

## **The U.S.-Japan Relationship**

**New Challenges, New Opportunities for New Administrations**  
*A Vision for the U.S.-Japan Relationship: Partnership for Leadership*

### ***A Joint Action Agenda***

*A project of The Japan Economic Foundation and Dewey & LeBoeuf LLP*

#### **Executive Summary**

Although the United States and Japan represent over one-third of the world economy and are united by extensive economic and security linkages, treaty and other arrangements and a strong adherence to democratic values, it has become clear that neither government has recently invested the attention needed to find ways to work more closely together. This failure has repercussions on their ability to derive full benefits from the bilateral relationship as well as in being unable to join forces effectively to counter mounting global problems. Even the topic of “The Japan-U.S. bilateral relationship” attracts little attention from either of the two countries’ leaderships or peoples, whose focus is on pressing global issues such as terrorism, piracy, pandemics and rise of Brazil, Russia, India and China (the so-called BRICs) and others. Therefore, any discussion of the bilateral U.S.-Japan relationship has to focus substantially on global issues in the context of U.S.-Japan collaboration.

The advent of the Obama Administration provides an enormous opportunity for change in the way each nation views and works with the other. To assist both governments to better understand these opportunities and to make specific suggestions for action, on December 9, 2008 the Japan Economic Foundation (JEF) and Dewey & LeBoeuf LLP (D&L) hosted a conference of business executives, academics, former government officials and other experts from both nations to review the political and economic relationship and propose a pragmatic, bold and achievable Joint Action Agenda. The JEF and D&L have provided this paper with its recommendations to the Obama Administration transition team and to the Japanese government.

The Joint Action Agenda spans a wide range of topics, befitting the nature of a complex relationship between the top two global economies, including:

- Providing a long-term vision for strengthening the relationship
- Strengthening the security relationship
- Negotiating a modernized bilateral Treaty of Friendship, Commerce and Navigation
- Simultaneous achievement of the 3Es — economic growth, energy security and environmental protection

- Addressing climate change
- Improving food safety and security
- Enhancing cooperative innovation
- Creating sound, stable financial and capital markets
- Achieving a successful conclusion to the Doha Round negotiations
- Enhancing integration of the two economies
- Promoting Asia-Pacific regional integration

In 2010, the United States and Japan will celebrate the 50<sup>th</sup> anniversary of the Treaty of Mutual Cooperation and Security between the two countries. Furthermore, the two countries will be consecutive chairs of the Asia Pacific Economic Cooperation (APEC) in 2010 (Japan) and 2011 (United States). These milestones offer tremendous opportunities for the two countries to institutionalize both economic and security aspects of the bilateral relationship and address the bilateral, regional and global issues described in the Joint Action Agenda. It cannot be overemphasized that a strong economic relationship, which has recently received less attention than security matters, is a key component of the overall bilateral relationship; without it, other aspects of the relationship will deteriorate. In this regard, a high-standard U.S.-Japan Economic Partnership Agreement (EPA) that enhances economic integration between the two countries would help solidify various aspects of the bilateral alliance for the long-term. The Joint Action Agenda contains a number of proposals that provide building blocks to achieve this goal.

The current economic environment indeed calls for a strong, pro-active economic and trade agenda. A successful conclusion to the Doha Round negotiations is one part of this agenda, but has limits. The U.S.-Japan EPA or a similarly ambitious bilateral initiative could demonstrate what can be achieved. The keys to achieving this goal are a high-level of ambition and commitment from the highest levels of the two governments.

# TABLE OF CONTENTS

<b>I Long-Term Vision for Strengthening the U.S.-Japan Relationship</b> .....	4
<b>II Joint Action Agenda</b>	
<b>1. The Political Relationship</b>	
<b>A) Strengthening the Security Relationship</b> .....	6
<b>B) Negotiating a Modernized Bilateral Treaty of Friendship, Commerce and Navigation</b> .....	6
<b>2. Global Common Issues — The Socio Economic Partnership</b>	
<b>C) Simultaneous Achievement of the 3Es– Economic Growth, Energy Security and Environmental Protection</b> .....	7
<b>D) Addressing Climate Change</b> .....	7
<b>E) Improving Food Safety and Security</b> .....	8
<b>3. The Economic Relationship</b>	
<b>F) Enhancing Cooperative Innovation</b> .....	9
<b>G) Creating Sound, Stable Financial and Capital Markets</b> .....	9
<b>H) Achieving a Successful Conclusion to the Doha Round Negotiations</b> .....	10
<b>I) Enhancing Integration of the Two Economies</b> .....	11
<b>J) Promoting Asia-Pacific Regional Integration</b> .....	12
<b>III Institutional Arrangements</b>	
<b>K) Assembling Building Blocks to Creating an Enhanced, More Effective Dialogue</b> .....	15
<b>L) Establishing a Sub-Cabinet Strategic Security Dialogue</b> .....	15
<b>IV Conclusion</b> .....	17

## I A Long-Term Vision for Strengthening the U.S.-Japan Relationship

Senior American statesmen in the not too distant past declared the U.S.-Japan relationship to be *the most important bilateral relationship in the world*. There are a series of facts that would suggest that maintaining a close working partnership should be a top priority for the two governments. However, in recent years, neither the United States government nor the Japanese government has invested the time and attention to working together that is suggested either by this statement or by the political or economic standing of the two countries.

The advent of a new administration in Washington provides an excellent opportunity for a reassessment by the United States of its international priorities and an examination by the government of Japan of its links with the new U.S. administration.

The United States and Japan are ranked respectively first and second in the world in terms of size of Gross Domestic Product (GDP), accounting for one-third of the entire world's GDP.<sup>1</sup> The two economies are united in an extraordinary number of ways:

- The continuing commitment of the United States is crucial to Japan's national security as well as Asia's regional security.
- Japan is a very stable country with universal values similar to those of the U.S., including its commitments to democracy, the rule of law, respect for freedom and a market economy.
- Japan is a peace-seeking country and has adopted a firm policy not only "not to produce nuclear weapons" but also to support the Nuclear Non-Proliferation Treaty (NPT), and has a firm policy "not to export weapons."
- Japan supports international organizations, politically and financially, including the United Nations (2008: 16.6% contribution), the IMF, the World Bank and the Asian Development Bank. Likewise, the U.S. provides a major share of the resources and plays a leadership role in these same institutions.
- Japan ranks as the second largest supplier of foreign direct investment to the U.S., creating more than 600,000 job opportunities in the U.S., and the United States is by far the largest destination for Japan's foreign investment (31.9%) and is also by far the largest source of direct investment in Japan (33.5%).
- Japan is a very significant investor in U.S. Treasury securities.
- Japan is a leader in developing energy-conservation and alternative energy technologies, and has extensive experience in operating nuclear power stations.

---

<sup>1</sup> United States \$13.8 trillion, Japan \$4.4 trillion. Source: World Bank website (2007).

- The United States is a leader in developing information technologies and bio technologies.
- The United States accounts for the largest share of foreign holdings of Japanese stocks.

Despite these facts, many in Japan and in the United States pay slight attention to the value of the U.S.-Japan relationship. In neither country do political leaders assign priority to economic integration between the two nations.

It is the combination of this seeming anomaly between the relevant facts and level of interest and the advent of a new U.S. administration that led the Japan Economic Foundation and Dewey & LeBoeuf to convene a conference of Japanese and American experts from business, academia and think tanks to examine the economic and political realities that face the relatively new government in Japan and the incoming administration in the United States and to consider innovative ways for the two countries to cooperate to their mutual benefit. The conference's expert participants were chosen on the basis of their direct experience with major issues in the relationship. They were tasked with reviewing how the economic and political/military objectives of both countries in Asia, Europe and beyond can be accommodated while striving to create a 21<sup>st</sup> Century version of a "strategic partnership" between Japan and the United States. A list of participants follows the text of the Joint Action Agenda. While the contributions of each participant form very substantially the basis for this document, this document is the sole responsibility of the undersigned editors, and agreement with each and every point should not be ascribed to any participant.

## II Joint Action Agenda

### 1. The Political Relationship

#### A. Strengthening the Security Relationship

The 1960 Treaty for Mutual Cooperation and Security remains the foundation of the U.S.-Japan alliance and the key element in maintaining peace and security in East Asia. The two governments should rededicate themselves to consolidating the foundation of the security relationship and continuing to transform it to meet the challenges of the 21<sup>st</sup> century. Specifically, the two governments should agree to:

- Reinvigorate the implementation of the agreed program (Defense Policy Review Initiative - DPRI) to realign and consolidate American bases in Japan to meet the 2014 target date. Both the U.S. and Japan should make further efforts to expedite the movement of the Marine Corps Air Station Futenma as was already agreed upon in 2006.
- Fully implement the coordinated missile defense program.
- Develop a long-term agreement on Host Nation Support for American Forces in Japan, taking into account the fiscal constraints and the increasing contributions to the alliance made by Japan in other areas.
- Based on the 1997 Revised Guidelines for U.S.-Japan Defense Cooperation, continue the development of joint contingency planning to ensure the smooth implementation of Japan's rear area support for American forces in the event of a regional contingency, taking into account the changing security environment and the need to coordinate closely with relevant government agencies and local authorities.
- Maintain the credibility of the U.S. nuclear umbrella/extended deterrence by:
  - ensuring that Japan is fully consulted as the U.S. undertakes its Nuclear Posture Review; and
  - closely coordinating positions on nuclear arms control/disarmament agreements for lowering the level of nuclear balance, while avoiding commitments that might undercut the U.S. deterrence.
- Attention should be drawn to the Report of the Advisory Panel on Reconstruction of the Legal Basis for Security that was presented to the Government of Japan on June 24, 2008. The Panel was tasked in 2007 by then Prime Minister Shinzo Abe to reexamine the current legal basis for Japan's national security in the light of changes in the security environment surrounding Japan. The interpretation hitherto held by the Japanese Government is that Article 9 of the Japanese Constitution only permits minimum and necessary use of force to protect Japanese citizens, confining the use of force to an exercise of the right of individual self-defense. Therefore, the Panel recommended that Article 9 should be interpreted to

permit the exercise of the right of collective self-defense, and to allow participation in collective security efforts under the United Nations. If, on its own initiative, the Japanese Government adopts the change of interpretation as recommended by the Panel, this will significantly strengthen the U.S.-Japan alliance and enable Japan to more actively contribute to the global efforts toward the maintenance of international peace and security.

- Work cooperatively to identify and deploy non-military tools to fight terrorism and insurgency in countries of mutual concern. This may include economic, commercial, diplomatic or other means.

## **B. Negotiating a Modernized Bilateral Treaty of Friendship, Commerce and Navigation**

In 2010, both nations will celebrate the 50<sup>th</sup> anniversary of the signing of the Treaty for Mutual Cooperation and Security. At the first bilateral summit under the new U.S. administration, the U.S. and Japanese governments should start exploring the possibility of the launch of negotiations for modernizing another key agreement, the Treaty of Friendship, Commerce and Navigation (FCN), hopefully by 2010. Modernizing the FCN Treaty would serve as a modest but important first step in deepening economic integration between the countries. The modernized FCN Treaty should cover, but not be limited to, the following points:

- Enhancement of regulatory convergence and transparency, improvement of investment rules, freedom of movement of persons and establishment of mechanisms for facilitating cooperation in energy and food supply in emergencies.
- By institutionalizing aspects of a U.S.-Japan economic accord in a legally binding form, the modernization efforts can reinforce a building block approach that could set the foundation for an eventual comprehensive U.S.-Japan EPA or, more ambitiously and long-term, a single market.

## **2. Global Common Issues — The Socio Economic Partnership**

### **C. Simultaneous achievement of the 3Es — Economic Growth, Energy Security and Environmental Protection**

Together with the private sector, the U.S. and Japanese governments should work together both bilaterally and globally to achieve simultaneously Economic Growth, Energy Security and Environmental Protection (3Es). Partial achievement of any of these goals could result in a cancelling out of achievement of the other two. For example, coal utilization itself is an economic option for energy security, but will hamper climate change mitigation. Carbon dioxide (CO<sub>2</sub>)-free nuclear power is a key energy technology for achieving all of the 3Es goals.

## **D. Addressing Climate Change**

The key to coping with challenges of climate change is for the U.S. and Japan, the two countries that are most advanced in developing the relevant technologies, to work together to develop additional innovative technologies to reduce or eliminate CO<sub>2</sub> emissions. Those technologies might include solar energy, clean coal, new batteries for plug in hybrid vehicles, carbon capture and storage, safe nuclear power/enhanced methods to deal with nuclear waste and hydrogen power.

Both countries should collaborate to deploy existing low carbon technologies to developing countries through official development assistance (ODA) efforts including via assistance utilizing the World Bank and other development agencies, as well as through private investment. The two countries' cooperation should also involve trade, intellectual property rights protection, and financial policy aspects of addressing climate change. More specifically, both countries should push for lower tariffs on environmental goods, strong intellectual property rights protection for green technologies and enhanced financial arrangements to facilitate technology transfer.

Both countries should reconfirm that they share a long-term goal of cutting global greenhouse gas (GHG) emissions by half by 2050. In addition, they should agree to jointly discuss creation of a global mid-term goal first, instead of national mid-term goals. Mid-term goals must be consistent with a long-term global goal.

Both governments should agree that the global emission allowances incorporated in the mid-term goal should be distributed to each country, including China and India, based on fair, transparent and reasonable common criteria or on a formula consistent with these objectives.

## **E. Improving Food Safety and Security**

Both nations need to devote substantial attention to ensuring that only safe food products are provided to their populations in ways that are responsive to the concerns raised in a number of recent incidents, consistent with international obligations and norms, and which strive to address overburdened regulatory processes. Also, it is very important to take note of the issue of food security in the event of a critical shortage of food products. Several specific recommendations follow:

- The U.S. and Japan should work jointly to streamline food safety risk assessment and agree upon the procedures and the contents of the risk assessment and, once agreed, to seek mutual recognition of standards and conclusions. This would avoid the need to duplicate food safety science, which is at the same world-class level in both nations.
- The two countries should urgently press major supplying countries whose food safety systems are insufficient to pass and strictly implement remedial legislation in this area.

- The countries should build on cooperation as a result of shared concerns over domestically produced and imported food safety to cooperate in other areas of mutual concern, such as seeking mutual recognition of standards and regulatory policies for rising industries such as health care, information and media/entertainment and energy/environment technologies and products.
- The present WTO rules allow an exporting country to apply a temporary ban or restriction on exports of a product in the event of a critical shortage of foodstuffs or other essential products. However, in this global age, if there is a critical shortage of a product in an exporting country, there will often also be a critical shortage of the product in importing countries. It is therefore desirable that the WTO rules be amended to prohibit the use of export prohibitions in these circumstances. If that does not prove to be feasible, a U.S.-Japan EPA should require that any export limitation maintain a ratio of exports to production of the product at the same level as during a recent representative period (as provided in the North American Free Trade Agreement).

### **3. The Economic Relationship**

#### **F. Enhancing Cooperative Innovation**

There are new challenges and opportunities available to both nations for better collaboration in the innovation of technologies. Of particular concern to both nations in this area is climate change, energy security, pandemics and secure supply chains. Japan and the United States also face the added challenge of increasingly well-educated and technically-capable workforces in rising competitors such as China and India. Greater collaboration will strengthen the responses to both sets of challenges.

Japan and the United States each have strengths in innovation and in research and development which can yield increased results through cooperation, coordination and identifying mutually reinforcing synergies. Specifically, governmental laboratories, universities and companies in both countries should cooperate with each other to develop innovative technologies in the field of bio-science, including vaccines against AIDS, malaria, and tuberculosis as well as antibiotic-resistant bacteria. There are similar opportunities in the field of climate change/green energy such as clean coal (including carbon capture and storage - CCS), nuclear energy and solar power. The National Science Foundation and Department of Energy and equivalent Japanese organizations could use grants to stimulate effective collaboration with a focus on precompetitive technology.

#### **G. Creating Sound, Stable Financial and Capital Markets**

Many of the financial problems facing both countries and their trading partners were foreseeable. There needs to be a full-scale effort by officials and experts from the U.S., Japan and Europe to investigate the problems and make needed corrections. In light

of this, the establishment of a U.S.-Japan-European Union trilateral discussion forum would be beneficial, aiming at collaboration on: 1) macroeconomic policy, and 2) how financial markets and corporate governance need to be improved. The discussion's result should be harmonized rules for financial firms and instruments used internationally, as well recommendations for actions by each nation. This forum should consult with, and take account of, kindred work underway in the G-20. Some key areas needing reform include:

- Supervising and regulating the derivatives market. There needs to be enough supervision so that officials know the size and distribution of various instruments. Instruments need to be traded on exchanges, like stocks, to address counterparty risk and the chaos that followed in the aftermath of the Lehman and AIG collapses. Countercyclical application of mark-to-market rules should be adopted, and adaptations need to be made for illiquid markets that are currently “marked to myth.”
- Regulating the nonbanks. At the heart of the U.S. subprime crisis was the fact that regulators either had little power to regulate nonbanks, or — due to excessive faith in the self-correcting features of financial markets — refused to use the powers they were given. Hence, officials allowed all sorts of bizarre mortgages, including those with no down payment and no documentation of ability to pay.
- Correcting flaws in executive compensation that induce CEOs to take excessive risks with other people's money. A key ingredient in the crisis is the compensation system of executives that often puts the interests of the CEOs at odds with the firm and its stockholders-stakeholders.
- Reexamining the payments system for rating agencies. Rating agencies have repeatedly underestimated the risk of various instruments. One factor may be the fact that they are paid by the people issuing the instruments. This conflict of interest needs to be eliminated. Official supervision of rating agencies is necessary.
- Reexamining risk models. Academic work has shown that currently popular mathematical models systematically underestimate the risks inherent in financial markets, thereby giving bad guidance to investors, financial intermediaries and policymakers.

## **H. A Successful Conclusion to the Doha Round Negotiations**

The two governments should assign a very high priority to a successful conclusion of the Doha Round. Success in the negotiations requires substantial improvements in the multilateral regime provided by the WTO. This is of vital importance to the durability of a liberal world trading system, and of particular importance to resisting protectionism and fostering recovery of the world economy.

Specifically, both governments should agree that among the improvements would be the following subjects of immediate concern:

- Increased market access for the products and services of developing countries.
- Global liberalization of products that accelerate economic development, including information, computer and telecommunications products and services.
- Global liberalization of products and services that foster health.
- Global liberalization of products and services that moderate climate change and those which result in the saving of energy.
- Rules to prevent the abuse of standards for protectionist purposes by strengthening the WTO's Agreement on Technical Barriers to Trade.
- New limits on the use of temporary export controls imposed in times of critical shortage of raw materials and food essential to the exporting countries, particularly with respect to agricultural products.
- Parameters on the use of agricultural safeguards in the context of enhanced agricultural liberalization.
- Rules to enhance food and product safety without increasing unnecessary barriers to trade.
- A clearer understanding and enhanced rules on the degree to which regional and bilateral trading arrangements may derogate from the most-favored nation principle and divert rather than create new trade, to avoid harm to non-participants.
- Rules for access for cross-border financial services that complement new arrangements on financial regulation in other fora.
- Consideration of international rules governing restrictions on inward foreign direct investment.
- Consideration of rules providing for the further liberalization of movement of persons across borders.
- Rules requiring the free flow of information via the internet and other means.
- Increased transparency and improved accountability in the WTO dispute settlement system.
- An updated structure and management of the WTO.

## **I. Enhancing Integration of the Two Economies**

The two governments need to redouble efforts to consult on fully issues of mutual concern before, not after, decisions are taken, keeping in mind the interests of the other party and being careful not to take for granted the benefits of the relationship but working actively to stay ahead of events. They need to make these decisions and consultations better known to their people and avoid the unnecessary politicization of trade or technical issues.

Moving beyond a strong conclusion to the Doha Round, a major step to revitalize bilateral relations to mutual benefit would be negotiation of a high-standard U.S.-Japan EPA along the lines recommended by the U.S.-Japan Business Council. The EPA should include a range of trade and investment liberalizing measures as well as issues of current concern and importance to, and meriting the support of, the wider stakeholder community involved in trade negotiations today. A strong economic relationship is a critical component of the overall bilateral relationship: without it, the security aspect of the relationship, on which the two governments have placed more emphasis, will wither. Thus, an EPA that enhances economic integration between the two countries would help solidify long-term security and political relations as well.

The EPA should include measures to stimulate greater educational and cultural exchanges between the two countries, recognizing that these contacts create the interest and understanding that are the fabric of a healthy relationship. In a similar vein, increasing exchanges of students, especially in science (particularly physical science, medical science and biotechnology) should be incorporated in the EPA. The fact that two out of four 2008 Japanese Nobel Prize Laureates in 2008 have been living and studying in the United States clearly demonstrates the value of closer Japan and U.S. scientific collaboration.

An EPA could also yield rapid increases in the competitiveness of U.S. and Japanese companies as well as shaping the emerging trade and economic architecture in Asia, thus permitting both countries to improve their competitive position.

Because a deeper level of economic integration between the two countries involves a broad number of diverse areas, requiring extensive consultation with private sector interests, non-governmental organizations, various committees of the U.S. Congress and the Japanese Diet, and in some cases prefectural, state and local governments, as a practical matter, in order to make progress toward an EPA, the two governments should pursue a “building block approach” in the short-term — they should explore the value of intermediate agreements that can yield commercially significant results quickly. As one example, Japan and the U.S. could agree on steps to improve logistics, reduce costs and enhance inspection and security of bilateral trade. A bilateral agreement on this subject would be valuable serving as an important step in achieving immediate economic benefits.

Going beyond an EPA, the two governments should consider opportunities presented by moving step by step toward the creation of a more fully integrated U.S. and Japanese economy progressing where possible toward the creation of a single market. Such economic integration can yield more wide-ranging results than a conventional free trade agreement and would represent a bold, forward-looking agenda that would help to support the two nations' common hopes and concerns. Such an agreement would also stimulate more economic growth — growth in Southeast Asia and elsewhere in the region including South Korea and China. U.S.-Japan economic integration would set a high standard for labor and environment practices and demonstrate leadership that can reassert a strong trans-Pacific character to efforts currently led by other nations to economically integrate Asia.

## **J. Promoting Asia-Pacific Regional Integration**

A future U.S.-Japan dialogue must increasingly include regional and global issues, not only bilateral ones. Regionally, the two countries should focus on future possibilities of a free trade area among the Asia Pacific Economic Cooperation (APEC) group of nations, having first moved, if possible, the Doha Round to a successful completion. Both countries should work together to advance structural reforms in the United States and Japan as well as to ask the third countries, China in particular, to be involved in this undertaking and especially to address imbalances in exports, imports and domestic consumption and to review economic stimulus packages to ensure that they do not violate WTO precepts or otherwise unjustifiably harm the economic interests of other countries.

The two governments should agree that regional integration, including the reduction of barriers to trade and investment and the promotion of coordinated action can help to mitigate the effects of the financial crisis and accelerate recovery. The two countries must intensify coordinated action (“connectivity”) to mitigate the crisis in areas that include the following:

- Encouraging WTO-plus multilateral trade and investment liberalization within APEC by joining the Trans-Pacific Strategic Economic Partnership (TPP).
- Encouraging higher levels of investment and tourism, accepting higher numbers of skilled immigrants and greatly expanding opportunities for foreign students and trainees.
- Accelerating efforts to restore credit transactions and improve the efficiency of cross-border financial transactions throughout Asia.
- Supporting efforts by the Asian Development Bank, whose capital needs to be increased, and the private sector, to promote regional economic integration, modernize ports, streamline port procedures, improve feeder roads and otherwise promote maritime and land-based “connectivity,” and ensuring that the Bank has sufficient capital to successfully pursue these tasks.

- Avoiding further economic sanctions against Myanmar, which punish poor people and create black markets that enrich the elite.
- Enhancing technical cooperation with respect to logistics to spur economic growth in the Asia-Pacific area: for Japan in the form of improving its production networks; for the U.S., encouraging its own exports; for China, empowering consumers in villages and for Korea, assisting its efforts to be a logistics hub as well as for other nations.
- Seeking common ground with respect to policies toward China, in response to the Chinese government's efforts to increase domestic consumption and compensate for job losses in the export sector.
- Developing viable mechanisms for technology transfer, consistent with intellectual property rights.
- Working with China and India to make the burning of coal in those countries more environmentally sustainable with a particular focus on accelerating carbon sequestration efforts.
- Launching a bilateral strategic energy dialogue focusing on and seeking to simultaneously achieve goals on the 3Es. The two governments should engage in a dialogue to learn lessons of past successes and failures and use their combined economic base to help create sufficient demand to ensure success in creating and deploying environmentally sensitive technologies.

### **III Institutional Arrangements**

#### **K. Assembling Building Blocks to Create an Enhanced, More Effective Dialogue**

As it is clear that there is not yet the commitment in either country to move immediately into a broader and deeper level of integration, a “building block approach” offers a practical means to make progress while the incoming Obama Administration and 111<sup>th</sup> Congress develop relevant policy positions. This building block approach includes:

- A Business Environment Initiative which would focus on sector-specific and cross-sectoral issues including regulatory convergence and mutual recognition agreements, secure trade, investment and corporate governance, financial and capital markets, energy and environment, healthcare innovation, information and communication technologies, intellectual property, competition policy and freedom of movement of labor, among others.
- A cabinet-level economic forum to discuss strategic bilateral, regional and global issues facing the two nations.
- An annual economic summit between the president and prime minister.

These institutional arrangements would be able to move forward on the extensive range of issues before both nations and would yield concrete, near-term results while building support within Congress and the Diet for a more inclusive Economic Partnership Agreement. To be effective, senior government officials on both sides would need to welcome and promote these institutional arrangements. Without this buy-in, results would likely be unimpressive.

There is broad scope for both government-led liberalization as well as for creative public-private cooperative arrangements between the U.S. and Japan and, wherever useful, the dialogue should provide for strong participation of the private sectors of both countries including from the business community, non-government organizations and other important stakeholders.

There are several opportunities for early meetings between President Obama and Prime Minister Aso on the occasion of the next meeting of the G-20 (London, April 2, 2009), the G-8 Summit (La Maddalena, Italy, July 8-10, 2009) and the APEC Leaders (Singapore, November 14-25, 2009). These multilateral meetings provide the two leaders with opportunities to move policy and institutional arrangements forward from the most senior levels.

#### **L. Establishing a Sub-Cabinet Strategic Security Dialogue**

The annual consultation among the American and Japanese Foreign and Defense Ministers, known as the Two plus Two, plays a critical role in managing the alliance and needs to be strengthened. However the Two plus Two is largely devoted to agenda-

setting and then formalizing the resulting agreements. The meeting does not provide a forum for in-depth, probing discussions on the strategic environment and policy challenges and opportunities for the two countries.

- To remedy these deficiencies, and in addition to the institutional building block approach proposed in Section K above, it would be very useful to establish a sub-cabinet strategic dialogue on a semi-annual basis involving deputy/under secretary level officials of the U.S. State and Defense Departments and vice/deputy minister levels at the Japanese Ministries of Foreign Affairs and Defense. These meetings would be designed to explore in detail regional and global security issues and the respective assessments and policies of the two countries. When appropriate, uniformed officers of the two Joint Staffs could be included on specific agenda items.
- This Sub-Cabinet Strategic Dialogue would be in addition to the established consultations among senior regional and functional officials of the two governments to coordinate on non-security issues.

## IV Conclusion

The global economic crisis offers many lessons, including that no one nation, no matter how large or economically powerful, can take effective action alone. The foregoing Joint Action Agenda offers both governments, and their private sectors and other stakeholder groups, ideas on how Japan and the U.S. can work cooperatively to achieve mutually shared objectives across a range of today's and tomorrow's policy concerns, from political-military, to economic, safety, energy and environmental.

A closer U.S.-Japan relationship is not a goal in itself, but rather is a means to a better life for people of both countries and the world. The bilateral partnership has contributed to prosperity, security and stability for 60 years. The task for both the Obama and Aso governments is to recognize the value of closer cooperation and to update and strengthen the way the countries will need to work together in the future.

We suggest that both governments set themselves to this task early in the Obama Administration. In principle, enhancing bilateral cooperation is straightforward. The two countries share similar values and similar strengths. The differences that do exist lend themselves to complementary approaches to problem-solving, not necessarily to conflict. They enjoy similar standards of living and concerns about global commons.

Yet in practice there are many concerns on each nation's agenda which challenge national leaders and inevitably focus attention at the most urgent problems. Participants from Japan and the U.S. suggest that steady, consistent and wise leadership will be needed on both sides to ensure that minor conflicts do not derail opportunities for cooperation and that inevitable political pressures do not get out of control. Working together, the countries can achieve a great deal; divided, they can achieve little.

\* \* \* \* \*

*This Joint Agenda has been prepared by the seven editors identified below, six of whom are affiliated with the Japan Economic Foundation, and Dewey & LeBoeuf.<sup>i</sup> The editors take full responsibility for seeking to reflect the views expressed at the December 9, 2008 conference and subsequent comments received from a number of the participants. The conference sponsors wish to sincerely thank the participants (a full list of whom appear at the end of this Joint Agenda). The points contained in the Joint Agenda should not be attributed to any organization with which the editors or other participants are affiliated.*

### Edited by

Ambassador Rust M. Deming, the Paul H. Nitze School of Advanced International Studies (SAIS), Johns Hopkins University  
Naoyuki Haraoka, Japan Economic Foundation  
Noboru Hatakeyama, Japan Economic Foundation

Maki Hishikawa, Dewey & LeBoeuf  
Masaru Inoue, Japan Economic Foundation  
Dana M. Marshall, Dewey & LeBoeuf  
Ambassador Alan Wm. Wolff, Dewey & LeBoeuf

Participants (alphabetical order)

Laurence W. Bates, General Counsel, GE Japan  
Amb. Karan Bhatia, Vice President and Senior Counsel for International Law and Policy, General Electric Company  
Kent E. Calder, Edwin O. Reischauer Professor, SAIS, John Hopkins University  
Andrew J. Conrad, Senior Vice President and Counsel & Director of Governmental and Legal Affairs, Aflac International Incorporated  
Amb. Rust M. Deming, Adjunct Professor Japan Studies, SAIS, John Hopkins University  
Richard Dyck, President, TCS Japan K.K.  
Cathleen Enright, Vice President, Federal Government Affairs, Western Growers Association  
James W. Fatheree, President and COO, U.S.-Japan Business Council, Inc  
Robert C. Fauver, President, Fauver Associates, LLC  
Ellen L. Frost, Visiting Fellow, Peterson Institute for International Economics  
Yukiko Fukagawa, Professor, Waseda University  
Edward Gresser, Director, Trade & Global Markets Group, Progressive Policy Institute  
Naoyuki Haraoka, Executive Managing Director, Japan Economic Foundation  
Noboru Hatakeyama, Chairman & CEO, Japan Economic Foundation  
Maki Hishikawa, Director of Japan Research, Dewey & LeBoeuf LLP  
Thomas R. Howell, Partner, Dewey & LeBoeuf LLP  
Kent Hughes, Consulting Director, Global Energy Initiative, Woodrow Wilson Center for Scholars  
Brian Katulis, Senior Fellow, Center for American Progress  
Richard B. Katz, Senior Editor, The Oriental Economists Reporter  
Daisuke Kotegawa, Executive Director, International Monetary Fund  
Kazumasa Kusaka, Executive Advisor, DENTSU, Inc.  
Charles D. Lake II, Chairman, Aflac Japan and Representative in Japan  
Dana M. Marshall, Senior Advisor, Dewey & LeBoeuf LLP  
William A. Nitze, Chairman, Oceana Energy Company  
David Pumphrey, Deputy Director and Senior Fellow, Energy and National Security Program, Center for Strategic & International Studies  
Amb. Alan Wm. Wolff, Partner, Dewey & LeBoeuf LLP  
Amb. Shunji Yanai, Former Japanese Ambassador to the U.S.

---

<sup>i</sup> The views expressed in this paper do not represent the views of Dewey & LeBoeuf as a firm nor is it intended to present the views of any of its clients. The views presented are those expressed by conference participants and as represented in this paper are the sole responsibility of the editors.