

(英語) English Summary drafted by CAP

# **The Global Economy and the U.S.-Japan Alliance: Charting a Course for Next U.S. Administration and Prime Minister Abe's Road to 2020**

## **Background**

The goals for the U.S.-Japan forum were as follows:

Identify constraints on sustainable economic growth in the United States, Japan, and the world, and policies to confront these impediments. At a time of great uncertainty in the global economy, the 2016 Forum addressed urgent issues such as income inequality, stagnant wage growth, structural impediments to growth, and other factors that impact the United States and Japan, as well as the rest of the world. The Forum also explored the implications of these economic, social and political challenges for international relations in the Asia-Pacific and globally, and for the U.S. Japan alliance.”

The Center for American Progress and the Japan Economic Foundation opened the Forum on June 3, 2016, with opening remarks from CAP President and CEO Neera Tanden, followed by chairman and CEO of the Japan Economic Foundation, Kazumasa Kusaka. Both highlighted the significance of the U.S.-Japan alliance and its increasing importance for the future, recognizing that the alliance is a key cornerstone of maintaining the current international political order. Following opening remarks, the Forum was broken into four sessions that addressed domestic and international economic instability, domestic politics, the political economy of the Asia-Pacific, and U.S.-Japan Regional and Global Cooperation.

## **Session One: Domestic and International Economic Uncertainties**

Moderator: **Andy Green**, Managing Director, Economic Policy, Center for American Progress (CAP)

Speakers: **Paula Stern**, Founder and Chair, The Stern Group; Former Chairwoman of the U.S. International Trade Commission; **Masaaki Tanaka**, Senior Advisor, The Bank of Tokyo-Mitsubishi UFJ; Vice-Chair, Board of Councilors, U.S.-Japan Council

The opening session of the forum focused on shared Japanese and American economic challenges and uncertainties. Paula Stern opened the dialogue by providing an overview of U.S., Japan, and global trade trends. She noted that global trade has experienced a slowdown, growing less than 3% a year for the last five years. For developed countries like the United States and Japan, two key issues that must be addressed are inequality and the lack of social mobility. Despite the use of aggressive monetary policy in the United States, the middle class is disproportionately facing economic hardship.

Stern explained that economic disparity for both countries is at an all-time high, although it presents differently in the United States and Japan. In the U.S., the lower 90% of income earners only account for a quarter of wealth. Although unemployment has declined nationally, average wages and income has decreased for most workers. The U.S. also suffers from a large gender wage gap: women earn 78 cents for every dollar earned by their male counterparts. Stern praised Prime Minister Abe's policies to address Japan's own gender inequality gap, and noted that Japan now has a higher percentage of women in the workforce than the United States. In Japan, however, despite high education rates, there are also problems with social mobility. Stern suggested that to offset Japan's future demographic crisis, the nation should move to accept migrants that can assist with Japan's aging population.

Masaaki Tanaka offered an in-depth analysis of Japan's current economic situation. According to Tanaka, Prime Minister Abe's "Abenomics" monetary easing and growth strategy policies to stimulate the economy have varied in success. Policies have surpassed initial goals in increasing corporate earnings and fiscal consolidation; Abe's arrows have also been on target for improving employment and wage opportunities. In contrast, however, the economy has continued to suffer due to low consumer spending and capital investment. Abe's initial "three arrows"—aggressive monetary policy, flexible fiscal policy, and growth strategies to promote private investment—have since evolved to become goals for a robust economy that creates hope, child care support that fosters dreams, and social security that fosters a sense of safety. Overall, the new Abenomics policies aim to promote dynamic engagement of Japanese citizens and address the demographic challenges facing the country.

Tanaka also zeroed in on these demographic problems. He argued that to be successful, Japan must maintain a population of 100 million people. Japan's aging population will create challenges as older generations exit the workforce and require care. Currently, Japan's elderly population holds the majority of assets, creating challenges for young adults who will soon face an increase in dependents for whom to provide care.

Japan has, however, continued to fight and address these challenges. Tanaka explained that despite economic difficulty, Japan has moved up in the World Economic Forum Competitiveness index from 10<sup>th</sup> place in 2012 to a 6<sup>th</sup> place ranking for two consecutive years. In order to encourage reinvestment and increases in consumer spending, the Bank of Japan enacted a negative interest rate of -0.15% in February 2016. While this policy has not yet had a significant impact, it has the potential to encourage business and tourist spending.

Tanaka also referenced a keynote speech by Nobuchika Mori, Commissioner of the Financial Services Agency of Japan, regarding the transformation of Japan's fund flow. The speech highlights reforms in Japan's capital market to address its economic deflationary cycle. Specifically, the Japan Financial Services Agency aims to encourage market based fund flows and assist with corporate governance reform by adopting a new Corporate Governance Code. These measures aim to support the private sector and encourage investment in the Japanese economy.

Questions during this panel dove deeper into the shared problems that Japan and the United States face. CAP President and CEO Neera Tanden questioned why many companies are failing to invest, which Mr. Tanaka argued was the result of limited investment opportunities. Participants also discussed how the government could help regulate banks. Moderator Andy Green, drawing on his experiences working on Dodd Frank, suggested that this was a difficult task. Interestingly, participants noted that although the United States has extensive banking regulations that Japan lacks, both countries seem to face challenges in encouraging successful and sustainable investment.

Japanese counterparts also questioned the pace of U.S. economic recovery from the great recession. While Andy Green noted that the recovery was slow, Paula Stern argued that it occurred exactly as expected. The U.S. was forced to implement austerity measures, and decreases in market prices of key goods such as oil have forced the economy to unexpectedly fluctuate. Tanaka also added that global markets miscalculated the extent of the oil price drop, adding to economic uncertainty.

The final discussion examined social immobility differences between the two countries. In the United States, policies often highlight education as the antidote to social inequality. Consequently, U.S. policy emphasizes the importance of scholarships and financial aid to help students earn a degree in order to combat immobility. In contrast, in Japan, where the majority of citizens do have degrees, social immobility still remains a problem. Some participants suggested that this was the fault of increased reliance on technology in Japan. At the same time, however, the discussions failed to analyze the role of Japanese meritocracy in stratifying the economy.

## **Session Two: Domestic Politics**

Moderator: **Hideichi Okada**, Executive Advisor, NEC Corporation; Former Vice Minister for International Affairs, Ministry of Economy, Trade and Industry, Government of Japan

Speakers: **John Halpin**, Senior Fellow, Center for American Progress (CAP); **Keiichiro Kobayashi**, Professor, Faculty of Economics, Keio University

The next session discussed the current political situation in the United States and Japan. Elections will occur in both countries this year: the United States is in the midst of a tumultuous presidential election, and Japan will hold an Upper House election this year. This session analyzed each country's political situation and potential policy consequences.

CAP Senior Fellow John Halpin opened the session by providing a brief overview of the history of the Democratic Party in the United States and its current state today. He described that although the Democratic Party used to be one of intolerance, it has since shifted to be the most diverse and inclusive. At the same time, however,

the U.S. political situation is also evolving, and the outcome of the next elections may also determine the future of the U.S.-Japan alliance.

Halpin noted five trends that have shaped the current political environment. First, the United States is currently home to widespread disaffection among U.S. voters. Voters are pessimistic about the economy and American inequality, as well as the capabilities of elected officials and the United States' global role. Halpin argued that it is this disaffection that has opened the door for the Donald Trump and Bernie Sanders candidacies, which have subsequently weakened the democratic and republican ideological strongholds. The average American no longer has faith in the global agenda of policy elites, leading to distrust in key agreements, such as trade and alliances.

While disaffection is common, the root of this disaffection varies among U.S. citizens. The United States population has become increasingly polarized over values, partisanship, and cultural norms. Americans have become intolerant of differences and overly sensitive to perceived slights and setbacks. Consequently, U.S. politics and decision making is unpredictable and unstable. This gap has also grown as a result of the third trend: the rising diversity of the U.S. electorate. While minority groups tend to favor democrats, republicans have maintained a stronghold in many key parts of the United States. The Republican Party tends to consist of relatively white and homogenous citizens that aim to promote traditional American values.

As the parties move further apart in terms of values and composition, they are also losing the ability to resolve disputes. Halpin argued that the United States governance system was not designed to resolve disputes easily, which has led to increased Congressional obstruction, crisis legislation—such as that in the face of government shutdown- and the rise of executive powers. The lack of overlap between the two parties is preventing the government from advancing necessary policies such as infrastructure investment.

As a result of these trends, Halpin described the outlook for the 2016 election as ambiguous and uncertain. Although Halpin believes that Hillary Clinton is positioned to win, there are serious hurdles to her election. Trump has attracted an unexpectedly large constituency in white males who lack college education. Trump could have a path to election, but only if he works to expand his base. As a consequence, it is likely that the election will remain tight through the fall. Halpin predicts that the election will be most uncertain in the Rust Belt, Florida, Nevada, and Colorado.

On the Japanese side, given that Prime Minister Abe will remain in power until 2020, Professor Kobayashi focused on Abe's present and future policies. Kobayashi also highlighted Japan's key challenges, including fiscal sustainability and inequality. Japan's current debt level is unsustainable, and the country must increase the consumption tax in order to return to more stable levels. He explained that economic experts disagree, however, on how much the consumption tax must actually be raised: estimates range from increases up to 17% or 53%. Overall debt must be decreased to 14% of Japan's GDP.

In order to do so, however, Abe must implement comprehensive and long-term policies. Specifically, Kobayashi argued that Abe should establish a central bank for long-term fiscal sustainability forecasts. This bank would provide crisis management for Japan, including capital injection to banks, plans for fiscal rehabilitation, and liquidity provisions to the government.

Kobayashi argued that these policies have become increasingly necessary in the current age of economic instability. Japan's experiences in the 1990 economic crisis were echoed globally in the 2008 great recession, the effects from which Japan and the United States still suffer today. He also explained that mitigating inequality and Japan's debt might assist in augmenting its economic growth. This may require rehabilitating overly indebted households and firms and implementing debt forgiveness mechanisms as necessary. Kobayashi warned that Japan's demographic crisis would also continue regardless of whether or not the government is able to reduce its debt; if left unaddressed, the crisis will only increase Japan's economic stress.

Questions for this session zeroed in on the U.S. elections. One participant asked about Hillary Clinton's recent speech on U.S. diplomacy and its implications for the U.S.-Japan alliance. Halpin clarified that the speech's goal was to highlight the importance of American international relations in a campaign period and specifically criticize Trump's lack of foreign policy experience. Halpin also went on to explain that the average American does not pay attention to foreign policy; instead, Hillary Clinton's speech was directed at wavering Republicans and Independents. Michael Fuchs asked what the American people actually believe about U.S. foreign policy, and whether there are any issues other than trade that resonate with the public. Halpin replied that the American people tend to take a bifurcated stance that is dependent on their partisan beliefs. Many Americans have also extrapolated the problems that the United States faced in the Middle East to the rest of the world. Consequently, when it comes to garnering public support for new foreign policies—for example, the pivot to Asia—citizens question the wisdom of our international relations decisions when the government was unable to handle crises in the Middle East.

### **Session Three: Political Economy of the Asia Pacific**

Moderator: **Glen S. Fukushima**, Senior Fellow, Center for American Progress (CAP)

Speakers: **Nirav Patel**, President and CEO, The Asia Group; **Hideichi Okada**, Executive Advisor, NEC Corporation; Former Vice Minister for International Affairs, Ministry of Economy, Trade and Industry, Government of Japan

The next session built upon the ideas discussed in the first two sessions to examine the interaction of politics and economics in the Asia-Pacific region. Hideichi Okada began the session by outlining the existing trade agreements that tie the Asia-Pacific to the rest of the world. China, Japan, ASEAN, the EU, and NAFTA countries are all tightly bound by trade agreements. Okada also suggested that instead of looking at

countries as the sole manufacturers of a particular good, we should start to view production in terms of the value that each country adds to a particular product.

Okada then focused on regional political economic architecture. He began by outlining each of the five ASEAN plus one agreements, the Regional Comprehensive Economic Partnership, the ASEAN Economic Community, and the Asia-Pacific Economic Partnership (APEC). He then analyzed the Trans-Pacific Partnership (TPP), which would combine twelve countries in a free trade area encompassing 36.3% of global GDP. While China is not a member of the TPP agreement, Okada emphasized that TPP-member countries were not intentionally trying to exclude it; instead, China could become a member in the future once it acquiesces to the terms of the agreement.

China has also developed its own economic architecture in the region. The Chinese-founded Asian Infrastructure Investment Bank (AIIB) incorporates 57 members in an organization that will compete with the U.S. and Japan-run Asian Development Bank (ADB). China has also increased its political and economic capital around the region in the development of its One Belt, One Road (OBOR) initiative that extends through South and Southeast Asia into Europe and Africa.

Okada also examined threats to these arrangements and the security of the political economy in the Asia-Pacific. Individual memberships to institutions, or lack thereof, may limit organizational efficacy and create tension in the region. For example, Taiwan is not a member of the TPP, but is a crucial element of the Asia Pacific supply chain. China's incursions into the South China Sea have also threatened the security of many Southeast Asian states such as Vietnam.

Nirav Patel expanded Okada's description and analysis of the political economy in the region to global trends and how they may impact the future of the region. Patel focused specifically on four antithetical observations, the first of which examined the impact of trade on conflict. Although trade theory predicts that increased ties between countries should result in a decrease of conflict, we have seen an increase of violence and political tension around the world. Increased global integration and interaction should result in mutual interests that encourage diplomacy over tensions, yet this has not been the case. Yoriko Kawaguchi later added to this point and explained that given the increase in countries trading with one another, it is only natural that there would be an increase in the quantity of conflict- yet this does not mean that trade is the cause of these issues.

Second, Patel discussed how despite increases in regionalism and trade, we have also seen an increase in protectionism and nationalism. Many countries are using infant industry measures to protect new economic sectors. He suggested that countries should begin to bring different disciplines together instead of focusing their efforts on protecting specific industries. Next, global trends also point to increased fragmentation despite integration. For example, the Asia Pacific architecture has devolved into a zero sum game between American or Chinese organizations, as evident in the creation of the CEP with China and the TPP with the United States. Countries are willing to cut deals in order to make dominant frameworks, which have unintentionally (or in some cases, intentionally), divided

the region. Finally, although Patel argued that global trade is on the rise, commercial regionalism has also grown, indicating that supply chains are becoming more integrated. At the same time, however, structural fragmentation has created costs that are prohibitive to trade. Consequently, regional leaders like the United States and Japan need to bilaterally think through means to support trade efforts that encourage shared values and decrease these costs.

The subsequent discussion emphasized the importance of trade for foreign policy. Andy Green highlighted the importance of trade agreement enforcement in a foreign policy context, explaining that these agreements may help address shared or conflicting values. Patel expanded on this from a business perspective, and described how businesses cannot adapt as quickly as integration efforts change. Consequently, although businesses are left with substantial benefits from integration, they are also forced to speed up development. The discussion also emphasized how much integration efforts can vary in a small region—for example, between maritime and mainland South East Asia-- depending on political and security needs.

## **Session Four: U.S.-Japan Regional and Global Cooperation**

Moderator: **Naoyuki Haraoka**, Executive Managing Director, Japan Economic Foundation (JEF)

Speakers: **Vikram Singh**, Vice President, National Security and International Policy, Center for American Progress (CAP); **Yoriko Kawaguchi**, Professor, Meiji Institute for Global Affairs, Meiji University; Former Member of the House of Councilors of Japan; Former Minister of Foreign Affairs; Former Minister of the Environment

The final session of the forum examined the strength and future of the U.S.-Japan alliance, analyzing key challenges and opportunities it may face in the future.

Vikram Singh opened the discussion by describing the current state of the alliance. Singh remarked that U.S.-Japan relations are very strong, and will likely become stronger with Asia's rising importance. On a macro level, the international order that the United States helped establish after the Second World War was very successful in promoting stability. The rise of China, however, has upset this world order and unbalanced power within the Asia-Pacific region. Consequently, Singh suggests that both the United States and Japan must try to protect core elements of the world order, but be flexible with what happens in the future. The Alliance must be ready to adapt and respond to challenges posed by China's rise and other issues including North Korean security threats.

Singh then described key challenges to the U.S.-Japan alliance. He first noted the importance of sustained economic growth for both countries. From the United States' perspective, however, for Japan to maintain its presence on the world stage and to continue to invest in defense, it must be committed to strengthening its economy through investment and confidence building. Next, the United States and

Japan also hold differing perspectives in regards to the threat that China poses as a result of proximity. The United States sees its relationship with China as a global one, while Sino-Japanese relations are regional. The difference in size and scope of these relationships may threaten the balance of the U.S.-Japan alliance. Consequently, Japan and the United States must work together to incentivize Chinese growth while deterring the negative aspects of its rise. Finally, U.S. domestic politics also threaten the alliance. There is a widespread unease in the United States towards trade. The United States government must highlight the importance of its alliances to garner public support and maintain these relationships.

Yoriko Kawaguchi agreed with Singh's overall analysis of the state of the U.S.-Japan relationship. In her view, the nature of the U.S.-Japan relationship is one built on mutual trust and respect, shared values (including democracy, freedom, rule of law, market economy, and human rights), a strong alliance relationship, and personal and economic ties. She noted that it is not possible for one country to have hegemonic power alone in today's world; the U.S. and Japan can work together, however, to overcome shared challenges, including fostering China's peaceful rise, cooperating on nonproliferation, maintaining regional security, and stimulating regional economic prosperity. The strong U.S.-Japan partnership is also productive as an element of multilateral cooperation.

Despite these benefits, Kawaguchi is particularly worried about "dark clouds" in American politics caused by Donald Trump and the resultant potential weakening of the U.S.-Japan alliance. If elected president, Trump would engender great concern among American allies and weaken historical partnerships.

Kawaguchi then went on to provide avenues to expand U.S.-Japan cooperation and strengthen the alliance. Firstly, the U.S. and Japan should monitor the peaceful rise of a law-abiding China that works within the international governance order. The two countries can also work to denuclearize the Korean peninsula and promote nuclear non-proliferation, in addition to cooperating on nontraditional security threats. She also pointed to regional economic prosperity as a way to deepen the alliance, and argued that the United States should ratify the TPP, Paris climate accord, and the United Nations Convention on the Law of the Sea (UNCLOS).

Questions focused on security cooperation between the two countries, and addressing the rise of China. Mike Fuchs questioned how to apply pressure on China in a way that would also allow it to save face. Kawaguchi argued that it is important to continue current measures, and increase pressure on its island building activities. She also argued that the United States should have dispatched its navy to the South China Sea before China even started building there. The participants of the forum went on to discuss the ultimate goal of countering China's aggression in the South China Sea. For example, they debated whether or not the United States and Japan aimed for freedom of naval access or to completely demolish China's manmade islands. Singh argued that it was too late to demolish the islands, for China's building activities should have been checked at the beginning of construction. As a result, he suggested that the South China Sea may develop into a situation similar to the India/Pakistan border: a nationalistic

standoff that demonstrates disapproval without going to war. Kuroda also emphasized that as long as China grows within institutional frameworks, the U.S. and Japan could assist China's rise in a mutually beneficial manner.

## **Conclusion**

The forum provided an in depth discussion for frank U.S.-Japan exchange on the state of the relationship and its challenges and opportunities. The valuable insight offered by both CAP and JEF scholars opened up policy directions that both our American and Japanese governments can analyze and implement to maintain our strong alliance. The discussions also highlighted domestic challenges that may have external effects. The work, friendship, and discussion between the two organizations throughout the day provided an opportunity for exchange between our two countries that already has, and will continue, to strengthen U.S.-Japan ties.