about Walmart in China illustrates

how this phenomenon has worked for one multinational corporation operating in China.

Following a similar logic but operating in reverse, if local firms had a proenvironmental business innovation, they too would press for regulatory changes to expand the usage of their environmentally beneficial technology. A good example of this is Gammon Construction's successful advocacy for the expansion of B5 biodiesel use in Hong Kong. B5 is a blended fuel in which regular diesel is blended with 5 percent biodiesel fuel. In Hong Kong, the biodiesel is generally made from cooking oil and grease collected from commercial kitchens and blended for vehicle use.¹¹

In 2013, seeking innovative ways to reduce its carbon footprint, Gammon encouraged its energy partner, Shell, to set up blending facilities and began using B5 fuel in some of its off-road plant and equipment working on its construction sites. At the time, B5 was a legally allowed fuel source for off-road use, but it was not permitted for use by vehicles traveling on regular roads. Although Hong Kong produced biodiesel locally and was expanding its production capacity, nearly all of the biofuel it produced was being exported to Europe and Southeast Asia, where biodiesel was mandatory for most blended diesel products.¹² Gammon recognized that increasing its use of B5 would help it meet its sustainability goals, so after all of its plant and equipment was using B5, it encouraged Shell to open a B5 retail gas station at the end of 2015. Gammon was then able to expand its use of B5 to its new concrete-mixing trucks, and Shell was able to sell B5 diesel on a retail basis to other corporate partners.¹³

In parallel, Gammon, along with Shell, ASB (Hong Kong's largest biofuel producer), and environmental groups like Friends of the Earth, lobbied the government to mandate biofuel use in diesel products.¹⁴ Their efforts were partially successful. By 2016 the Hong Kong government was mandating that firms use B5 biodiesel when fulfilling public works construction contracts (although not in all diesel products), and by 2019, Shell was operating two additional B5 retail stations and its partnerships had extended to Alliance concrete mixer trucks and Maxim's Cakes, which was using B5 in all of its one hundred delivery vehicles.¹⁵

In 2019 I spoke with Emma Harvey in Hong Kong, group sustainability manager of Gammon Construction Limited, who was involved in the effort to expand B5 use at Gammon and throughout Hong Kong, about "make it

work for business” advocacy strategies. She reflected on the role of industry leaders and the government, as well as on how laggard firms can be convinced to adopt more sustainable policies.

For these kinds of efforts you need an industry leader, and we were that leader. We were committed to expanding our B5 use because of its lower carbon emissions. We proved that it was feasible, but we were disadvantaged for providing it in our contracts because our competitors weren’t using it. Our competitors adopted it only in the places when they were required to.

The challenge is that B5 and other sustainable actions often make business sense only after they are scaled, and the early adopters, like us, end up losing money while that scaling happens. For everyone [including the leaders] there is a short-term cost but long-term savings.

The ability to think long term and absorb the up-front costs of innovation is one of the reasons we’ve often seen larger, multinational corporations take the lead on developing and piloting proenvironmental innovations. Firms that operate in multiple locations, especially those that sell to markets like Europe, the US, Japan, and Singapore, with higher environmental regulations, often have both the financial capacity and the incentive to make investments in eco-friendly technologies. Because their early adoption puts them at a commercial disadvantage in local markets, they cooperate with other like-minded actors in the business and NGO communities, expanding the network of proenvironmental stakeholders, who then use their collective political influence to pressure governments to change regulations in ways that shift markets in environmentally friendly ways. The new regulations generate incentives for smaller and less environmentally minded firms to improve their environmental behavior because better behavior has become commercially advantageous.

Another factor that enables East Asian firms to place a higher value on environmental aspects of their business is related to the cultural importance of personal relationships in all aspects of business. As Yoshihito Iwama, director of the Environment Policy Bureau at Keidanren, phrased it to me in 2011, “In the Anglo-Saxon model there is a lot of emphasis on the shareholders. In Japan a lot of stakeholders are involved: the shareholders, the employees, the community, the suppliers, the customers, etc. The family idea is quite important. Companies need to take care of family and neighborhood.” While many volumes have been written about how culture, especially Asian culture, affects business practices,¹⁶ I will focus on three

elements that are particularly important with respect to firm interest and ability to prioritize environmental performance when conducting business.

A high proportion of East Asian firms, especially the large ones, are family owned, so a firm's relationships with customers, suppliers, and employees are especially personal. When a business is family owned, the reputation of the firm is tied up with that of the family, so corporate leaders are likely to be more concerned with leaving a "legacy" than a regular, board-hired CEO. Additionally, family-owned firms may be more willing to invest in preserving, enhancing, and expanding their relationships. Finally, family-owned businesses are usually less dependent on short-term stock value to gain revenue, so they are better able to make environmental investments that may take decades to pay off.¹⁷

Whether they are family owned or not, East Asian firms tend to have much longer-term relationships with their employees, suppliers, and customers than those in Western countries. Although the model has faded in recent years, Japan's postwar political economy was based on a "lifetime employment system" where employees are hired immediately after they graduate from school and work their entire lives for the same firm.¹⁸ While South Korea does not have the same lifetime employment system, the dominant position of the *chaebol* companies (which are family owned) has exerted a similar effect on its employment and social welfare systems.¹⁹ Historically, China's corporate commitment to its employees, customers, and suppliers was even more stable than that of Japan or South Korea because state-owned enterprises, which guaranteed employment as well as housing and social services, dominated its commercial sector for decades.²⁰

A final factor that has enabled East Asian firms to prioritize environmental issues in their businesses is their relative lack of reliance on the stock market for financing. Stock market financing forces firms to demonstrate quick, positive value to shareholders, whereas bank or other forms of institutional financing generally allow for longer time horizons to demonstrate a return on investments.²¹ Japanese, South Korean, Taiwanese, and Chinese firms all have heavier reliance on bank financing and lower reliance on capital markets for their financing.²² Since environmental investments usually require a longer time horizon to pay off, the configuration of East Asian corporate financing means that East Asian firms are able to wait longer for their investments to return a profit, making it easier to make environment-related investments.²³

In East Asia, the high proportion of export-oriented businesses, environmental innovation, the prevalence of family ownership, the cultural importance placed on long-term relationships, and the lower reliance on stock market financing have all helped “make it work for business” become a common and successful advocacy strategy in the region. As chapter 2 has demonstrated, this strategy is not specific to East Asia; it is a common and effective strategy everywhere in the world. The next sections will provide more specific information about how it works within specific companies and how those successes can be scaled by transforming markets.

Proenvironmental Policies Reduce Costs: Walmart in China

Walmart sources most of its products from China,²⁴ and China now represents one of its largest markets with more than four hundred stores and a rapidly growing online retail business.²⁵ In the 1990s and early 2000s, Walmart’s engagement with China, like that of other large retailers and manufacturers at the time, was seen as part of a global trend that moved manufacturing facilities away from countries with high environmental and labor standards (such as the US, Europe, and Japan) toward lower-cost and lower-standard countries such as China, Mexico, and Brazil.²⁶

That approach changed in 2005 when CEO Lee Scott announced Walmart’s new vision for the future in which “being a good steward of the environment and in our communities, and being an efficient and profitable business, are not mutually exclusive.” He laid out Walmart’s goals to get 100 percent of its energy from renewable sources, create zero waste, and sell products that sustain resources and the environment.²⁷ With so much of Walmart’s supply chain and so much of its anticipated future market located in China, this meant a major change for its operations there. The rollout of Walmart’s policies in this area have been slow, steady, and highly profitable.

As with many companies that embark on integrating sustainability goals into core business, Walmart began with the low-hanging fruit of immediate cost reductions related to its operations before moving on to requiring efficiencies and standards compliance from its suppliers, and then to bringing sustainability goals into the process of new product development.²⁸ Its first target was the energy efficiency of its stores, its trucking fleet, and its packaging. Because Walmart is so large, the cumulative impact of these changes has been enormous—huge monetary savings for the company, along

with large carbon and pollution reduction. According to its 2018 sustainability report, by 2017 energy efficiency measures in stores and delivery centers had saved the company more than \$100 million; it doubled the efficiency of its trucking fleet between 2005 and 2015, saving more than \$1 billion; and 78 percent of its waste materials have been diverted globally from landfill and incineration.²⁹ Walmart's carbon emissions per unit of sales have dropped from 61 MT CO₂e/\$M to 42.5 MT CO₂e/\$M, which means that Walmart and its suppliers emitted 18 million fewer tons of CO₂ in fiscal year 2017 compared with fiscal year 2006. This drop occurred even though revenue had expanded from \$300 billion to nearly \$500 billion over the same period.³⁰

Walmart's sustainability efforts took off after its 2008 Sustainability Summit in Beijing, which gathered one thousand of its suppliers, government officials, and NGO representatives together in order to roll out new sustainability goals and commitments in China. At that meeting Walmart executives underscored their commitment to pushing the new sustainability agenda down into the supply chain. Walmart would require all of its suppliers to demonstrate compliance with local environmental laws and regulations; it would work with its top two hundred suppliers to improve energy efficiency by 20 percent; and it aimed to eliminate defective products completely by 2012.³¹ It also announced plans for a prototype store that would use 40 percent less energy, a plan to cut energy use in existing stores by 30 percent, and a commitment that all stores in China would reduce their water use by half.³²

These early commitments were not just talk. Less than two months after the Sustainability Summit, Walmart signed a memorandum of understanding with China's Ministry of Environmental Protection to work together to develop new green supermarket standards.³³ Walmart was also one of the first global companies to work with the Institute of Public and Environmental Affairs (discussed more in chapter 9) and its Green Choice Alliance to identify polluting suppliers and work with them to improve their environmental performance.³⁴ Its extensive disclosure and internal management processes and its willingness to work with suppliers to engage in corrective action earned it the number three spot (out of forty-eight) in the Institute of Public and Environmental Affairs' 2012 *Cleaning Up the Fashion Industry* report.³⁵ By 2014 Walmart had surpassed its energy commitments—210 of its factories were saving 20 percent energy compared with

2008, which generated \$279 million in savings. In 2011 it installed the first non-state-owned solar plant project as part of China's Golden Sun Solar Program, which was generating thirty-five thousand kilowatts of clean energy monthly.³⁶

As Walmart expanded, so did its environmental initiatives in China. In 2012 it promoted the use of the Sustainability Index, a disclosure and management tool that would track product sustainability, committing to integrate its use throughout its supply chain such that 70 percent of its goods were from participating suppliers within five years.³⁷ In 2018 it announced Project Gigaton China, which aimed to reduce a gigaton (one billion metric tons) of emissions from Walmart's global value chain by 2030, with fifty million metric tons of that reduction coming from China.³⁸ The project included the creation of the Walmart Sustainability Hub,³⁹ which has data management tools, case studies, and webinars to help make it easier for suppliers to identify ways to reduce energy, waste, packaging, pesticides, and deforestation, as well as register their progress with Walmart.

Walmart's efforts to make money from integrating environmental concerns into its business have moved beyond the low-hanging fruit of production and distribution efficiencies into building new value through sustainable products. One of its most lucrative new business opportunities has been its significant investment in organic and sustainable agriculture. In 2008, the same year as Walmart's Sustainability Summit, China was rocked by a tainted milk scandal when contaminated infant formula killed six children and poisoned three hundred thousand more. Even ten years after the scandal, Chinese consumers still did not trust local companies because of food safety concerns.⁴⁰ The lack of trust in China's domestic food and drug safety has been compounded by additional scandals that seemed to follow year after year—for example, toxic wax on oranges in 2010, carcinogenetic cooking oil in 2011, and toxic fillers in infant formula in 2012.⁴¹

For Walmart, China's food safety concerns offered an enormous market opportunity. In 2016 it created its Beijing-based Walmart Food Safety Collaboration Center and committed \$25 million to advance food safety in China.⁴² By 2018, 100 percent of its seafood was sustainably sourced, thirty-four million acres of Walmart-destined produce were following a fertilizer optimization plan, and 100 percent of suppliers located in the Amazon and Cerrado regions were participating in Brazil's beef risk monitoring system for net zero deforestation.⁴³ Walmart is now the largest retailer of

certified organic food in North America,⁴⁴ and with the expansion of its new e-commerce and grocery delivery capacities in China, it is clearly seeking to repeat that commercial success there.⁴⁵

Not all of Walmart's Chinese environmental efforts have been smooth. In 2011 officials in Chongqing arrested two Walmart employees, detained thirty-seven, and forced the closure of thirteen stores in the city when it was discovered that regular pork had been mislabeled as "organic."⁴⁶ In 2014 Walmart was forced to recall donkey meat being sold in its Chinese stores when it was discovered that the DNA of other meat, including fox, had been included in the packages.⁴⁷ As of this writing, Walmart is involved in negotiations over a \$300 million settlement deal with the US government over a global bribery scandal that includes accusations of bribery in China.⁴⁸

Walmart's engagement in China is likely not the first thing to come to readers' minds when thinking about environmental advocacy. And yet, Walmart's path toward becoming an environmental advocate in China—one that is both pressuring and supporting tens of thousands of companies in the country to adopt better environmental practices and supporting the development of environmental consumer values—offers several examples of ways that companies can increase their profits by integrating environmental concerns into their core business development. I am not trying to argue that Walmart, however impressive its benchmarks may be, is fundamentally a sustainable business.⁴⁹ However, its experience does illustrate how global multinational corporations operating in East Asia are effecting large-scale, proenvironmental transformations in the region, and how they can use both market and political pressure to encourage others to improve environmental outcomes locally and globally.

Proenvironmental Policies Generate New Value: Toyota

Like Walmart, Toyota initially realized economic profit from incorporating environmental values into its business by focusing on the elimination of waste and the realization of higher business efficiency. The deprivation and austerity of wartime and the postwar period, combined with the 1952 Enterprise Rationalization Promotion Law, forced Toyota and other auto manufacturers to develop an almost obsessive preoccupation with efficiency and eliminating waste.⁵⁰ This focus on production efficiency, combined

with rising public and governmental concern with growing environmental pollution, led to the development of highly fuel-efficient vehicles and a streamlined production system using a process that has come to be called Just-in-Time production.⁵¹

By the time of the oil shocks of the 1970s, which quadrupled gas prices in some places, Toyota was in an excellent position to expand internationally. Its affordable, reliable, and fuel-efficient vehicles were attractive to global consumers, and the Japanese government's industrial policies further supported the auto industry's global expansion.⁵² By 1974 Japan had overtaken West Germany to become the largest automobile exporter in the world.⁵³ The following year Toyota became the largest foreign car company in the US, ousting Volkswagen and claiming the number four slot in terms of US market share.⁵⁴

Although the elimination of waste in the production process and the creation of more fuel-efficient vehicles were both important proenvironmental actions, the Toyota corporation and consumers did not yet view Toyota as a "green" company. That shift in self-understanding and brand image came in the 1990s. According to a Toyota manager I spoke with in 2011, the process of developing Toyota into a green brand began just before the 1992 Earth Summit in Rio de Janeiro. In January of that year, Toyota established an environmental committee that was chaired by Toyota's president and created its own Earth Charter, which declared that "finding ways to preserve an abundant natural environment to pass on to future generations is the most pressing issue for people on earth today."⁵⁵

In 1996 the International Standards Organization (ISO) began publishing the 14000 family of standards,⁵⁶ which established internationally recognized standards for environmental management. This meant that Toyota and other companies had a clear set of environmental management standards that they could follow and a method to certify compliance to consumers and financial organizations. In December of the following year, the first-generation Prius was launched. As the Toyota manager explained it to me during a 2011 interview in Tokyo, "The first-generation Prius didn't have much commercial success, but Toyota as an environmental brand image jumped a lot, way ahead of Honda or Nissan. That was a real turning point. Pollution problems may have started it, but we saw that the environment can improve the competitiveness of the company. It can enhance the brand

and the company. That aspect had not been commonly understood—the environment can be commercially useful.”

In 1998 Toyota established its Environmental Affairs Division, and the following year it began including environmental specifications on all new or redesigned models. Subsequent years saw a continual expansion of the scope of environmental activities and the development of new products, including significant research and development investment in hydrogen fuel cell vehicles (the Mirai was launched in 2014).⁵⁷

In 2015 the company announced a highly ambitious Environmental Challenge 2050, which aimed for “going beyond zero environmental impact and achieving a net positive impact.” The 2050 plan has six challenges: zero CO₂ emissions for new vehicles, zero CO₂ emissions for the entire vehicle life cycle, zero plant emissions, minimal water usage, promotion of a recycling-based society through the deployment of end-of-life vehicle systems, and establishment of a future society in harmony with nature by expanding biodiversity conservation activities and expanding initiatives to “foster environmentally conscious persons.”⁵⁸

By the time of its 2018 sustainability report, Toyota was reporting its progress toward 2030 benchmarks: It had reduced new vehicle emissions by 13.7 percent compared with 2010 levels, had already achieved its 2020 goals for sale of next-generation vehicles (1.5 million units per year), and had sold its first fuel cell electric bus, Sora. It had reduced emissions due to transportation logistics and production activities by 35 percent and 45 percent, respectively, compared with 1991 levels, it had collected nearly one hundred thousand batteries from end-of-life vehicles for reuse and recycling, and it had reduced the waste volume per vehicle by 62 percent compared with 2002.⁵⁹

Toyota’s activities extended beyond its production facilities into the communities where its plants are located. In 2009 Toyota City, home to its headquarters, was selected by the Japanese government as an environmental model city in pursuit of a low-carbon society. The city has extended its electric vehicle charging station network, reduced overall emissions, expanded the green space in the city center, and promoted energy-efficient homes and buildings, including the instillation of rooftop solar panels. As a result of all these activities, the citizens in Toyota City are more aware of their city as a model eco-city, as well as of which kinds of behaviors can reduce their carbon footprint.⁶⁰

All of Toyota's environmental initiatives are paying off. It won a number of international awards in 2017, including "A List" status for climate and water from the Carbon Disclosure Project. The Prius Prime was named the World Green Car of the Year (the Mirai won the same award in 2016), and Toyota's new North American headquarters in Plano, Texas, won LEED Platinum status.

Toyota's commitment to environmental measures also appears to be benefiting its bottom line—in 2018 Toyota had the largest global market share of any auto company.⁶¹ Its net revenue and net income were both up compared with the previous year. The Prius recovered its initial investment within five years, and in spite of issues in 2009–2011 that forced the recall of several Prius models, by 2018 Toyota had sold approximately twelve million hybrid vehicles, for an effective CO₂ reduction of about ninety-four million tons.⁶²

Toyota's story demonstrates how one of East Asia's largest corporations has successfully integrated environmental concerns into its core business and found that process to be not just good for the planet but also commercially successful. Toyota is now a well-recognized "green" company and serves as an inspiration for others.⁶³

Scaling Probusiness Environmental Action

While individual companies can find commercial success by integrating environmental considerations into their core business development processes, to scale a "make it work for business" strategy, what is needed is to shift entire markets in ways that encourage the development of practices and products that are good for the environment and discourage those that are harmful. This section will discuss three methods that advocates in business, the NGO sector, and government can use to shift markets in proenvironmental ways: eco-labeling, green finance, and government policies.

With all three methods, proenvironmental advocates do not act alone. They build and expand networks of stakeholders, connecting to new types of businesses and different geographic regions and linking with NGO activists, academics, civil servants, and politicians. Unlike many areas of capitalist competition, these probusiness and proenvironmental initiatives are win-win: when more businesses, communities, and countries join, the commercial and environmental benefits expand for everyone.

Eco-labeling

An eco-label (ISO 14024) is a seal or logo that can be placed on a product based on a set of criteria that have been third-party certified. There are also other forms of environmental labeling, such as self-declared environmental claims (ISO 14021), which are claims made by companies about their products that are not third-party certified but are expected to be verifiable and accurate, and environmental declarations (ISO 14025), which are quantitative indicators of environmental performance that are primarily used for business-to-business or government procurement.⁶⁴ In line with Toyota's experience, there was a rapid growth in these schemes in the late 1990s, from fewer than one hundred labeling schemes before 1992 to more than five hundred by 2010. Eco-labels are now prevalent around the world and cover the full range of products, such as food, furniture, buildings, appliances, and tourist outings.⁶⁵

How do eco-labels shift markets? The basic idea is that eco-labels give consumers environment-related information, so those who believe that the environment is important can then buy more environmentally friendly products. This shift in demand then leads producers to make more environmentally friendly products and fewer environmentally harmful ones. Additionally, the existence of eco-labels can raise the salience and awareness of environmental issues in society, which might not just affect consumption choices about particular labeled products but also generate broader pro-environmental behavior change.⁶⁶

While the theory behind eco-labels offers considerable hope, the evidence concerning how environmental labeling affects environmental outcomes is mixed. There is fairly strong evidence that eco-labels (government-issued or third-party verified) have shifted markets in pro-environmental ways such that goods and services with higher environmental ratings increase their market share over time, although the extent of the positive results varies considerably by country and product.⁶⁷ For other forms of environmental labeling (e.g., private labeling schemes that make environmental claims but are not third-party verified), the evidence is much more mixed—some labeling schemes enhance environmental outcomes, others have no effect, and some may even have negative effects, including market distortions that harm small producers and those in developing countries.⁶⁸

Since business-driven environmental initiatives are so common in East Asia, it is not surprising that the region's governments were early adopters

of eco-labels. Japan's EcoMark, established in 1989, was one of the earliest in the world. South Korea's Eco-Label and Taiwan's Green Mark were both launched in 1992, and China's Environmental Labelling Program started the following year. In the following decades, all four programs have expanded rapidly and now cover thousands of registered products in each country.⁶⁹

A downside of the success of environmental labeling programs has been their rapid proliferation, leading to confusion and even misrepresentation.⁷⁰ Consumers now have trouble figuring out what each of the different labels means and whether some are better than others. Many give up completely and begin to distrust all green labeling schemes. Governments are seeking to regulate labels and environmental claims, but it is proving to be difficult.⁷¹

Green Finance

Green finance is a general term used to describe financial tools (e.g., grants, loans, investments, and insurance) that increase financial flows to sustainable development priorities.⁷² Nearly all forms of green finance have grown exponentially in the last few years. The 2018 UN *Sustainable Finance Progress Report* states, "The past 12 months has seen a surge in sustainable finance momentum. ... Sustainable finance policy has been characterized by strong growth, increased scope, and greater maturity."⁷³ While nearly all elements of sustainable finance have grown, I will discuss three components here: green funds, green investment measures, and green bonds.

Green funds are public or private funds that finance environmental projects through grants and loans. The oldest and most common are funds for conservation, which buy land in order to conserve it. For example, the Nature Conservancy, which was established in 1951 in the US, has protected more than 119 million acres of land worldwide and has total net assets of nearly \$7 billion. Newer funds not only buy land for conservation but also support a variety of proenvironmental activities ranging from education programming to green infrastructure development. The scale of these funds is now getting quite large. The Green Climate Fund was established in 2010 by the 194 parties to the United Nations Framework Convention on Climate Change and began disbursing funds in 2016.⁷⁴ By 2019 it was spending \$2 billion to support 102 projects, which will contribute to the resilience of 276 million people and avoid 1.5 billion tons of CO₂.⁷⁵ There has also been a large increase in the number and volume of funds

available through national environmental funds, which are making significant contributions to biodiversity conservation worldwide.⁷⁶

Some funds are quite specialized, such as the Japan Green Fund, which was established in 2003 to fund renewable energy projects in Japan.⁷⁷ The recent US-China Green Fund seeks to “greenergize” China with collaborative green development projects. It was launched in 2016, and by 2019 it had spent \$420 million supporting thirteen companies and more than one hundred public projects. Examples of supported projects include a rural e-commerce network that sells green energy to village consumers and a hospital management company that provides green medical services in maternal and children’s health.⁷⁸

Green investing (and divesting) is a method through which individuals and institutions make investment decisions based on environmental criteria. The movement really took off after 2004, when former UN secretary general Kofi Annan invited top CEOs to participate in an initiative that would find ways to incorporate environmental, social, and governance (ESG) standards into capital markets.⁷⁹ The CEOs, banks, and many institutional investors responded, shifting their own investing patterns and developing new “green” and “sustainable” index funds. Additionally, the “divestment” movement, in which activists around the world seek to pressure institutional investors to shift investments away from fossil fuel and other carbon-intensive businesses, helped increase the demand for more investment instruments that could demonstrate that they were not harming the planet.⁸⁰

The green finance movement gained a large boost in 2016 with the establishment of the Task Force on Climate-Related Financial Disclosures,⁸¹ initiated by Michael Bloomberg and supported by the Financial Stability Board, an international body of financial regulators. Its final report and recommendations were released in late June 2017 and presented the following week at the G20 summit in Hamburg. Financial regulators around the world began to implement the recommendations in their local jurisdictions, significantly increasing the environmental disclosure requirements for firms listed on their local stock exchanges. One can see the influence of the task force’s recommendations about ESG reporting in the frequent mention of them in the ESG reporting guidelines of major stock exchanges.⁸² As a result, there has been a rapid expansion of green investing across financial markets. By the beginning of 2018, \$12 trillion in the US was invested in

sustainable, responsible, and impact investing, representing one-quarter of all assets under professional management.⁸³

The area of green finance that has seen the most rapid growth recently has been the development of green bonds. In 2007 a Swedish pension fund issued the first green bond, seeking to reduce the risk to its investors by avoiding investments that contributed to climate change and investing in businesses and funds that promoted sustainability. Over the next few years the World Bank, the UN, and other organizations worked to develop disclosure and investment criteria that could help ensure that green bonds actually were green.⁸⁴ By the end of 2018, the total green bond issuance had grown to more than \$500 billion.⁸⁵

Green bond growth in Asia has been particularly large recently. China issued its first renminbi-denominated green bond in 2015, and by 2018 it had issued close to US\$31 billion in green bonds.⁸⁶ In 2019 Japan launched the Green Finance Network to catalyze green bond issuance in the country, which rose to \$6.7 billion, up 79 percent from 2018.⁸⁷ South Korea is the fifth-largest issuer of green bonds after China, India, Japan, and Australia.⁸⁸ It also hosts the secretariat or headquarters of several of the most influential green finance organizations, including the Global Green Growth Institute and the Green Climate Fund.

The rapid growth of green bonds and green investing was propelled not just by ethical considerations. Green bonds have outperformed conventional benchmarks in recent years, so they represent not just a lower-risk investment but also a more profitable one.⁸⁹ As a result of the new reporting requirements, as well as the expanded financial opportunities, companies are now scrambling to report their ESG information and are seeking out creative ways to improve their metrics as a means for lowering their cost of capital. Whereas environmental concerns used to be relegated inside companies to their public relations and compliance departments, now finance departments are taking an interest, and ESG performance has become a focal point for discussions among CEOs and board of trustees members. The lower cost of capital for companies with better ESG metrics is creating a strong market incentive for above-minimum compliance and continual improvement, even among firms without much interest in the environment. As Sungwoo Kim, a senior environment and energy consultant based in Seoul, who has been involved in advising companies and governments on these issues, explained to me in a 2019 interview, “The ESG reporting

includes compliance, but it isn't just the degree of compliance, but also management systems and the board decisions, systematic detection and prevention measures. It is much more comprehensive than just compliance. This is the right way to approach environmental issues—not just minimum compliance.”

The spread of green finance, which is making more and cheaper capital available to better-performing companies, is dramatically expanding the “make it work for business” strategy beyond just those firms with visionary leaders or those deploying innovative technologies. Capital market shifts affect all firms, so many companies that may not have considered their environmental impact before are now looking more closely at how they can change their operations to reduce their harm, generate more positive outcomes, and increase their access to capital.

Government Policies

A final way that markets can be shifted in proenvironmental directions is through government policies. Governments, both local and national, have the capacity to shift markets in a number of different ways, and I will discuss four here: subsidies, taxes, regulation, and procurement policies. As discussed in the introductory chapter and chapter 4, the developmental states of East Asia all employed highly sophisticated industrial policy to generate high-speed economic growth and have now adapted those policies to accommodate environmental concerns.⁹⁰ Therefore, it is not surprising that national and local governments have all been very active in using policy to reshape markets in ways that promote the better environmental outcomes sought by their governments.

Government subsidies to encourage firms to develop and expand green technology are the most obvious form of government intervention into markets, and East Asian governments have been quite generous in this regard. Two of the most common subsidies have been those for renewable energy and low-CO₂ cars (e.g., hybrid, electric, fuel-cell). China's subsidies and market development have been, not surprisingly, the largest. Its subsidies for the purchase of electric vehicles helped propel its market from essentially zero electric vehicle sales in 2010 to more than 1.2 million in 2018, more than half of all the plug-in sales in the world,⁹¹ and its renewable energy subsidies have propelled it into the position of “renewable energy superpower”—China now is the largest producer of renewable

energy and has the largest market for renewable energy in the world.⁹² Since both the market for electric vehicles and that for renewable energy are now maturing, China is currently in the process of phasing out many of these subsidy programs.⁹³

After the 2011 nuclear disaster in Fukushima, Japan implemented a feed-in-tariff program⁹⁴ to promote the expansion of the renewable energy market. The country now has the second-largest solar market in the world, and its wind, biomass, geothermal, and micro-hydro markets have also grown.⁹⁵ It also has a variety of green car subsidies that have boosted the adoption of hybrid, plug-in, and fuel-cell vehicles; and hybrid and electric cars were 40 percent of all new car sales in the first half of 2019.⁹⁶

South Korea has continued to expand its subsidy program to promote the electric and fuel-cell vehicle market.⁹⁷ It had a feed-in-tariff program (which requires power companies to buy renewable energy from producers for a fixed price) from 2001 to 2011, it switched to a renewable portfolio standard (where power companies are required to increase the proportion of their electricity generated by renewables) in 2012,⁹⁸ and a feed-in-tariff program was reintroduced in the city of Seoul in 2013. South Korea's One Million Green Homes program, which went into effect in 2009, has subsidized the installation of solar panels on residential homes,⁹⁹ and in 2018 the government announced plans to build the world's largest solar park.¹⁰⁰

Taiwan also has a feed-in-tariff program, which is encouraging rooftop solar as well as offshore wind,¹⁰¹ and it subsidizes electric vehicles, with a focus on electric scooters.¹⁰² It has special subsidies for foreign firms to encourage them to develop research and development centers and new technology in Taiwan.¹⁰³

Another important policy tool commonly used by governments is to tax products and behavior that they would like the market to reduce. The last decade has seen the proliferation of emissions trading schemes, sometimes called a carbon market or cap-and-trade system. In this system the government sets a limit on the amount of emissions a company can emit, and then companies trade for carbon credits. This allows more efficient companies to earn money for their efficiency and forces less efficient companies to pay for their inefficiency. If the market works well, the price for emitting rises over time, incentivizing everyone in the market to emit less. South Korea opened its national carbon market in 2015, as did China. Taiwan authorized the development of an emissions trading scheme in 2017 but has not

yet set a date for implementation.¹⁰⁴ Japan no longer has a national trading scheme in place, but the city of Tokyo introduced a local one focused on urban buildings in 2010. The schemes do appear to be reducing emissions in all cases, although they only cover a small fraction of the emissions in their respective countries.¹⁰⁵

Another common tax, whether done at the national or local level, is on municipal solid waste. Taxes on waste have dramatically reduced the volume of waste sent to incinerators and landfills and helped boost markets in recycling and composting. One of the most successful examples is Taiwan, which introduced its producer responsibility scheme in 1998. In this system, producers must bear responsibility for dealing with the waste that their products generate during their entire life cycle and at the end of life. Recycling rates in Taiwan are now among the highest in the world. The waste fees collected through the scheme have supported the development of a new multibillion-dollar recycling industry, and curbside waste collection in many cities has become a kind of local ritual where bright yellow trucks play classical music as residents bring out their waste and recycling to the passing truck.¹⁰⁶

The most powerful government policy tool is regulation—the government can make certain environmentally harmful behavior more costly or illegal, such that violators incur fines and criminal penalties for bad behavior. Sometimes the government does not just limit but will ban a whole class of activity—for example, cutting trees in a particular area, fishing in a specific area or at a certain time, or using a particular chemical or using a chemical above a certain concentration.

Advocates frequently concentrate their political efforts in this narrow area of governmental activity, since shifts in regulation can, if enforced, have very powerful proenvironmental effects. The best and most effective regulation shifts are ones that business has “bought into,” such that business recognizes that limiting (or raising) certain behavior will benefit them in the long run. High emissions standards are one such example—as discussed earlier, Japanese auto manufacturers have been able to benefit commercially from their high-efficiency vehicles, which were induced by stringent government regulation on emissions.

A challenge with the more extreme forms of regulation is that they can have unintended consequences. For example, China instituted the National

Forest Protection Plan in 2000, following devastating floods in the upper Yangtze River. The plan banned all logging in some areas of the upper Yangtze and significantly restricted logging in others. The logging restrictions have been successful in protecting the forest in many areas and have expanded reforestation,¹⁰⁷ but deforestation worsened in areas with lax enforcement, such as the Tibetan sacred forests.¹⁰⁸ Additionally, more wood was imported from abroad, often from areas where illegal logging persists, essentially pushing the deforestation problem onto another country. The harm caused by those avoiding the ban has been so extensive that the ban may have actually had a net negative effect from a global ecological perspective, the opposite of its intent.¹⁰⁹

A final form of government support for proenvironmental shifts in markets is through Green Public Procurement (GPP) policies, which require public authorities to purchase goods and services with reduced environmental impacts. GPP policies help governments achieve their environmental targets; expand the market for environmental products and services, which reduces their costs for everyone; offer an example for private companies to follow; help raise public awareness of environmental issues; and improve resource efficiency. Because governments are such large actors, GPP policies can significantly influence markets and spur innovation. The South Korean government estimates that its GPP policies were responsible for 643,000 tons of reduced greenhouse gas emissions and \$382 million of economic benefits in South Korea in 2014.¹¹⁰

In sum, governments at both the local and national levels have policy instruments that they can use to shift markets in ways that encourage proenvironmental behavior by firms and discourage polluting behavior and investments. They can reward positive behavior with subsidies and by consuming from eco-friendly companies directly, and they can punish harmful behavior with taxes and laws that make certain behavior costly or illegal. By definition, all of these government activities are political, so there will be some firms that benefit and others that lose out, and it is often the case that the firms that lose are powerful (e.g., energy, transportation, chemical industries), which is why governments, especially in East Asia, tend to prefer the positive-supporting policies (subsidies, GPP policies) to the punitive policies (taxes, regulation), although combining the two usually has the strongest positive effect.

Conclusion

Perhaps the most important element to the success of the “make it work for business” strategy is transparency. Customers used to be satisfied to know that the products they used would not hurt them—they wanted reassurance that their car would not explode when they drove it and their tennis shoes wouldn’t fall apart with a second volley at the net. Now, however, they want to know that their products are not causing harm to people or the environment all along a company’s supply chain. Consumers don’t want cars that pollute the air they or the factory workers breathe; they don’t want shoes made by child labor or with dyes that are toxic. These added consumer expectations, and the technical capacity to verify and demonstrate supply-chain activities, are benefiting advocates who are seeking better environmental behavior because greater transparency can offer commercial benefits for businesses acting in an environmentally friendly way and can pressure those who lag behind in improving.¹¹¹ The vital role of transparency in transforming markets will be discussed at greater length in chapter 9.

As discussed earlier, businesses can use a focus on environmental factors to enhance the profitability of their business by reducing waste and by developing new products and services that benefit the environment. In East Asia, Walmart and Toyota are good examples of very large corporations that have used a focus on environmental sustainability to improve the profitability of their own companies, as well as influencing other companies in their industry and in the region to follow their example by making similar proenvironmental changes to their own businesses.

Beyond improving the profitability and environmental sustainability of their own businesses, advocates can help scale “make it work for business” success by developing trustworthy eco-labels, expanding green finance, and supporting government policies that encourage proenvironmental business development and discourage harmful practices. These changes can shift whole markets in ways that commercially reward good environmental behavior on the part of firms. When market conditions shift in ways that promote “race to the top” behavior, it generates a “virtuous circle” where firms continue to improve their environmental performance over time, which benefits consumers, innovative firms, and the planet. These changes help transform a dynamic where consumer and corporate behavior leads to the depletion of environmental resources—for example, the “tragedy of

the commons”—into a situation where consumer and corporate behavior leads to the restoration of environmental resources, a kind of “replenishing of the commons.”

Although they may not be able to influence markets as directly as business and the government, advocates in the NGO sector can work through their networks to engage in activities that help promote proenvironmental shifts in corporate behavior. First, as discussed at length in chapter 5, the most important action that activists can take is to support their allies in business who are trying to make positive change. They can do this by providing allies with technical expertise, facilitating political access, aiding government and business to negotiate legal and regulatory changes, and publicizing successful examples of corporate activities that have benefited the environment.

NGOs can also help by building and reinforcing the transparency infrastructure. While governments have baseline reporting requirements, companies seeking to demonstrate a commitment to environmental and sustainable development goals must do far more than meet the minimum government standard. To enhance public trust, many reporting mechanisms require third-party verification, which means that an entity that is independent of both the buyer and the seller must verify that the reported numbers are true. Frequently, NGOs serve as the third party for this purpose. In some cases, such as with the Carbon Disclosure Project, the NGO may have established an entire platform where the disclosure takes place, gathering the metrics for numerous companies in one place, rather than having them located only in company annual financial or sustainability reports.¹¹²

Finally, NGOs can help support allies in business by calling out laggards through “name and shame” activities that draw public attention to companies that are harming the environment.¹¹³ Fear of the commercial and legal repercussions of being caught in environmentally damaging behavior can force companies to think twice before engaging in it.¹¹⁴ NGOs that are savvy can select particular companies or industries to put forward as examples, forcing them to confront their problematic behavior and address it. Once an industry leader is exposed and subsequently reforms, other companies in the same and related industries have both an example of the public relations horror and the commercial damage that can come from ignoring the issue and some concrete steps they can follow to get ahead of the problem,

avoiding the bad press while improving their business at the same time (this tactic will be discussed at greater length in chapter 9).¹¹⁵

As businesses come to recognize the economic benefits of environmentally responsible behavior and as norms of ESG reporting spread across multiple industries, corporations are becoming more transparent. Greater transparency makes it easier for consumers, activists, and policymakers to reward firms that are improving the environment and punish those that harm it. Markets then shift, generating positive cycles where business innovation leads to better and better environmental outcomes. A “make it work for business” advocacy strategy is especially powerful because it is an area that can be supported by the collaboration of business, NGOs, and the government, and it generates win-win-win-win outcomes that are good for business, good for governments, good for society, and good for the planet.

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Effective Advocacy

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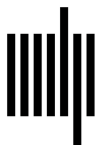
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