

Building the Japan-U.S. Economic Relationship in a New Era

A Proposal by the 2016 Study Group on Japan-U.S. Economy

The 2016 Study Group on Japan-U.S. Economy

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Introduction

Mr. Donald Trump, the presidential candidate of the Republican Party, won the election on November 8 this year; and is expected to form a new government on January 20 next year. A change of government in the U.S. involves a change of policies and the introduction of new policies at various different levels. Foreign economic policies are no exception. Under the new government, how will the U.S. foreign economic relations develop and what will be desirable for both Japan and the U.S. in building their relationship? These are both important and urgent topics for consideration.

With such awareness shared among its members, the Study Group, which formed in September, has held a series of focused discussions in response to a request from the Minister for Foreign Affairs of Japan, Fumio Kishida. On the basis of these discussions, the Study Group compiled the proposal “Building the Japan-U.S. Economic Relationship in a New Era” and hereby submits it to the Minister for Foreign Affairs. We strongly expect that the announcement of this proposal immediately after the election of the next U.S. president will be a timely one, offering useful suggestions to the policymakers who sit in a position to consider the shape of Japan-U.S. economic relationship.

* The opinions expressed in the Study Group belong to the respective individuals and do not represent the opinion of the organization to which they belong.

* In addition, in preparing this proposal, we also sought opinions from the following people:

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Current situation surrounding the Japan-U.S. economic relationship
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The situation surrounding the Japan-U.S. economic relationship has undergone considerable changes between 2009 and the present day, a timeframe which overlaps with the term of President Barack Obama. In particular, 2016 was the year where many destabilizing factors in the global economy became noticeable. In submitting a proposal as to what sort of Japan-U.S. economic relationship we should build with the U.S. government under the leadership of President-elect Donald Trump, we would like to firstly provide an overview of the current state of the global economy and the situation surrounding the economies of Japan and the U.S.

[Situation of the global economy with many different destabilizing factors]

During this U.S. presidential election campaign, we witnessed a rise of anti-globalism & anti-free trade sentiment at unprecedented levels such as “America First”, “Opposition to the TPP Agreement” and “Renegotiate the NAFTA”. Our observation is that, underneath such arguments, there lies dissatisfaction of the middle class and the low-income class with the widening income gap in the U.S.

We also observe that the choice of the British people to leave the EU (Brexit) is underpinned by a similar sentiment. Nowadays, the dissatisfaction and anger of the middle class and low-income class in many democratic countries has become so loud through the democratic process that it can now have a significant impact on the future of these countries. Such sentiment also has a huge impact on the global economy through the anti-globalism and anti-free trade movement.

According to the “15th WTO Monitoring Report on G20 Trade Measures” from the WTO Secretariat, 145 trade-restrictive measures were imposed even within a short period between October 2015 and May 2016. It can be said that this clearly illustrates the trend of anti-globalism in recent years.

As a backdrop to such situation, there is a trend of low-growth global economy and a

prolonged stagnation in productivity. The world economic growth rate is on a downward trend after peaking in 2010; and even now, eight years after the GFC, triggered by the collapse of Lehman Brothers, its recovery momentum continues to be weak and slow. The growth of world trade is also slacking off which, together with the advent of trade protectionism, has become a common concern of the global community. In addition, there are other destabilizing factors including the impact that could be caused by an increase in the U.S. interest rates by the end of the year and future uncertainty surrounding the emerging economies including China.

It is expected that the further development and promotion of information technology, along with the introduction and promotion of Artificial Intelligence (AI) would not only bring about dramatic improvements in labor productivity, but also offer a wide range of opportunities for innovation, creating new markets. On the other hand, we need to keep in mind that a rapid promotion of these advanced technologies could become a transient destabilizing factor due to the risk that they could trigger a negative cycle of further prompting labor substitution, reducing employment opportunities, aggravating the inability of middle and lower classes to adopt to changes, and widening the disparity in income levels.

As noted above, there are various destabilizing factors and downward risks in the current global economic environment. As such global economic environment could have a significant impact on the future Japan-U.S. economic relationship, it requires prudent and multifaceted analysis.

[Current status of the Japan-U.S. economic relationship]

The Japan-U.S. economic relationship from the late 1960s to the early 1990s was, while the Japan-U.S. alliance was strengthened, a relationship filled with tension symbolized by the word “friction”. Although there was a period up until the early 1990s where structural problems in both countries were dealt with using such frameworks as the “Japan-United States Structural Impediments Initiative (SII)” and the “Japan-United States Framework for a New Economic Partnership”, after the late 1990s, the

relationship changed itself into one based on “cooperation and coordination”. Following such developments in the background, in November 2010, after inauguration of the Obama Administration, Japan and the U.S. agreed to launch “the U.S.-Japan Economic Harmonization Initiative” where both countries agreed to coordinate their economic policies to realize economic growth hand-in-hand.

There were a few factors which formed the backdrop to the formation of this relationship based on “coordination”. Firstly, we have to point out that the share of Japan’s GDP in the world GDP declined to slightly less than 6% by 2014 compared with 17% or so at its peak in the mid-1990s. Accordingly, the weight and presence of Japan vis-à-vis the U.S. declined in relative terms. In fact, in terms of the U.S. trade deficit, Japan’s share has been constantly declining since 1992, after peaking in 1991 at 58.4%, then reaching around 8% in recent years. It has reached the point that the trade deficit against Japan has ceased to be a matter of concern for the U.S. anymore.

The second factor behind the change in Japan-U.S. economic relationship leading it into the one based on “coordination”, was the increase of direct investments between Japan and the U.S., in particular those from Japan to the U.S. This resulted in an increased visual presence of the investing country in the investee country respectively. The share of Japanese direct investment in the overall volume of foreign investment made in the U.S. steadily increased from 13% in 2004 to 26% in 2014, making Japan the second largest after the U.K. in terms of cumulative direct investment in the U.S. (12.9% in 2014). Such a strengthened and deepened economic relationship through trade and investment will continue to form a platform on whose basis we can promote the “coordination” based Japan-U.S. economic relationship now and in the future.

Furthermore, another background factor we could cite in this respect is the fact that the establishment of the World Trade Organization led to an increased tendency to address trade-related issues through the dispute resolution mechanism under the WTO, as against through bilateral consultation processes. Consequently, it has become less likely that individual issues would lead to situations that spoil the climate over overall Japan-U.S. economic relationship.

This “coordination” based Japan-U.S. economic relationship is about to face a phase where we are moving towards building a new economic relationship based on the “Trans Pacific Partnership (TPP) Agreement”, a trade and investment order at a much higher level, while being coupled with closer trade and investment relationships among countries of the world, and the pursuit of Mega EPAs by Japan.

It has already been mentioned that the relative weight and presence of the Japanese economy in the U.S. has declined. While this is true, Japan is still the third largest economy in the world; and, in terms of the percentage that Japan and the U.S. account for in the aggregate value of both exports and imports combined, the U.S. is second largest for Japan and Japan is the fourth largest for the U.S. This indicates that presence of Japan in the U.S. and vice-versa is still significant. In addition, in recent years it has been noted in the U.S. that, against the backdrop of powerful promotion of “Abenomics”, Japanese economic growth is on an upward trend again, regulatory reform/structural reform is steadily progressing, and the attractiveness of Japan is being rediscovered by foreign countries through, for example, the revitalization of tourism for overseas visitors.

In addition, following new developments such as progress being made in scientific and technological innovation, and commencement in 2015 of crude oil and LNG imports from the U.S., the room for cooperation between the two countries seems to be increasing in terms of both quality and quantity. Furthermore, there seems to be plenty of room for Japan to utilize its knowledge and experience for the benefit of Japan-U.S. cooperation as one of the “developed countries facing many challenges,” as we have been challenged by a range of issues including the prolonged recession after the collapse of the bubble economy and our falling birthrate/aging society, and have been making a great deal of effort to overcome these challenges.

Furthermore, you cannot ignore the tide that China’s very existence is creating, which will have an impact on the future Japan-U.S. economic relationship. Particularly after the 2000s, China overtook Japan to become an important trade partner for the U.S. The

share the U.S. trade deficit vis-à-vis China kept increasing in recent years so much so that it reached 48.2% in 2015. However, it is not just limited to trade, i.e. the presence of China as the second largest economy in the world is extremely significant. China is an important economic partner for both Japan and the U.S.; and, sustainable and disciplined growth in China is essential for the growth and prosperity of the global economy. From this point of view, it is extremely important for Japan and the U.S. to work together and get involved in the economic growth of China with a view to a peaceful and stable development of the Asia-Pacific region and, ultimately, the global community.

[Discussion leading to the proposal]

The Study Group has held a series of focused and candid discussions on how to revitalize and deepen the Japan-U.S. economic relationship, while taking account of the current state of the global economy and of the Japan-U.S. bilateral economic relationship, and bearing in mind the remarks that President-elect Donald Trump made on economic policies during his election campaign.

The Study Group conducted its discussions against the backdrop of the following focal points: “What kind of Japan-U.S. economic relationship should we pursue in order for Japan to grow and prosper?”; and “How should Japan and the U.S. work together in order for both Japan and the United States to grow and prosper?”, as well as “How should Japan and the U.S. keep playing a leading role in the Asia-Pacific region for the sake of the region’s growth and prosperity?” These discussions led to a proposal consisting of the following four pillars.

We expect that the Minister for Foreign Affairs, Fumio Kishida, is able to engage in close communication/dialogue with the current Obama Administration, the transition team for the new administration, and the new Trump Administration in order to achieve what is contained in this proposal. In addition, in implementing the contents of this proposal, we cannot emphasize too much the need for a cross-ministerial response including, in addition to the Ministry of Foreign Affairs, all economy related ministries

and agencies. Furthermore, we hope this proposal will be useful to help build a multi-layered Japan-U.S. economic relationship together with the cooperation of not only both the Japanese and the U.S. governments, but also the various other stakeholders, such as those from private companies, local governments including state governments, universities, research institutions, think tanks, and NGOs.

Pillar I: The Need for Further Promotion and Deepening of the Japan-U.S. Economic Relationship and for Promotion of Cooperation Based on This Relationship
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Even after the U.S. Presidential election, there still are views expressing concern about free trade or those harboring inward-looking sentiments. However, free trade and investment is the source of growth and prosperity for both Japan and the U.S. In building the Japan-U.S. economic relationship in a new era, we cannot emphasize too much the importance of appropriately maintaining our efforts to promote trade and investment, which is in the so-called “traditional area”.

At the same time, we need to identify those specific areas where both Japan and the U.S. could advance their efforts together based on the bilateral relationship, while sufficiently responding to the trends of the current global economic situation and the needs of the era we live in; and further develop the scope of Japan-U.S. cooperation.

In this regard, it is anticipated that the U.S. will restructure its own strategy for the Asia-Pacific region after inauguration of the new administration. Japan needs to maintain close cooperation with the U.S. side as the co-author of the Asia-Pacific region strategy for the new administration. Therefore, it is important to promote cooperation in the Asia-Pacific region and promote cooperation on global issues based on the Japan-U.S. economic relationship, which would lead to further enhancing the Japan-U.S. alliance.

With such awareness in mind, we propose the following ten specific areas as areas in which both Japan and the U.S. should advance their efforts together so as to benefit each other.

(1) Infrastructure

President-elect Donald Trump, when he announced his plan for the first 100 days after his assumption of office, emphasized the revitalization of investment in

infrastructure after mentioning the need to repair the infrastructure in the U.S. Improvement of domestic infrastructure is one of the priority areas of the economic policy of the new administration. To cater to this huge demand for infrastructure in the U.S. including power generation and water supply, Japan's concept of "quality infrastructure" might be the sort of cooperation that could be implemented immediately between Japan and the U.S. In particular, as Japan has a competitive advantage in the area of transportation infrastructure including high-speed railways, power-related infrastructure including renewable energy, and water-related infrastructure including water quality control, it is expected that the private sector and the government should work together in these areas to promote cooperation between Japan and the U.S. It is also expected that an enhanced level of collaboration at state level could bring about new projects and smooth project implementation.

In addition, considering the current situation where the demand for infrastructure is increasing worldwide, it would also be important to further promote collaboration between Japanese and U.S. enterprises in third country markets such as Southeast Asia and India.

Furthermore, in order for Japan and the U.S. to carry out higher quality infrastructure projects in the future, it would also be beneficial to conduct comparative analyses of effectiveness, challenges etc. of individual projects carried out by those countries that engage in infrastructure export. To carry out such analysis jointly by think tanks in Japan and in the U.S. could be a possible area for future cooperation.

- (2) Cooperation in the development of cutting-edge technologies in a manner Japan and the U.S. would be able to play a leading role

Collaboration between Japan and the U.S. should be further enhanced with the eyes on the next generation in the areas of IoT (Internet of Things) and AI. The challenges we should take up are manifold including enhanced collaboration of

the private sector and the government with the advanced areas of IT such as Silicon Valley, and in this way strengthening the communication capability of local Japanese companies. Moreover, it is expected that dialogue at various levels between Japan and the U.S. will be promoted for the purpose of harmonizing policy, starting with an institutional framework to promote the commercialization of cutting-edge technologies.

In addition, the promotion of Japan-U.S. cooperation in the area of cyber security should be considered as an important challenge both in terms of security and economy.

Furthermore, for the purpose of further substantiating Japan-U.S. cooperation, it is also equally important for the Japanese side to implement enhanced measures of human resource development and encourage the further expansion of venture capital investment in Japan to attain the growth in the Japanese IT industry and strengthening of its competitiveness.

(3) Energy

As the export of crude oil and LNG produced in the U.S. recently commenced thanks to the shale revolution in recent years, geopolitics of energy has gone through a dramatic change. As President-elect Donald Trump has been taking a positive attitude toward energy development, it is highly necessary for Japan and the U.S. to promote cooperation in the area of energy from a strategic point of view.

Energy is also an area where the knowledge and experience of Japan could contribute a great deal. For example, utilization of Japan's knowledge and experience in the area of energy-saving would be helpful to tackle the issue of climate change through the reduction of oil consumption, making it an area where Japan-U.S. cooperation could make a significant difference. There are a number of areas for further cooperation such as joint research on energy-saving architectures.

To strengthen such a cooperative relationship at a practical level, we should build a framework not only for dialogue between governments, but also for dialogue where the government and the private sector collaborate with each other, so that we can fully exploit the synergy effect created.

(4) Sharing of various challenges and knowledge in fostering an economy in which every person can play an active role

One of the reasons for the widespread anti-globalism in the world is the widening economic disparity in each country. One of the key challenges for economic policy administration in the advanced countries, including Japan and the U.S., is to build a market economy which allows the participation of all people, including the socially vulnerable, and to try and create the environment necessary to achieve such a goal. Such an approach, taking into account those people in the middle class and the low-income class who came to have a sense of unfairness and a sense of distrust of politics, is particularly important to ensure stability not only in the economy but also in politics.

In this context, the realization of a “Society in which All Citizens are Dynamically Engaged” is set to be the core component of the government’s growth strategy in Japan and such structural reform efforts as Work Style Reform, and Improvement in the Child and Aged Care Environment, are currently being promoted. In addition, disparity reduction programs in the U.S. are also looking at wage disparity, equal employment opportunity, paid leave systems, medical insurance systems etc., and are considered to be priority areas for the economic policy of the next administration.

For the purpose of realizing an economy in which every person can play an active role as mentioned above, we believe it will be beneficial for both Japan and the U.S. to try and share their knowledge and experience in the following areas while taking into account the differences in economic and social structure, culture, and

customs:

- Employment:

In a situation where employment opportunities, particularly those for the low-income class, are expected to diminish as a result of the anticipated future progress and promotion of AI, it will be beneficial for Japan and the U.S. to share awareness and knowledge regarding the strength Japan has in the area of human resource development such as re-skilling of people belonging to such classes.

- Aging society:

As the aging society is becoming an important issue, not just in Japan, but also in the U.S., it is anticipated that further measures will be taken in the future in both countries. As Japan has already begun tackling the issue of the aging society, Japan has a wealth of knowledge which we can offer to the U.S.; therefore, it will be beneficial for Japan to share such knowledge.

- Empowerment of women:

It will be beneficial for Japan and the U.S. to share knowledge and experience regarding such issues as reducing wage disparity, balancing work and childcare, and promoting women. In addition, the empowerment of women in developing countries is also an area where Japan and the U.S. could extend our cooperation one step further.

- Social participation of persons with disabilities, etc.:

As promoting the social participation of people with disabilities and LGBT people is an indication of tolerance for diversity, it will be beneficial for Japan and the U.S. to mutually share relevant measures, knowledge and experiences.

- Welfare system

Japan could provide briefings not only on its public medical insurance system, but also its paid parental leave scheme as well as its public and affordable childcare system, which do not exist in the U.S. It would be practical to have discussions between Japan and the U.S. which also involve the local governments which have practical knowledge of such policy measures.

- (5) Promotion of balanced financial supervision by the governments

Approximately 8 years after the advent of the global financial crisis, most of the measures that have been implemented as part of “comprehensive regulatory reform” on which discussions have been held internationally, are nearing the end of the designing stage. As Japan has been raising the issue internationally of the need to achieve both sustainable economic growth and stabilization of the financial system at the same time, it will be meaningful for both Japan and the U.S. to take a leading role in handling the matter strategically, so that the remaining items can be finalized on the basis of such thinking.

In addition, it can be said that in the future, it will become important to shift the focus from the conventional model of financial supervisory administration with a focus on how to prevent financial crisis from recurring, to a new model which keeps an eye on the new challenges concerning finance. In particular, amidst a huge change in the business environment surrounding financial businesses, starting with the global fall in long- and short-term interest rates and the innovation in information technology, typically AI and IoT, Japan and the U.S. should take a leading role in in-depth international discussions to encourage financial institutions to contribute to sustainable economic development by building appropriate business models, while we maintain our cooperation on the basis of a strong Japan-U.S. relationship.

- (6) Joint research on methodologies and analytical tools employed for economic

statistics

It has been pointed out that one of the reasons why the productivity of respective countries including the U.S. has been observed to stagnate or decline could possibly stem from the fact that the actual economic activities have not been correctly measured statistically. This suggests the possibility that while only the statistics of declining industries are correctly measured, on the other hand, the actual economic activities of advanced industries, in particular those which are producing profits, are not reflected in the statistics; as a result, productivity appears to decline.

We believe it will be meaningful for us to conduct joint research which mobilizes the knowledge of both Japan and the U.S. for the purpose of measuring economic activities and working out statistical information in a precise manner in this era of the digital economy, including how to assess the argument above.

(7) Advancing reciprocal inward investment and people-to-people exchanges including promotion of tourists

As mentioned previously, the scale of direct investment between Japan and the U.S. has grown to an unprecedented level. In recent years, in particular, measures and programs to promote direct investment such as INVEST JAPAN and SelectUSA have been actively promoted. Continual promotion of investment in both directions by the government as a whole, also with the participation of private businesses, would be one of the important areas of Japan-U.S. cooperation which is directly connected to the economic growth of both countries.

In addition, it also seems there is room for cooperation with a view to expanding tourist traffic between the two countries. Japan is aiming to become a “Tourism-Oriented Country” with the number of overseas tourists visiting Japan having exceeded the 20 million mark for the first time in FY2015; and, it aims to achieve 40 million visitors by 2020. It will be beneficial for both Japan and the

U.S. to cooperate with each other in an effort to further identify the potential tourism demand and invite tourists to visit, which could in turn lead to regional vitalization etc.

Furthermore, another challenge we face is to extend the scale of student exchange between Japan and the U.S. For this to happen, the governments need to make a serious effort including enhancing the network between educational institutions.

(8) Japan-U.S. cooperation in leading China towards becoming a responsible partner in the international community

Further encouraging China to act as a responsible partner in the global community is one of the significant matters of concern not only for Japan and the U.S., but also for the global community as a whole, and so it is extremely important for Japan and the U.S. to take up this challenge.

There are many areas where Japan-U.S. cooperation is possible and effective, for example, cooperation over the issue of steel over-supply and in the area of the environment as well as cooperation in the cyber area. For us to encourage China to act responsibly and constructively, both Japan and the U.S. should specify common challenges and strengthen their collaboration to a higher level.

In addition, by encouraging China to act responsibly through effective collaboration between Japan and the U.S. , both as major players, on the stage of various international organizations including the Asia Development Bank (ADB), the International Monetary Fund (IMF), the Organization for Economic Co-operation and Development (OECD), and the WTO. By doing so we can address the concerns that the global community as a whole has about China.

(9) Global environment and climate change

Protection of the global environment and measures against climate change are

areas in which both Japan and the U.S. continue to have a great deal of interest and should promote mutual cooperation. We should effectively disseminate to other countries the information about excellent environmental technologies and the serious efforts Japan and the U.S. are making towards this end when promoting Japan-U.S. collaboration.

(10) Global health and medicine

Measures against infectious diseases is an area where Japan-U.S. cooperation has so far achieved a great deal of success, and so we should continue to promote collaboration and cooperation in this area, which includes strengthening the response capabilities of third countries while utilizing advanced technologies and knowledge of both Japan and the U.S.

At the same time, we should also proactively promote medical cooperation including state-of-the-art medical technology such as cooperation in cancer treatment.

Furthermore, with respect to efforts for Universal Health Coverage (UHC), as Japan-U.S. cooperation is progressing at G7, TICAD and at other levels, it is important to continue to steadily promote this cooperation.

Pillar II: The Need to Promote Multilevel Dialogue That Is in Line With the Japan-U.S. Cooperation in a New Era

The dialogue between the Japanese government and the U.S. government conducted in an orthodox style is still important as a forum for dialogue between those in a position of responsibility for planning and preparing policies. Yet on the other hand, such orthodoxy would not be an adequate framework to produce agile and effective reaction to the issues that this new era of Japan-U.S. cooperation may encounter across a variety of issue areas.

The remit of cooperation between Japan and the U.S. in a new era would be over wide-ranging and many issues. We therefore need to establish a framework for multilevel and inclusive dialogue involving the engagement and participation of various stakeholders, such as those from private companies, local governments including state governments, universities, research institutions, think tanks, and experts from NGOs. In so doing we would be able to mobilize the latest technological trends and methods, thereby improving the effectiveness of bilateral cooperation when we press ahead with it. We propose the following as entities to engage and participate in the dialogue mentioned above:

(1) Private companies

Private companies in both Japan and the U.S. not only have information relevant to their area of business and business base, but also have concrete and professional knowhow concerning the relevant systems and a network of local contacts, which enables them to provide practical advice at the stage where the promotion Japan-U.S. cooperation is specifically being considered. In the case of the U.S.-Japan Policy Cooperation Dialogue on the Internet Economy, private companies have already been proactively involved in the dialogue between the two governments. The involvement of private companies in the dialogue between governments is considered to be beneficial not only in the area of cooperation concerning cutting-edge industries such as IoT and AI, but also in the areas of

Japan-U.S. cooperation in infrastructure and energy. For a detailed discussion on this topic, also see Pillar IV.

(2) Local governments including state governments and prefectural governments

Furthermore, in consideration of the wide range of authority the state governments have in the U.S., it is evident that a strong economic relationship at the state level will have a positive impact on the Japan-U.S. economic relationship as a whole. The Japanese government has so far exchanged a Memorandum of Cooperation with California, Maryland, and Washington. In order to strengthen and substantiate the relationship at the state level, it would be effective to make continual efforts to exchange similar memoranda, while trying to cater to the needs of the various stakeholders including private companies doing business in those local communities. We also anticipate that making such efforts would be instrumental in identifying infrastructure development projects in the U.S., as significant surge in infrastructure demand is anticipated in the future.

(3) Academic world

Further strengthening cooperation through the promotion of joint research and development as well as education (human resource development) between universities (higher education institutions), and between industry and academia in Japan and the U.S., is essential for the expansion of business opportunities and technological innovation. In this regard, with respect to cutting-edge industries such as IoT, cyber security, AI, data analysis, and the analysis & research of economic statistics, it is expected that cooperation between Japan and the U.S. will be further substantiated by ensuring the positive participation of not only government authorities, but also those universities in Japan and the U.S. which are engaged in research activities in that particular area as a matter of priority. Although exchanges between Japanese and U.S. universities are already up and running, as exchanges between universities in other countries and the U.S. have become more invigorated, we should step up our efforts to strengthen the

relationship further in the future while strategically reviewing the manner in which exchanges between Japanese and U.S. universities are carried out. In addition, it may also be a viable idea to look for the possibility of diversifying the areas and forms of cooperation between universities and businesses (industry-academia collaboration), and between universities and government agencies.

(4) Think tanks

Think tanks can put forward policy proposals in consideration of trends they see in the global community, and so we can expect useful contributions to dialogue in sharing various issues and knowledge in order to realize an economy in which every person can play an active role, in the energy area, in the climate change area, and in the global health area. It is extremely important that efforts are made in such forms as dispatching Japanese experts to the U.S. and increasing the opportunity to hold seminars on various policy issues and so on, as these would diversify and strengthen the relationship between the governments and the think tanks.

In addition, as a prerequisite for promoting think tanks to participate in Japan-U.S. cooperation in a substantial manner, it is important, particularly for the Japanese side, to cultivate the foundation which allows for a variety of different think tanks to compete against each other and develop; it is expected of the government to make efforts towards supporting this as well as developing a suitable environment for it.

Furthermore, in terms of the relationship between Japanese businesses and the U.S. based think tanks, it has been pointed out that so far such undertakings have occurred only among just a few prominent think tanks and the Japanese businesses have not been able to build an extensive network which includes other notable or influential think tanks in the U.S. The Japanese government should take every opportunity to assist with developing a diversified network of Japanese

businesses and the U.S. think tanks.

(5) NGOs

In terms of effectively reflecting the voice of civil society across a wide range of areas including global issues and broadening Japanese economic diplomacy, the involvement of NGOs is also considered to be beneficial. The Japanese government should consider reaching out to NGOs which command a certain level of influence in the U.S. In conjunction with this, it deserves merit to pay attention towards further invigorating the Japanese NGOs.

(6) Exchanges between Members of Parliament

Exchanges between members of parliament in Japan and those in the U.S. are extremely important as this encourages members of the legislative bodies who perform a significant role in making policy decisions to develop mutual understanding and mutual trust. The Japanese government should increase the level of support for the elected members of both countries so that exchanges between elected members can be further encouraged. In particular, it is important to proactively engage in measures such as supporting the reinvigoration of the “Japan Caucus” through the Embassy of Japan or the Consulates General of Japan, and to actively provide information to the elected members.

Pillar III: The Need to Exercise Japan-U.S. Leadership towards Advancing Free Trade

As is widely known, President-elect Donald Trump indicated his opposition to the TPP Agreement during his election campaign saying it will have an adverse impact on the U.S. manufacturing industry as well as jobs, and will diminish freedom and independence. However, we expect the Japanese government to work persistently towards winning the understanding of the President-elect and those close to him in terms of economic and strategic significance of the TPP Agreement, as detailed below.

The Study Group continues to stand behind the importance of making efforts for the early entry into force of the TPP Agreement. From this point of view, Prime Minister Abe and President Obama should exercise their leadership in realizing the early entry into force of the Agreement.

Along with such efforts, both Japan and the U.S. should also engage in considering the way forward for the future, while following developments during the lame-duck session of the U.S. Congress.

[Economic and Strategic Significance of the TPP Agreement]

The TPP Agreement represents a new era of economic cooperation as it promotes the liberalization of not only customs duty on goods, but also of services and investment; furthermore, it sets out rules befitting the 21st century across a wide range of areas including intellectual property, electronic commerce, the regulation of state-owned enterprise, the environment, and labor. It represents, so to speak, the highest, biggest, and most comprehensive economic cooperation and could be called the ultimate FTA between Japan the U.S.

The TPP Agreement not only promotes free trade and vigorous investment behavior, while rejuvenating the economies in the region through the creation of new supply chains and so on, but it could also act as a catalyst to improve the global competitiveness of businesses in the region. Ultimately, it could be a prescription for

improvements in industrial productivity which has been stagnating globally.

The TPP Agreement could also be used as a platform for Japan to strategically expand its FTA network. The TPP Agreement, together with the Regional Comprehensive Economic Partnership (RCEP), is important as a pathway to the Free Trade Area of the Asia-Pacific (FTAAP).

Furthermore, to expand Japan's FTA network to the Atlantic side of Latin America, which has historically been one of the blank spaces in the network, is not only important from an economic point of view as it expands the production network, but also important from a geopolitical point of view as it means expansion of the economic sphere where Japan and the U.S. cooperate to lead growth and prosperity. One of the key countries for such an FTA strategy is Columbia which is noted for its low-cost labor force and economic growth potential, among other aspects. Once the EPA between Japan and Columbia which is currently under negotiation is concluded, the TPP Agreement, by utilizing the said EPA as a medium, could become a stepping stone for the FTA network to be expanded to the Mercosur and the Atlantic side of Latin America.

The TPP Agreement, in addition to the various economic values pointed out above, also has a strategic value from a geopolitical point of view. The TPP Agreement is an attempt, under the leadership of both Japan and the U.S. beyond the context of the bilateral relationship between Japan and the U.S., to build a new economic order in the Asia-Pacific region with those partners that share common strategic interests. At the same time, acting as a testament to Japan of the strong Japan-U.S. alliance, this Agreement not only brings about economic growth and prosperity to the participating countries including both Japan and the U.S., but also significantly contributes to the peace and stability of the Asia-Pacific region. Such strategic significance of the TPP Agreement is particularly worth mentioning.

Japan should proactively promote and support the participation of important partners including Taiwan, Republic of Korea, Thailand, Indonesia, and the Philippines who share our common strategic interests in the TPP Agreement. Through such an

“open-door policy” concerning the TPP Agreement, it is expected that the said Agreement will also become established as an important platform for the U.S. regional strategy in the Asia-Pacific.

[Expecting an Early Approval of the TPP Agreement in the Diet]

In consideration of the significance of the TPP Agreement as mentioned above, both Japan and the U.S. should proactively exercise their leadership for the early entry into force of the TPP Agreement. They should not spare any effort in this regard. As domestic approval both in Japan and in the U.S. is mandatory for the TPP Agreement to come into effect, the responsibility both countries carry is extremely important. From here on, it is indeed a crucial moment for both Japan and the U.S.

At the moment, deliberations on the TPP Agreement and related bills are underway in the Japanese Diet, and Prime Minister Abe himself announced a number of times that he will do everything possible to get approval during this extraordinary session of the Diet. To reconfirm for all participant countries including the U.S. the importance of the early entry into force of the TPP Agreement and to promote the speedy conclusion of domestic procedures in each country, the Government of Japan should continue making its utmost efforts in leading and completing the domestic procedures necessary to gain Diet approval of the Agreement.

[Expecting an Approval of the TPP Agreement in the Lame-Duck Session of the U.S. Congress]

At the same time, needless to say, according to Article 30.5 of the said Agreement, the TPP Agreement will not come into force unless it is concluded by the U.S., the largest participating country. It is not an overstatement to say that the future of the TPP Agreement depends on the response of the U.S. In the current environment in the U.S., the anti-TPP Agreement sentiments continue in the aftermath of the presidential election.

On the other hand, the current President, Mr. Obama has announced that he will continue and double his efforts to encourage Congress to give its approval in the lame-duck session of U.S. Congress which will commence in the near future. We strongly hope that President Obama exercises his strong leadership in getting the TPP Agreement approved by Congress, in spite of circumstances that warrant no predictability or optimism in the lame-duck session of the U.S. Congress.

[Engaging the U.S. Public Opinion through Engaging Various Players]

Before the TPP Agreement is taken up in the lame-duck session of the U.S. Congress, both the Japanese and the U.S. governments should put in place some effective measures based on an objective and level-headed analysis, in order to calm the anti-free trade and anti-TPP sentiment in the U.S., and help promote a public opinion which will assess and support the importance of free trade and the TPP Agreement in a rational manner.

In concrete terms, by actively cooperating with the U.S. Government in its efforts to mobilize public opinion, Japan, as a major partner that promotes the TPP Agreement, should actively seek to have its voice heard. In terms of specific methods of expressing such views and trying to get voices heard, it is considered to be effective to make such efforts as public announcements from the Embassy of Japan or the Consulates General of Japan, or by directly reaching out to members of Congress (including those in the bipartisan Congressional group “Japan Caucus”), or state governors, etc. In addition, we should also consider effective collaboration with Japanese enterprises as much as possible.

Pillar IV: The Need to Advance a Strategic Public-Private Partnership

As the final proposal, we would like to re-emphasize the fact that the role of private companies as the leader of the economy is important, and promotion of a strategic public-private partnership is essential in building the Japan-U.S. economic relationship in a new era. The trust and friendship created through the direct investment that Japanese companies have been making and the continual trade relations is a precious asset of the Japan-U.S. relationship. The government should make the utmost use of it. At the same time, it is important for the government to support the expansion of business opportunities for Japanese companies as well as resolving the various challenges they are currently facing. Furthermore, public-private partnership involving U.S. companies should also be further strengthened.

[Building a New Partnership between the Government and Private Sector]

The structure of the relationship between the government and private companies in post-war Japan has gone through a number of changes, influenced in part by the status of the Japan-U.S. economic relationship at the time. After WWII, under a special environment in which demand surged for military procurement for the Korean War, Japan maintained an industrial policy underpinned by close government-private sector cooperation such as the adoption of the priority production system and the convoy system, which resulted in high economic growth. However, as the rapid expansion of export trade associated with this economic growth resulted in fierce trade friction with Western countries, Japanese companies decided to deal with the friction by, for example, increasing local production and established a stable business foundation by becoming a “good corporate citizen” in the U.S.

What is required at the moment is not only to confirm the trust-based relationship with the U.S. society as an invaluable asset which has been built up during the course of the endeavors mentioned above by those Japanese companies that entered the U.S. market, but also for the Government, to build a new public-private partnership with a view to

strategically positioning such an asset in the Japan-U.S. economic relationship in a manner consistent with the business activities of the respective companies.

For the Japanese government, proactive measures by Japanese companies including direct dialogue both at the federal and state level are extremely important not only in the fight against the trend of trade protectionism, but also as a part of the unified efforts by all interested parties in Japan towards an early entry into force of the TPP Agreement. In particular, Japanese companies engaging in dialogues with Members of Congress at their local electorate level where those Japanese companies have created a lot of employment is an effective and powerful tool in trying to address various issues and to promote cooperation between Japan and the U.S.

The Government of Japan should enhance public-private dialogue in order to develop a means to make the best use of Japanese companies' various efforts to strengthen the Japan-U.S. relationship and to deal with the various challenges.

[The Governments' Support for Activities of Private Companies]

At the same time, the Government of Japan should make the utmost use of existing networks such as the Embassy and the Consulates General, so as to support Japanese companies in the U.S. to develop their businesses in a facilitative and stable manner, as well as in their efforts to resolve various challenges they are facing. On the other hand, although it is expected that Japanese companies should also make efforts to concentrate and show their potential power in specific ways, the Government also needs to support the efforts of the private sector. For example, it is also an urgent challenge for the Government not only to support economic organizations to take a more active role in formulating the strategy on how to utilize efforts of Japanese companies in strengthening the relationship between Japan and the U.S., but also to support Japanese companies in effectively making use of digital media, such as SNS and so on.

In addition, the invigoration of exchanges between business people is also an important agenda. The Government of Japan should take a proactive role in facilitating the

creation of a network among business leaders in both Japan and the U.S. Such a proactive effort should include providing Japanese and the U.S. companies with various business opportunities. A broad and robust network at the private level between Japan and the U.S. often becomes a useful tool for the Government to promote various agendas.