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Lilly Family School of Philanthropy

The 2022 Global Philanthropy Environment Index Region Report: Eastern Asia

Regional Reviewer: James Gannon

Institutional Affiliation: Japan Center for International Exchange (JCIE/USA)

Edited by the Indiana University Lilly Family School of Philanthropy

SUMMARY

The societies in the GPEI’s Eastern Asia region—China, Hong Kong, Japan, South Korea, and Taiwan—are markedly diverse in terms of economic development, governance, and historical legacies. But they are united by the tendency for governmental authority to historically play a dominant role in defining the “public good” and delineating acceptable ways to advance it. To some degree, this has slowed the development of the philanthropic and nonprofit sectors, which have only started to become more professionalized and influential over the past several decades as the region’s economies have grown richer and matured. Philanthropy now has a firm foothold throughout the region, benefitting from a sound legal framework that is generally supportive of nonprofit activity and charitable giving for all POs that meet clear standards in the advanced developed economies, and at least for POs engaged in noncontroversial areas in China.

The previous three years, from 2018 to 2020, have been marked by three trends: the continued, gradual maturation of the nonprofit sectors in the advanced economies of the region, creeping authoritarianism from Beijing, and the shock of the COVID-19 pandemic. Over the past three years, efforts have been undertaken in some advanced economies—Japan, South Korea, and Taiwan—to tinker with tax systems and nonprofit regulation, with steps being taken in Japan to channel new revenues into the nonprofit sector and efforts to strengthen financial reporting standards for POs in South Korea. In general, though, the political and regulatory environments for POs have remained relatively stable. At the same time, the Chinese government has continued to tightly control civil society, allowing POs that are non-controversial to operate while repressing those engaged in advocacy and politically sensitive issues. Now, there are deep concerns that the civic space for Hong Kong’s previously vibrant nonprofit sector will shrink, too, as Beijing strips away the territory’s autonomy and extends its control.

When COVID-19 hit, POs throughout the region proved their value by swiftly recalibrating their activities to help the sick and vulnerable, launching innovative new programs to ameliorate the socioeconomic toll of the pandemic and the lockdowns, and mobilizing large-scale funding to support vulnerable populations. However, the pandemic also pushed many nonprofit organizations into financial crisis, cutting their income even as the demand for their services soared.

These trends combined to drive a slight deterioration in the overall philanthropic environment in the region in the 2018-2020 period. However, the energy and the needs that have fueled the long-term expansion of the philanthropic sector in recent decades show no sign of abating and are likely to lead to further progress that allows POs to contribute more effectively to societies in the region.

Trends Observed at the Regional Level between 2014-2017 and 2018-2020

| Ease of Operating | Tax Incentives | Cross-Border Philanthropic Flows | Political Environment | Economic Environment | Socio-Cultural Environment | Overall |
|-------------------|----------------|----------------------------------|-----------------------|----------------------|----------------------------|----------|
| Negative | Mixed | Stable | Mixed | Mixed | Stable | Negative |

Source: Indiana University Lilly Family School of Philanthropy, 2022 *Global Philanthropy Environment Index*

KEY FINDINGS

I. Formation/Registration, Operations, Dissolution of a Philanthropic Organization (PO)

To what extent can individuals form and incorporate the organizations defined?
 To what extent are POs free to operate without excessive government interference?
 To what extent is there government discretion in shutting down POs?

- In general, the legal systems and government practices throughout Northeast Asia enable citizens to incorporate and operate POs with relative freedom, although China continues to be a prominent exception.
- Basic incorporation tends to be swift and inexpensive in Japan, Hong Kong, and South Korea, often taking less than one month, and it does not require POs to demonstrate that they have large amounts of assets on hand. The process is relatively similar in Taiwan, although it can be more time consuming.
- In Japan, Korea, and Taiwan, government interference in the operations of POs has remained limited, although there have been efforts to strengthen regulations regarding financial reporting and transparency. There are also strict legal safeguards preventing government agencies from trying to shut down POs without sufficient proof of fraud or other criminal activity, and several avenues of appeal for POs facing involuntary dissolution.
- Slight improvement is reported on the ground in China, although there are still significant government efforts to exert control over POs through the registration process, regular oversight, and other means. Registration is still difficult for POs without strong political connections, and prospective nonprofits are required to demonstrate that they hold significant amounts of assets before their registration: both issues have become major stumbling blocks for many groups, and organizations working on issues considered problematic by the government are consistently denied registration. There is no clear public data, but it appears that a large number of POs have also had their registration revoked in recent years on the grounds that they did not meet the requirements of annual government inspections.
- Meanwhile, there are significant concerns in Hong Kong about the chilling effects on civil society of Beijing’s efforts to clamp down on political freedoms, and nonprofit professionals

are concerned that there may be increasing government intervention into PO operations, as well as the incorporation and dissolution processes.

- In a number of places, restrictions on the ability of non-citizens to form POs or on foreign nonprofits to register affiliates has persisted. China is well known for making it challenging for foreign organizations to establish affiliate offices. Korea requires at least half of a PO's board to have Korean citizenship for some types of organizations, although it is more liberal in its other requirements. On the other hand, Taiwan has made it easier in recent years for foreign nonprofit organizations to establish representative offices, particularly those from Macau and Hong Kong.

II. Domestic Tax and Fiscal Issues

To what extent is the tax system favorable to making charitable donations?

To what extent is the tax system favorable to POs in receiving charitable donations?

- Over the past several decades, tax systems have been reformed in many places in Northeast Asia to allow POs to obtain more generous tax treatment in a consistent manner. This progress has been sustained with few major changes in most countries in the region over the last few years. The two exceptions are China and South Korea. In China, tax treatment for donations was made noticeably more favorable in 2020 with the clarification of regulations for taking charitable deductions from pre-tax income. In South Korea, regulations were changed so that charitable donations count toward tax credits rather than tax deductions for individuals, but a cap on the amount of tax credits reduces the potential benefit for donors.
- Outside of China and South Korea, there has been little change in tax systems in the region that have implications for charitable donations. However, the rules governing how individuals and corporations can obtain deductions for charitable giving remain complex in many places, such as in South Korea, and this can have a dampening effect on donations.
- A major, long-term challenge arises from the practice of a number of governments, including Japan, China, and Hong Kong, of requiring nonprofits to take a second step after their initial registration in order to obtain preferential tax treatment. This can be an onerous and time-consuming process. As one indicator, out of the 51,000 Specified Nonprofit Corporations in Japan—small and often domestically oriented groups also known locally as “NPOs”—only 1,200 have succeeded in gaining approval to accept tax deductible donations.

III. Cross-Border Philanthropic Flows

To what extent is the legal regulatory environment favorable to sending cross-border donations?

To what extent is the legal regulatory environment favorable to receiving cross-border donations?

- Cross-border philanthropy can be carried out largely unimpeded throughout much of Northeast Asia, particularly in Japan, Korea, and Taiwan. In China, it still is difficult and expensive to donate funds to overseas organizations, and there are strict limitations that make it challenging for domestic nonprofit organizations to receive funds from overseas. In Hong Kong, regulations on cross-border philanthropy have traditionally been liberal; however, there are rising concerns that Mainland China may begin to clamp down on these flows.
- In most places in the region, tax deductibility for cross-border donations can only be obtained by donating through a local nonprofit organization that can then pass those funds on to

organizations overseas. However, with the belief that they improve Taiwan's international image, Taiwan allows preferential tax treatment for some overseas donations for humanitarian relief activities that are approved by the government.

- In recent years, there has been a gradual expansion of philanthropic intermediaries facilitating cross-border philanthropy, as organizations such as Give2Asia have increasingly been active in Hong Kong and elsewhere.

IV. Political Environment

To what extent is the political environment favorable for philanthropy?

To what extent are public policies and practices favorable for philanthropy?

- All governments in the region publicly acknowledge the important roles of POs—or at least give lip service to them—but in several places the political environment has worsened in recent years.
- In China, government efforts to control and limit nonprofit activities have continued unabated, while efforts by Beijing to wield greater influence in Hong Kong have cast a pall over the territory's nonprofit sector.
- In South Korea, the government has attempted to be supportive of philanthropy and the nonprofit sector, increasingly viewing it as a partner in improving societal welfare. However, a number of high-profile nonprofit scandals have sparked central government and legislative efforts to regulate the sector in order to improve transparency and accountability, and these have inadvertently put a greater burden on POs and created a less favorable political environment.
- Japan has been a prominent exception to this trend, as one major initiative, an effort to redirect funds in abandoned bank accounts to the nonprofit sector, has produced a new stream of income for POs. Under legislation that went into effect in 2018, assets in "sleeping" bank accounts that have sat untouched for more than 10 years, often because their owners passed away without heirs, are seized by the government and redistributed to advance societal welfare.

V. Economic Environment

To what extent is the economic context favorable for philanthropy?

- POs in Northeast Asia have benefitted from a moderately favorable economic environment over the past several years up until 2019, although there has been considerable divergence across the region. Japan's, Korea's, and Taiwan's economies are stable and mature, although each has weaknesses that affect POs. China's economy has continued to grow at a high rate, even though the pace is not as strong as before, while Hong Kong's previous stability has been undermined in recent years by political uncertainty.
- Rapid economic growth in places such as China have expanded the number of mega-rich entrepreneurs and other high net worth individuals, and they are increasingly expected to make philanthropic contributions.
- In 2020, most economies in the region contracted severely due to the COVID-19 pandemic, with Hong Kong's GDP growth rate reaching a record low of -6.1 percent, Japan posting -4.8 percent growth, and South Korea in decline with a -1.0 percent rate. China managed to eke

out a positive growth rate of 2.3 percent, albeit markedly lower than usual, while only Taiwan successfully avoided an economic hit with a relatively normal growth rate of 3.1 percent. This economic turmoil has clearly taken a toll on philanthropy, as the nonprofit sector has seen income dramatically decline while societal needs increased.

- Corporate philanthropy, which is dependent on a favorable economic environment, has played an outsized role in the region. Sustained rapid economic growth in China drove a fivefold increase in donations from 2007 to 2019, helping to fuel a rapid expansion of the philanthropic sector. However, in recent years, corporate donations have stagnated in more mature economies, such as in South Korea.

VI. Socio-Cultural Environment

To what extent are socio-cultural values and practices favorable for philanthropy?

- There is a long and rich philanthropic tradition in the region that draws on religious thinking and practices from Buddhism and Confucianism. Traditional philanthropic culture was challenged by the wars, economic upheaval, and political turmoil of the 20th century, but recent decades have seen a transformation of the philanthropic culture as economic prosperity and efforts to professionalize the philanthropic and nonprofit sectors have taken hold throughout the region.
- Although much progress has been made in cultivating a more supportive philanthropic culture throughout the region, it still remains underdeveloped in many countries. For instance, South Korea’s philanthropic culture is still characterized by experts as immature, and in Japan the prevalent view of nonprofit employees is that they are “volunteers” without specialized expertise or authority, rather than skilled professionals. There are also concerns in Hong Kong and elsewhere that increasing materialism is distorting societal values in a way that can make citizens less supportive of philanthropy.
- In many places in the region, informal giving remains prominent. This is not easily captured in philanthropic data, which may mean that levels of giving are significantly underestimated.
- There is considerable enthusiasm for charitable giving throughout the region, but public trust in POs has been undermined in various places, including China, Korea, and Taiwan, by scandals involving nonprofit fraud and misuse of funds. This misconduct has inspired recent regulatory reforms to introduce more transparency and accountability for the sector.

VII. Future of Philanthropy

Summary of the future development trends in the philanthropic landscape

- The philanthropic culture in the region continues to evolve as societal expectations change. For instance, ultra–high net worth individuals in places such as South Korea have become more comfortable in making large gifts in a public manner, whereas in the past the tendency would have been to make such donations anonymously. In China, the newly rich also face growing incentives to donate to nonprofits that are close to the government.
- Looking forward, it appears likely that POs in the region will continue to expand their toolboxes, relying more on new forms of giving such as crowdfunding and increasingly experimenting with practices such as venture philanthropy. Platforms such as YouTube,

Facebook, KakaoTalk (Korea), Makuake (Japan), NAVER (Korea), and Tencent Gongyi (China) are increasingly playing a significant role in channeling donations.

- Trends toward more sophisticated cross-sectoral cooperation are likely to continue, especially on initiatives to achieve the Sustainable Development Goals (SDGs) for the environment, social welfare, etc. There have been several notable efforts to issue social impact bonds, for instance, and there is considerable interest in the nonprofit and business sectors in expanding this practice. Some places, such as Taiwan, are also likely to see more PO collaboration with government agencies.
- It appears that tensions between POs and authoritarian governments that wish to control and circumscribe their activities will continue in China and perhaps expand into Hong Kong. In China, the civic space for POs dealing with controversial and easily politicized issues has been severely diminished, and there are deep concerns that repressive behavior and self-censorship will also be extended to Hong Kong's nonprofit sector in the years ahead.

Key recommendations to improve the environment for philanthropy in the region

1. Encourage the philanthropic and nonprofit sectors to develop stronger industry standards of accountability and transparency to strengthen public trust and demonstrate the capacity to proactively self-regulate without inviting active government intervention.
2. Strengthen government incentives to expand the number and scale of grantmaking foundations in the region, which are still too low in many countries.
3. Deliberately cultivate a culture of philanthropy—at both the national and regional levels—among the region's new super-rich through giving circles and other measures, similar to what successfully helped promote philanthropy among U.S. IT entrepreneurs in Silicon Valley and elsewhere.

VIII. Philanthropic Response to COVID-19

What are the areas where the nonprofit sector and philanthropy play a role in responding to COVID-19 in the region?

What are the innovations and new trends in the nonprofit sector and philanthropy related to COVID-19 responses?

What have been the main impacts of COVID-19 on the philanthropic environment in the region?

What are the anticipated impacts of COVID-19 on the philanthropic environment in 2021?

- POs across the region quickly pivoted to help with the COVID-19 response. For instance, Chinese POs reportedly mobilized almost 39 billion CNY (USD 5.7 billion) by spring 2021 to support the COVID response, while the Community Chest of Korea alone took in 113 billion KRW (USD 100 million), the second largest amount ever associated with a single initiative. POs recalibrated their activities on the fly, shifting to online programming and introducing other innovations that normally would have taken years to phase in, and they played a particularly crucial role in highlighting and helping meet the needs of diverse, marginalized populations that might otherwise be overlooked.
- At a time when international cooperation on the pandemic response was sorely lacking, POs in many places in the region served as a bridge to the outside world. For example, POs in Taiwan, Korea, and Japan facilitated dialogues with experts in Europe and North America to share lessons on the public health response. Others in Japan and elsewhere raised large

sums of funds for the global COVID-19 response as well as for hard-hit areas in the region, starting with Wuhan. And, at the urging of the government, Chinese POs directed donated funds and supplies to other countries, many of which are participants in the Belt and Road Initiative.

- While POs throughout Northeast Asia have played an important role in the COVID-19 response, many also have been pushed into financial crisis, with demand for their services soaring while their normal revenue streams, both donations and fees-for-service, have dried up. For instance, a survey of Beijing-based POs found that, by summer 2020, almost 14 percent were in imminent danger of closing their doors, and 78 percent reported having less than 6 months of funding secured. Unsurprisingly, POs throughout the region report an unprecedented level of uncertainty about their futures.
- The pandemic appears to have fueled a bifurcation in the nonprofit sector, with the richer organizations becoming richer and the poor becoming poorer. Larger, more establishment-style POs in Korea have tended to receive the bulk of donations associated with COVID-19, while smaller POs have faced a more severe decline in contributions. In China, at government urging, donations have also been directed more toward POs that are close to the government, such as the Red Cross, rather than toward a broader range of organizations.

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