

**Introductory Remarks**  
**James L. Schoff**  
**Senior Associate**  
**Carnegie Endowment for International Peace**

**James L. Schoff:** Good morning, ladies and gentlemen. Welcome to the Carnegie Endowment for International Peace. My name is Jim Schoff. I'm a senior fellow in the Asia Program and I run our Japan Studies program here at Carnegie. It's an honor to help host, now for the fourth time, this special Japan in 2017 event today with the Japan-America Society of Washington D.C. in their special 60th anniversary year. So that's our extra honor today.

As always, Carnegie today is really just the host. This is truly the Japan-America Society of Washington D.C.'s event. They do all the heavy lifting in terms of organizing and arranging the speakers and bringing our special guest, Funabashi Yoichi, all the way from Japan. It's just one of many contributions that the society makes to the community here in Washington, D.C. and to the U.S.-Japan relationship.

And for this I'd like to thank the society president, Ambassador John Malott, who you'll hear from in just a moment; the executive director, Marc Hitzig; and the board chairman, Matt Goodman, for all their leadership and support on this event. Of course, thanks go to our staff for both here at Carnegie and at the society for their work as well. The Sasakawa Peace Foundation provides important financial support for this program through a program run by the National Association of Japan-America Societies or NAJAS. For that, we have Peter Kelley to thank. And he's here today. So I want to extend our thanks to them as well.

As a quick outline for the event today, we are honored to be joined this morning by Congressman Joaquin Castro of Texas, and our special luncheon keynote speaker, Yoichi Funabashi, who founded the Rebuild Japan Initiative Foundation. Funabashi-san will be kind of doing double duty here today. He's a part of our first panel on Japan domestic issues so we can tap his knowledge on Japanese domestic politics and economics. And then he'll be giving a keynote speech after lunch looking more at the foreign policy beyond regional dynamics. So it's a pleasure to have Funabashi-san here today. Thank you.

We'll have our afternoon panel on international issues. And then I think at the very end of the event today, we'll do a special sake toast in the back to ring in the 60th year of the society. So let me turn it over to Ambassador John Malott to get things started. Thank you.

**John Malott:** Thank you very much, Jim. Good morning to everyone. For many years, it was our dream at the Japan-America Society to create a symposium like this. So a serious all-day look at where Japan and U.S.-Japan relations would be going in the years ahead. And finally, five years ago, thanks to the help from the Sasakawa Peace Foundation and NAJAS, we were able to do it. So this is our fifth year doing this. Since Jim said it's our fourth year here at Carnegie for which we are very, very grateful for the support that Jim and Carnegie give to us.

I think this probably is the most important symposium that we've ever had because we have a new administration and we have a new Congress. There's a new sheriff in town. We've all heard the statements that have come out about China and Taiwan and Japan and Korea, and TPP and trade more generally, and nuclear weapons and host nation support and burden sharing and so on. These have raised a lot of anxiety, concerns, interest, and uncertainty here in Washington, D.C., in Japan, in Asia, and in fact around the world.

So here we are less than one week after the inauguration. In Washington, D.C., I've always said we have the greatest collection of expertise on Japan of any city in the United States with the think tanks, the government officials - retired and still active, the non-profit sector. I think, it's just the greatest collection. It's not just the people on the stage; it's all the people in the audience who've come here as well.

We're especially pleased to welcome a friend of many of us, Yoichi Funabashi, who's come all the way from Japan to join us today - first on the panel and then to make the keynote speech later on. But first, let's start with the view from the Hill. A very, very important player. We are so very, very

grateful to have Congressman Joaquin Castro with us. He is the co-chair of the Congressional Caucus on Japan. He represents the 20th Congressional District from Texas which includes San Antonio which is, I think, where the congressman lives. The Congressman will speak about the U.S.-Japan alliance in the new Congress for about ten minutes. And then he will take some questions from our Chairman Matt Goodman. So Congressman, we're very pleased to welcome you.

# Contents

Introduction	<b>1</b>
Opening Remarks: Congressman Joaquin Castro (D-TX)	<b>4</b>
Morning Panel: <i>Domestic Political, Economic and Social Developments: A Look Ahead</i>	<b>12</b>
Emma Chanlett-Avery, Specialist in Asian Affairs, Congressional Research Service (Moderator)	
Yoichi Funabashi, Co-founder and Chairman of Rebuild Japan Initiative Foundation (RJIF)	
Frank Jannuzi, President and CEO, Mike & Maureen Mansfield Foundation	
Alicia Ogawa, Director, Program on Alternative Investments at the Center on Japanese Economy and Business, Columbia Business School	
Luncheon Keynote Address: Yoichi Funabashi, Co-founder and Chairman of Rebuild Japan Initiative Foundation (RJIF)	<b>25</b>
Afternoon Panel: <i>Japan, Asia, and the US-Japan Relationship in 2017</i>	<b>31</b>
James L. Schoff, Senior Fellow, Asia Program, Carnegie Endowment for International Peace (Moderator)	
Abigail Friedman, Co-Founder and CEO, The Wisteria Group	
Andrew Beatty, White House Correspondent, Agence France-Press	
Satoshi Ogawa, Washington Bureau Chief, The Yomiuri Shimbun	
Bonnie Glaser, Senior Adviser for Asia and Director of the China Power Project, Center for Strategic & International Studies	

Note: *This manuscript was transcribed by Ace Transcription Service. The transcript has been edited for clarity, but not for content.*

## **Opening Remarks: The Alliance and a New U.S. Congress**

### **Congressman Joaquin Castro (D-TX)**

**Joaquin Castro:** Welcome. Thank you, Ambassador, for that introduction and for the leadership you've shown in strengthening ties between Japan and the United States. My only regret this morning is that I won't be able to stay for the sake this afternoon. I'm going to be on a flight back home to San Antonio. But I'd also like to thank the Japan-America Society for organizing today's event, and the Carnegie Endowment for International Peace for hosting us. Special thanks also to Sasakawa Peace Foundation and the National Association of Japan-America Societies for their support and their wonderful work throughout the year.

As Ambassador Malott mentioned, my name is Joaquin Castro. And I'm now in my third term representing my hometown of San Antonio, Texas. I'm a founding coach here of the bipartisan U.S.-Japan Caucus. And during my time in Congress, I spent two terms on the House Armed Services and Foreign Affairs Committee. And last year, I moved on to the Permanent Select Committee on Intelligence where I now serve. In each of these committees, we've spent time examining U.S. foreign policy toward Asia and the events in the region that shaped our discussions. We're here today to examine the future of the U.S.-Japan relationship in the year ahead and under this new administration.

But before I offer some thoughts on that, I want to take a brief moment to reflect on the progress President Obama made to strengthen the U.S.-Japan relationship during his presidency. From early on in his presidency, President Obama emphasized the need for the United States to shift our gaze toward the nations across the Pacific. America's rebalance to Asia was a smart, strategic foreign policy directive that helped our countries' relationship with our allies and Japan in particular grow and mature.

Over the course of his presidency, Japan and the United States have cemented their ties and worked together to build a 21st century relationship. The past few years in particular saw a number of historic milestones between our two countries. In the summer of 2015, Prime Minister Abe became the first Japanese leader to address a joint session of Congress. President Obama paid his respects on behalf of our country at the memorial in Hiroshima. And of course, Prime Minister Abe visited the memorial at Pearl Harbor. Some folks may view these gestures as simply symbolic. But I believe that there are far more. They were significant and necessary steps in closing the chapter of our nation's relationship that was defined by the events of World War II. They helped us turn our attention to what lies ahead. While we'll always remember our shared past, our shared future must now be our priority.

I cofounded the bipartisan U.S.-Japan Caucus in Congress to help forge that forward-looking relationship in the years ahead. The caucus is now in its fourth year and I'm pleased to be working with my co-chair, Republican Dave Reichert from Washington State, to continue to grow our ranks in Congress. We currently have more than 100 members who represent communities from across the United States. Not only do our members boast geographic diversity, they also hold influential roles on a number of key committees including foreign affairs, armed services, energy and commerce, and ways and means. The caucus engages members on a range of relevant issues. But its particular focus is on economic and security issues. Through the caucus, members and their staff had an opportunity to cut through partisanship and discuss frankly the U.S.-Japan relationship. The new administration will inherit a U.S.-Japan relationship ready for 21st century challenges and opportunities. Now is a time of transition, the United States and our allies.

A recent survey found that nearly half of Japanese respondents indicated that they believe that relations between our two nations will worsen under President Trump. I hope that that's not the case. And now, more than half said that they think the new administration will adversely affect Japan's economy. We, in the caucus, don't want to see any sort of decline in the U.S.-Japan relationship. We're going to work hard to make sure that doesn't happen. We actively work to address areas of concern for both our countries in the Congress.

One issue that elicited strong opinions and much discussion over the past couple of years amongst our membership was, of course, the Trans-Pacific Partnership. As you all know, President

Trump signed an executive order officially withdrawing the United States from the TPP's negotiations earlier this week. I, like many colleagues, had concerns about the TPP particularly the labor enforcement provisions. While I voiced that view to my constituents during town halls and to my colleagues through forums like the U.S.-Japan Caucus, Congress never had the opportunity to hold hearings or public debate on its merits.

Now, it remains to be seen what President Trump's specific economic agenda and trade agenda will entail. We can surmise from statements that the new administration will prefer tough trade enforcement and bilateral trade agreements. Hopefully, we'll learn those details in the near future. Despite that uncertainty and the demise of the TPP, the United States and Japan's strong economic partnership remains intact and I believe will continue to grow.

Japanese foreign direct investment in the United States is quite significant as you know. In fact, Japan was the second biggest source of FDI flows from 2013 to 2015 with 17 percent of FDI inflows to the United States over that period coming from Japan. My home state of Texas has a particularly strong economic relationship with Japan annually exporting more than \$5.5 trillion worth of goods to the nation. I've spoken before about how the Toyota plant, for example, in San Antonio has created thousands of jobs and helped transform our economy. I know communities across the nation similarly benefit from Japanese investment. Regardless of what our new president may say or do, please know that at the local state levels, governments and business organizations will continue to prioritize economic engagement with Japan.

In addition to our economic collaboration, the United States and Japan must work together to confront our new security challenges that threaten stability in the Pacific region. But let me start by saying two things. First, the U.S.-Japan relationship is the lynchpin of the United States' role in Asia. And that will not change. Second, the United States Article 5 commitments to Japan are the ironclad law of the land. It's been reported that Secretary Mattis will soon visit Japan and South Korea. I would ask Secretary Mattis to reassure both Japan and Korea of our treaty commitments just as he has done with our NATO allies.

One of the more welcome achievements of the Obama administration was the updating of guidelines for U.S.-Japan defense cooperation. These guidelines are evidence of our nation's new 21st century partnership and deepening of our security coordination. These guidelines will foster more seamless bilateral response to the growing security challenges in the region including asymmetric cyber threats to both of our nations.

Japan's approval of the guidelines came at a moment when conditions in the region are evolving. China is playing an increasingly active role in the East and South China Seas expanding its sphere of influence. The North Korean regime's hostility flares with continued nuclear and rocket tests. It is critical that the United States and Japan maintain our unwavering alliance in the coming years and bring together the international community to strengthen our partnerships with our other friends who share our principles and interest. ASEAN and South Korea in particular are allies with whom we should strive to create new linkages with an eye to the future.

The posture of the U.S.-Japan relationship under the new administration, of course, remains to be seen. Where I believe the future lies is in developing the next generation of political leaders in Japan and in the United States to continue on the strength of this relationship, and increasing those leaders' engagement with one another and with other allies in the region. Building those bonds between our young leaders will serve as a foundation of our 21st century partnership.

In that spirit, I'll be going to both Tokyo and Seoul next month to meet with my counterparts across the Pacific. My colleagues and I will have the opportunity to build lasting relationships with our Japanese counterparts and discuss our bilateral relationship with Japan. The greater our understanding of each other's priorities, policymaking processes, and customs, the more effectively we can work together to make the world a more secure, prosperous, and democratic place.

I would encourage legislatures in both the United States and Japan not only to continue our engagement in Tokyo and in Washington, D.C. but also to visit each other in their home states and home districts across the countries. I can't underscore enough how consequential it is to build relationships at the state and local level whether it's economic, academic, or scientific, these state and local relationships will forge the U.S.-Japan alliance beyond our nation's capitals.

These are uncertain times. If 2016 taught us anything, it's that anything is possible. But even in a moment of unpredictability, I want to leave you with a reassurance. The United States is committed to our alliance with Japan. We want to make sure that it endures and prospers in the years ahead. That will not change. I'm optimistic that despite the challenges confronting our nation and the world, the United States and Japan could continue to provide leadership and hope for the nations of the world. I'm committed to this work. And I'm glad to see all of you are as well. Please have a great day and thank you very much.

**Matthew Goodman:** Thank you very much, Congressman Castro. That was a terrific speech. I mean, really in a few minutes, you captured everything that I think is important about this relationship. Thank you for your leadership in Congress and your willingness to take on this important role of managing the founding and running of the U.S.-Japan Caucus and your travels to Japan. A final thank you for your support for the Japan-America Society of Washington.

**Joaquin Castro:** Of course.

**Matthew Goodman:** We appreciate that you are a keynote speaker at our annual dinner the year before last and you've done this today. We really appreciate all your support throughout -- and your staff, Danny Meza and Erin, and the team are terrific supporters as well.

**Joaquin Castro:** They've been great. I just will say, I know you have questions, but thank you for all the work that you all do. Thank you to the societies. The work that you do in supporting this relationship, I think, you have a sense for now is going to be more important than ever. The work that all of us do in supporting the strength of the U.S.-Japan relationship is going to be more important than ever. I hope that you will reach out to the administration, also members of Congress, and speak up as many of these issues are discussed and talked about because it will be consequential.

**Matthew Goodman:** Great. That's actually in a way what I want to start with because you've mentioned a couple of times the importance of local and state engagement. And the contributions that are made at that level and you can say the opposite with U.S. investment in Japan, I think, at the local level, you can see the impacts. So this is an important part of this story that I think we often in Washington don't pay as much attention to. We sort of look at the high policy and we don't think about it.

So in your district -- may I ask you two questions about your district? You mentioned you have a large Toyota presence there. The president, you know, he was president and he wasn't president-elect. But as president, he criticized Toyota for not having -- no, maybe he was the president-elect, right? It was before he has taken over. It's hard to keep track of his tweets, right?

**Joaquin Castro:** Two weeks ago, everything is moving so fast. It's one thing after another.

**Matthew Goodman:** It is. It's just hard to keep track. But he criticized Toyota despite the fact that Toyota has this pretty big presence in not just your district but across the country. How would you sort of advise Japanese companies because this may not be the last time this happens. I mean, how do you respond to something like that?

**Joaquin Castro:** I reached out to Toyota the day that I saw, obviously, the news about the president's tweets. But most importantly, I know that Japanese companies and businesses want to maintain a good relationship with the United States. And they try hard to do that. I thought that it was unfair of the president to single out specific companies. You know, not just Toyota but he's done that with Ford and with others.

I thought Toyota had a great response in laying out the facts about their investment in the United States. But also the fact that the cars they build in Mexico are mostly going to other parts of the world and not really coming back in the United States. So I thought they did a wonderful job of

responding. More generally, I would say that we need to act and the president needs to act in a spirit of cooperation. You're not going to be able to govern just by Twitter and just by trying to bully people on Twitter. It's going to take more than that.

If you look at what Toyota has done in San Antonio, they did something really remarkable. And I'll tell you really quickly. When they decided to locate in San Antonio, they were determined to create business owners in the supply chain for Toyota in San Antonio. So they insisted that several local business owners, mostly minority business owners, be either 49 or 50 percent or 51 percent partners in that supply chain. The reason I say that's remarkable is because even big American companies that had moved in had not made the same commitment to the community there to say, we're not just moving in and of course creating jobs which is a great thing. But we're also going to involve, you know, folks from the community as business owners in our supply chain. We'd never seen anything like it in San Antonio at least before.

**Matthew Goodman:** Right. So the other thing about your constituency which may sound to this audience like it's off the track, but I'm going to get back to its relationship with Japan. Your constituency is about 150 miles from the wall-to-be. And you know, the president seems to be determined to move forward and to get Mexico to pay for it. The reason I think this is -- I mean, I want your general view on that. But I think, the relationship that I see with our conversation today is that, you know, Mexico is an important partner of the United States. And we're in a sense, we're saying things that are not exactly going to inspire, I think, the kind of cooperation and support that we need from them. And similarly, with Japan, we need Japan to help us deal with a lot of problems that some of which you touched on in your speech around the world. So you know, again, how do you respond to that? How do you think about this?

**Joaquin Castro:** Well, I, of course, have been very concerned about the president's statements before he was president also and even during the campaign - his statements about our alliances around the world. It's clear that at least for him - and I imagine, some of his administration - they're reassessing our alliances around the world. But remember, after World War II, these institutions and multilateral groups or bodies, I should say, were established for a clear purpose. That was to promote democracy and promote peace around the world. So if you start abandoning those or taking them apart, you're risking both of those things.

The same thing could be said about our relationship with our historical allies. He made what I thought, honestly, were reckless comments about backing away from our security commitment to both Japan and Korea. Well, in that same vein with Mexico. I mean, Mexico is one of our largest trading partners, our top three trading partner. It has been a very good friend of the United States. And now, we've got these two executive orders which had not only in the orders but in the rhetoric, there's been a real hostility towards Mexico.

So the point that I made yesterday is that I think he's essentially driving Mexico into China's hands. I think China is going to make significant investments in Mexico and in Latin America at the invitation probably of many of those governments. And that whatever President Trump takes away from Mexico, whatever billions he thinks he's going to take from them in some roundabout way through aid to pay for the wall, I would imagine that China will make that up if Mexico needs it.

Xi Jinping will be more than glad to move in and forge a very strong relationship with Mexico. They're already Mexico's second largest trading partner. We, of course, are first. And so when you do that, I think you're starting to threaten the United States' position in the world and undermine these long standing alliances. Not just political alliances but alliances that have made our nation the wealthiest nation in the world. When you think about the amount of trade that my home state does with Mexico, for example, and Japan, billions and billions of dollars pumped into our state's economy. In the case of Mexico, of course, you're talking about the whole southwest region especially.

I know that his cabinet is just coming together, that the professionals are just coming together with him. But I hope that they'll think about these issues. That when you make a move on a chessboard, you're not playing alone. There's other people who are also moving on that board. And it could cost us in the long run.

**Matthew Goodman:** So you're going to Japan next month as you mentioned with a group of other congressmen, I assume.

**Joaquin Castro:** Yeah.

**Matthew Goodman:** And what are you going to talk about in Japan, particularly on these sorts of issues, how are you going to talk about what the U.S. general posture is and how you can reassure them that we're still good allies and partners and what Congress can do to help keep this alliance strong?

**Joaquin Castro:** Well, I want to reassure them, first of all, that there are many allies in Congress, both Republicans and Democrats, who believe in the value and the strength of this relationship most of all. And that the legislation -- to make big changes to this relationship oftentimes, it's got to go through Congress. And you know, we want to make sure that we have a strong relationship.

Whenever I go to foreign countries, I'm also cognizant of the fact that -- and especially when we travel with members of the other party, I never want to get into a fight with them or an argument with them in a foreign country or a real disagreement. I think you have to be respectful of the fact that you're representing your nation, that you're on the same team, that whatever disputes you have among each other, you know, that you will settle back home. But I hope that it's a group that will also be reassuring to Japan and to Korea of our defense commitments, and the fact that we want to continue to promote economic prosperity for our countries.

**Matthew Goodman:** And back here in Washington, you have the caucus with Congressman Reichert and that 100 plus members, right?

**Joaquin Castro:** Right.

**Matthew Goodman:** Did you have anything lined up for this year? What do you think you guys are going to be talking about or working on this year?

**Joaquin Castro:** Sure. Well, I mean all of those issues on trade now that TPP is gone. I was very careful to say over the last few years because I know that there was a big push for TPA and then TPP. But I'm always careful to say that no matter what happens with TPP, the relationship between the United States and Japan is bigger than just one trade agreement. I believe that today. And so we have to continue working on our bilateral security issues, our economic issues.

I saw a few days ago about the discussion by the Trump administration the possibility of a bilateral trade agreement with Japan. And so I'm interested to see what the administration comes out with there. But we'll continue to do what we've been doing which is host many Diet members, dozens and dozens of Diet members. We've also made it a point to meet with the Japanese ambassador of the United States, the U.S. ambassador to Japan. Obviously, there's going to be a new U.S. ambassador to Japan. So we're looking forward to getting to know that person when he or she is confirmed. So there's a lot of work to do this year.

**Matthew Goodman:** Right. I want to bring the audience in if you're willing to take a couple of questions from the audience.

**Joaquin Castro:** Sure. Yeah. Yeah.

**Matthew Goodman:** So let me just ask one more question. If you had a piece of advice that you would give the new Trump administration about how to manage this alliance, what would you focus on? Or what would you tell them?



**Joaquin Castro:** I would say to be sure to stick by old friends. Don't abandon your friends. There's a reason why the world looks to the United States as a leader. If you mess with those alliances too much, you're not going to be the leader anymore. And China, I want us to have a good, productive relationship with China. We also have some conflicts with China. But you know, China is seeking to be that leader that the United States has been. We should not cede our position as a leader in the world carelessly.

## **Q&A**

**Matthew Goodman:** Excellent. Okay. Let's take questions. If you have a question, please raise your hand. I think we have microphones. Please identify yourself and ask a question. I see Mr. (indiscernible) here in the third or fourth row. Right here, this gentleman.

**Male Voice:** -- Congressman Castro, for your leadership --

**Joaquin Castro:** Thank you.

**Male Voice:** -- and for your time today. You've been a leader not only in U.S.-Japan relations but in the trilateral U.S.-Japan-ROK relationship. I'd like your comment on the recent downturn in Japan-Korea relations over the comfort women issue that we had hoped and thought. And I remember your comment a year ago about the Abe agreement with President Park to really close that. How do we approach those festering wounds especially in the context of your discussion of the U.S.-Japan ability to overcome history and really construct a forward looking relationship as you've provided personal leadership?

What can -- especially with the political chaos in South Korea, what can we do to address that issue particularly as U.S.-Japan has? Thank you so much.

**Joaquin Castro:** That's a great question, thank you for it, and obviously, a very tough and very thorny issue. You're right there was hope with the comfort women agreement. It is an issue that only the two nations themselves can solve. We can be helpful. And last year, I was part of a dinner with legislators from both Japan and South Korea after that agreement. And so there has been a lot of hope.

For the United States, what we wish for our allies is friendship and cooperation because both Japan and Korea are friends and allies of ours. And because the threats in the region - if you look at North Korea and the fact that they've got a leader who is trying to perfect nuclear weapons, the fact that China has been aggressive in the East and South China Seas. And of course the fact that you've got a new administration in the United States - all of these things tell us that we should seek to bring our friends closer together.

This trip - my trip - was meant to go over and tell them both that we want to work with both nations and the U.S. Congress and be supportive. And so it was originally conceived as a way to bring younger legislators in both countries together to bring the next generation of leadership in both Japan and Korea together to forge those strong bonds. And so I hope that we'll be able to do just a piece of that.

**Matthew Goodman:** I saw somebody towards the back. Okay. There's a hand right back there.

**Manny Manriquez:** Hi, Manny Manriquez from the Japan Automobile Manufacturers Association. It's great to see you, Congressman Castro.

**Joaquin Castro:** It's good to see you.

**Manny Manriquez:** Thank you so much for being here. I appreciate your presence. I appreciate your support of Toyota and our organization.

**Joaquin Castro:** He didn't go after Nissan. I saw that. Not yet. Not yet.

**Manny Manriquez:** Or Honda. So let's see what's next. But the fact of the matter is that these companies are deeply invested in the United States and you know that quite well. But in terms of the bigger picture, I think that the centerpiece of U.S.-Japan economic engagement and strategic engagement has, to this point, been TPP. So this is something that a bilateral deal may not quite accomplish. So I'm wondering if you see a path forward for economic and strategic engagement in the Asia Pacific lead by the U.S. and Japan relationship.

**Joaquin Castro:** I do and I'm hopeful for that. You know, I'm hopeful that the administration and Congress will find some way to still allow the U.S. and Japan to be the drivers of economic prosperity and cooperation in the region. You know, it's fascinating to see even over the last several years what has happened with the relationship between, for example, China and the ASEAN nations; China and South Korea. And it certainly is testing the role of the United States in the Pacific. And that's why President Obama had talked about the rebalance years ago now and why it's so important.

But I'm hopeful. You know, it's so hard on all of these issues because you have a new president that just took office last Friday even though he's done probably eight or nine executive orders now. He's still in his first week. So a lot of this remains to be seen. But I'll tell you what we shouldn't do. We shouldn't back away from our effort. We shouldn't back away from trying. The United States cannot afford to simply go into a shell to isolate itself from not only its allies but from the world. That is not a recipe for success in the long term. And so we're watching to see what the administration does. But we're going to keep pressing in Congress to make sure that this relationship is the lynchpin for economic cooperation in the Pacific.

**Matthew Goodman:** All right. Here. Not ignoring the far back. You guys, if you want to ask a question, I'll recognize you.

**Jim Berg:** I'm Jim Berg from the *Washington Trade Daily Publication*. It seems to be a great mystery in this town and around the world on what the Trump trade policy is going to be. Although traders like you or trade promoters like you are optimistic that what he said during the campaign will not become reality. How important is the visit from the Mexican president to the United States on, I think, January 30th? And especially if President Nieto cancels that, what impact do you think that's going to have on trade policy in general to both the U.S. and Mexico?

**Joaquin Castro:** You know, I commented yesterday after the two executive orders and all of the rhetoric previously. Honestly, I would be surprised if the Mexican president comes for his scheduled visit. As an observation, I would say, that he's probably concerned about the effects on the PRI, which is his party in Mexico, if he shows up, right? You know, they've got elections not too far from now. He's probably concerned that they're going to get wiped out if he comes to Washington, D.C. and shows up here after the Trump administration has been quite hostile to Mexico.

Your question about where does it go from here. I mean, of course my answer is that I hope that the relationship with Mexico will continue to be a strong and vibrant one. I always remind people that they still buy more stuff from us than we do from them, right? And so it's been, again, when you're talking about our best trading partners, they've been one of our best trading partners, in addition to all of the human rights and other elements that we often talk about when we talk about a border wall and all those things. But if you were just considering economic terms, again, what you're doing is you're starting to weaken those strong economic alliances around the world. And as a long term strategy, I don't think that's a way to go.

**Matthew Goodman:** Okay. Other questions?

**James Lawrence:** Good morning. My name is Dr. James Lawrence [phonetic] and I'm an investment banker. The recent talk of the current administration relative to what sounds like almost isolationism is something we never heard in over 50 years. We're part of a multibillion dollar energy company that's looking to expand into Japan. It's a little bit unnerving when you hear that kind rhetoric to try to figure out exactly what input that has going forward. So any idea whether or not this sort of isolationist talk is really a tactic? Because it certainly isn't a long term strategy and we need feedback there.

**Joaquin Castro:** You're right. The talk has been quite concerning. And with very strong tones of isolationism, of pulling back, of abandoning the post-World War II order of -- in some ways not backing up our allies around the world. Well, if countries feel like you're not going to support them, then they're going to do one of two things. They're either going to look to someone else who will or they're going to end up militarizing themselves. There's two things that are going to happen there. The United States has enjoyed over the years a place as leader of the free world. And relative - I say relative compared to two World Wars - relative stability and peace, although obviously we've had wars, relative stability and peace around the world.

But to one point in your question, it's going to take companies and businesses to speak up about these policies. I've said this before and I don't mean to pick on them, but I have been very surprised that the United States Chamber of Commerce has not said a single word when the president has bullied companies over Twitter, has talked about changing long standing U.S. policy and posture economically. This is the United States Chamber of Commerce that's supposed to speak up for American businesses. You're not supposed to be an arm of Donald Trump's administration. So I've been surprised that Tom Donahue - and I have good friends that speak very well of him, so I don't mean to impugn him personally - but I've been very surprised that the chamber has been dead silent on these issues.

**Matthew Goodman:** Okay. Excellent. Yes, ma'am, in the back there. And then this, we'll get even closer after that if you want.

**Robin White:** Good morning. Robin White, retired Foreign Service. You just spoke about business and I agree. And many of us see what I might call the sane Republicans keeping their heads down. And we're hoping sometime the sane Republicans will speak up. Could you speculate on that?

**Joaquin Castro:** You're right. Look, I think right now and I don't entirely fault people because they're trying to understand what this administration is going to look like, what the administration is going to do. But let me use an example that has nothing to do with Japan or this relationship, okay? The president said a few days ago that three to five million people voted illegally. That is a figment of his imagination. There is no evidence that has happened. I was surprised that Speaker Ryan and Mitch McConnell didn't speak up and call him out on that, on a basic falsehood, a basic lie. So I pose the question, if you're not going to stand up to the president on something as bald-faced and large a falsehood as that, then what will you stand up to him on?

That question gives me pause because there has been silence. We can't just go along when a president says something that everybody knows is not true. You know, you get to a situation where somebody has to tell the king that he's not wearing any clothes.

And so far, we're the opposition party as Democrats and we're going to play our role. But listen, we're a minority in Congress, okay? We don't control the levers of government the way the majority party does. Somebody over there has to speak up. They have to have the courage to risk some of their political capital and perhaps future to do the right thing. I think eventually you'll see it. I think it will happen. There are a lot of my colleagues on the Republican side who are very sharp, very committed people with good hearts and good minds. So my answer is that I think that it will happen. I just don't know when. And I don't know on what issue.

**Matthew Goodman:** There's a lady in the third row here, please. We'll take one more and then we're going to have to let the Congressman catch his plane.

**Grace Clegg:** Grace Clegg at the East-West Center in Washington. Thank you very much for your leadership in starting the Japan Caucus. I was thrilled when that came about. And you're actually very well-placed to give us some intelligence from the field, so to speak. As Ambassador Malott noted, this community between the think tanks and the government, there's a tremendous amount of understanding of the importance of the U.S.-Japan relationship at the national macro level, at the global level.

But I'm from a community in Michigan where there are still very much the echoes of the battle days of the 1980s. And so I'm curious – in a two-point question - what is the perception of Japan back in San Antonio? Is it based off of a friendly cultural exchange? Is it more adversarial? What can we do in the Beltway exclusion zone here to get the word out to the rest of the country on the importance of this relationship?

**Joaquin Castro:** Those are great questions. Let me start by saying, you're right. I mean, obviously, in the 1980s, there was this rivalry that went on between Japan and the United States at least in terms of perception. There was a perception and back then, Donald Trump - he wasn't President Trump - also espouses the idea that Japan was going to take over the country economically, right? Obviously, our relationship has evolved since then in terms of perception.

And you asked the question about San Antonio. San Antonio is very grateful for the economic opportunity that Toyota and other Japanese companies have created in our hometown and values that relationship. Since the 1980s, we've had a great sister city relationship with Kumamoto, Japan for example. And the people of San Antonio were very generous after the natural disaster there. So Japan, I think, is seen in a very good light in my hometown. Not that there is never grumblings about the auto industry or other industries. But by and large, people see Japan in a very positive light.

I was concerned a few years ago as the debate over TPP ramped up. I would take the Metro as I'm sure many folks do. I got off the Capitol South Metro. For a while, there were these basically billboards in Capitol South Metro that to me echoed some of the tones of the 1980s. I don't think that it's good to demonize an ally - a strong ally. Once in a while, we'll have our differences or we'll be in competition around the world and that's fine. But we should appreciate the strong economic benefits, cultural benefits, all of it that come with this relationship. I hope that the president and this administration will also and will continue to cherish it and to build it up.

And then one last thing, I want to say that we are grateful in Congress for all of the work and all of the thought that you guys contribute to the relationship. You all give us a lot of fuel for the things that we do. Part of the way that we understand the relationship better is a lot of the work that you all put out. You talk about the think tanks and the papers and everything. The thought that comes out of the work that you do, we appreciate it very much.

I know there are folks here from Japan and other countries. But for the Americans here, always remember that most people in Washington - and even Washingtonians, right - they're Americans. But most people who work in Washington, they come from places like Texas and the heartland and other states, and grown up with an American experience. So it should never be said that somebody's voice doesn't matter or their opinion doesn't matter just because of the city that you live in, right? So thank you for all the work that you do.

**Matthew Goodman:** As a native Washingtonian, I'm glad to hear that my voice has lots of -- in the back there, please. And then that will be the last question unfortunately because the Congressman has to catch a plane.

**Joseph Bosco:** Thank you, Matt. Joe Bosco, formerly with the Defense Department. Congressman, in one of your responses earlier, you referred to the wall. And you used the phrase human rights implications aside from economic implications. I wonder if you could elaborate on what you meant by that.

**Joaquin Castro:** Yeah. Sure. Well, I said yesterday that the wall, I think, is a lazy and ineffective fix or strategy for our security along the southern border. Fifty-nine percent of Americans in a poll about a week ago were against the wall. But with respect to human rights, what we've had in our nation over the last few years is a stream of refugees from the Northern Triangle countries of Central America, who are fleeing not only destitution but also violence generated by the drug trade down there. You have three nations of the Northern Triangle who've been unable to successfully combat that. Congress, of course - I think this was a good move - allocated several hundred million dollars to help them in that plan, but of course, there is still that challenge.

And so my point was that we have to be mindful that the people who seek refuge in the United States do so not just because they simply want to move from one country to another. But because oftentimes, they are desperate people who are fleeing violence and fleeing very dangerous situations. And so the wall to me represents an attempt to not have to deal with that problem, to not have to think about those issues. You can get rid of a problem without solving it. It doesn't mean that it's gone away or it doesn't exist. And to me that wall would be a symbol of the United States walling itself off from part of the world, but also saying that we're not going to take on these deep human rights challenges. Our simple solution is to get rid of the problem and not deal with it. That's never been our history. That's never been our tradition. We have been a democratic nation who has helped people, helped nations promote democracy, promote human rights, promote economic development, and not walled our self off from other nations.

**Matthew Goodman:** Well said

**Joaquin Castro:** Thank you.

## **Morning Panel Discussion**

### **Domestic Political, Economic and Social Developments: A Look Ahead**

**James Schoff:** Okay. So it's my pleasure to kind of open the first panel here of the morning. And for that, I will turn it over to our guest moderator, Emma Chanlett-Avery from the Congressional Research Service.

**Emma Chanlett-Avery:** Hello everyone. It's great to see such a crowd here for this event. I'm delighted to be here. As Jim said, I'm Emma Chanlett-Avery from the Congressional Research Service. We provide research and analysis to members of Congress. You may not want to trust me though because in this post-fact era, CRS is really about the facts, and so much so that this year on the *Washington Post's* list of what's in and what's out, Congressional Research Service was actually out. And the corresponding in was *Pravda*. So you may want to think about that for your moderator next year for this.

So this panel is a great chance for us to sort of take a moment and look at Japan itself, what's going on in Japan. We are so preoccupied now with this sort of jarring transition that's going on in Washington, and I think it's a nice moment to actually take stock of some of the political and social and economic trends that are going on in Japan.

In the Washington policy community, we've really sort of struggled to explain to our friends what this all means because we don't know. And I think as the administration staffs up, perhaps some will get a little bit clearer of a sense. But we need to know what's going on on the other side of the Pacific right now too. So let's take a closer look at Japan with this seemingly sort of model of stability amidst the other populist waves that are going on through the world.

And we have a terrific lineup here to talk to us. I'm delighted -- let me just give quick introductions. I think that you have bios of all these folks. You probably know them already. I was delighted to see Alicia Ogawa again. She is an expert on the Japanese financial system. She has been at Lehman Brothers and has 15 years of experience working in Tokyo as well and currently serving as the director of the program on alternative investment at the Center on Japanese Economy at the Columbia Business School. So she's going to talk about corporate governance and give us a closer look at that.

Yoichi Funabashi, Funabashi-san is probably the epitome of a wise man in Japan. I won't say old wise man because you're clearly very youthful here. Too many accolades to go through. I did note that one of the reports that your foundation has put out was called "The Decline of Post-War Moderate Conservatism in Japan." That sounds like familiar. We may need some tips from you for what we're going to go through as well. And my old friend, Frank, who is the president and CEO of The Maureen and Mike Mansfield Foundation, has also served time at Amnesty International at INR, and most importantly was a staffer and a prominent client of mine at the Senate Foreign Relations Committee for several years as well.

So I'm going to turn it over to them. Each speaker is going to speak for 10 or 15 minutes or so. We'll have a little bit of discussion, and then ask questions from the audience. So thank you all very much for coming. And Alicia, why don't you start us off?

### **Japan's Corporate Governance and Stewardship Codes**

**Alicia Ogawa:** I'm here to talk about a revolution that the prime minister is attempting to create in the Japanese business community. There's only so much that monetary policy and fiscal policy can achieve in order to promote economic growth. We need a micro-revolution and that's why the title of my talk is *From the Bottoms Up*. What I'm talking about is the key part of his so called third arrow which is the Corporate Governance and Stewardship Codes that were introduced in 2014. It might as well be called the Riot Act because it is a very aggressive call for change of corporate Japan too often which has become a series of iron silos. These new recommendations are to make Japanese companies more open, more global, more innovative, more productive, more diverse. And I think it is

really the only hope that Japan has to revitalize its economy and put itself on the path to long-term fiscal sustainability.

But this is not just a Japan topic. I feel very passionate about this. This is compelling because it is an opportunity that Japan has - and I pray that it succeeds - to create a new model of business organization that could serve as best practices for the rest of the world. Here in the United States, the model of corporate governance has evolved to only two players - include two players which are shareholders and management. And I think our system, I would argue, has been the basis for the enormous increase in income inequality, and the excessive compensation of executives, the price of which we are paying at this very second in time.

So I think this is a unique opportunity for Japan not only to pull itself up by its bootstraps and increase growth, but it's the opportunity to evolve a new set of best practices that we all could learn from. So I sincerely wish them all the best of successes. As I mentioned, partly because of our legal system, the power in the United States has evolved exclusively to boards of directors, i.e., management and shareholders.

In Japan, you have a different imbalance. This is a survey taken by media a couple of years ago, and the question was, to Japanese corporate management, who are your top constituents? Who do you pay the most attention to? And you can see that 90 percent of them put customers first, employees second, suppliers third, and shareholders and creditors, and others. Government didn't even make it on the list, whatever, or communities, you know, at the very bottom. So this is an imbalance in Japan which the Corporate Governance Code and the Stewardship Act is an attempt to rebalance.

I open by saying fiscal policy and monetary policy can only do so much. You're probably all aware of the extent to which the extraordinary lengths to which monetary policy has been stretched in Japan. The Bank of Japan, I think, is justified in claiming some victory. The 2 percent inflation target seems still unattainable but economic growth is steady. It's slow steady and you can see that it has been recently revised up. So, economic growth has stopped imploding. Deflation has stopped. We're not at the inflation target we would like to see but it has stabilized.

On the other hand, this kind of subpar growth, given the aging of the population and the fiscal situation that Japan is in, is not really an option. There's been some tinkering on fiscal policy, but the real, hard choices, the real bitter pill that Japan has got to swallow - namely welfare reform and healthcare cost - has not been addressed. And so, the prime minister, by championing these micro-initiatives, if successful, it will buy himself some time. If profitability of Japanese corporations increases, it will buy himself some time to figure out those harder questions. And in addition, by improving corporate governance, that will ultimately contribute to the better long term growth and dynamism for the Japanese economy.

So, what am I talking about in terms of corporate governance? You're all Washingtonians. You know what the difference between bad government and good government looks like. In the case of companies, it's communication with shareholders. It's the firm's compensation policies, it's employment and promotion policies, the accounting and audit procedures, the transparency of all of these that determines whether the company will survive and prosper over the long run. So, corporate governance is an attempt to balance the interest of all these people. I am talking about Japanese corporate governance.

Stewardship on the other hand is the job of institutional investors, the stewards, to exercise discipline on firms through dialogue with the companies that they invest in, exercising their voting rights and the implicit threat of selling the shares if the management doesn't respond. Now, what's interesting is in Japan, shareholders actually have far greater legal rights than shareholders in the United States. They have unbelievable rights to say on pay in a binding way, to put proposals to management that management is legally bound to respond to, to dictate dividend payments, et cetera, et cetera.

So, the question is, why haven't they used these rights to encourage managements to be more innovative, more productive, and more open? The Stewardship Code that the prime minister has promulgated is an attempt to encourage them to do that with enthusiasm. So why is Japanese corporate governance such a problem? Again, it's low stock valuations compared to global peer

groups. ROE of Japanese companies over the last ten years has been literally half that of the peer group in the United States. As you know, Japanese companies are completely closed organizations. In the classic case, people are hired right out of college. They stay at the firm for life. There are no new entrants into the firm at midlevel, and everybody is promoted and paid in lockstep based on seniority and not meritocracy.

Here's something that I sort of knew, and when I'm reminded of it, it always slays me. There are no job descriptions. So there is no way of evaluating some of this performance, even at the most senior levels. In the past, boards of directors were composed entirely of people who spent their whole lives at the one company they entered after college. And cross shareholding by friendly banks and others meant that shareholders never challenged the decisions of management. So leaving aside the value that this model might have had in the '60s and '70s, it's now clearly a drag on growth and dynamism.

This is a slide taken from institutional shareholders that shows the global comparison of board independence. So this light blue line is the total of all independent directors that sit on all the boards of directors and companies as a proportion of the total number of directors in that country. Japan registers last on that measure. In other words, the total number of all independent directors sitting on boards in Japan are the lowest relative to other countries [inaudible] register is the number of companies who have a majority of independent directors. As far as I am aware, there is only one large cap company in Japan where the number of independent directors is greater than the number of internal directors, and that's Omron.

So Japanese companies, as a result of this insularity are losing their competitive edge. They are losing market share. The culture of insiders has led to a management style which is - I'm sorry to be rude - I'd say sycophants. Productivity is weak. There are an increasing number of corporate scandals not because managements are evil, but because there is no open debate about important decisions. You think about Toshiba, Takata, the airbag company, Olympus, Toyota, Kanebo Cosmetics, Nikko Cordial, Mitsubishi Motors, and so on, and so on.

So Abe has introduced these new requirements with the following aims in mind. Japanese companies have enormous cash on their balance sheets which is just sitting there. He wants to encourage them to spend that to increase the investment domestically; to spend that money on raising wages; to increase the diversity of the workforce not only because that's the right thing to do, but because as you know Japanese labor market is reaching historic levels of tightness. There just aren't enough people in the labor force, so by encouraging companies to hire older workers and women that will add to the labor pool.

Increase of full-time jobs, as you probably know, Japan now has a two-track work system where at least a third of the workforce is at the sort of inferior, unstable category of either part-time contract, or temporary workers. And he also needs Japanese companies to become more profitable first of all because he considers the level of the stock market a personal barometer of his own success - echoing other people maybe in office in other places. But also he needs the higher return to fund the pension system which is going to be overwhelmed shortly given the aging of the population.

What are the key elements - this is a short aside - but as I mentioned, Japanese shareholders have incredible rights that U.S. pension funds have been fighting for in this country for decades with no success. One of the things that Japanese shareholders have the ability to do is say on pay. It's a binding vote that they have on salaries of top executives. So this is the level of compensation of CEOs of these companies last year. The top two are outliers. The top one guy was hired from Google. He has recently been fired. But you can see there are only 30-odd companies in Japan where the CEO is paid more than \$10 million. So this is an area where Japanese shareholders have exercised their vote vigorously. One would have hoped that they would have exercised their votes more vigorously on other issues, because they have the legal ability to do so.

Here are key elements of the Corporate Governance Code. There is a requirement finally that companies have at least two outside directors on the board, and the definition of what is an outside director has been tightened. It used to be incredibly loose. Committees are required. This is one of the elements of the new code that Japanese companies have bought into very enthusiastically. It seems that Japan always loves a committee. And so the requirement, there are many different options



but you have to have at least an audit committee. The real sticking point is a nominations and compensation committee. There's been less enthusiasm for that.

These requirements of the code though are not legal. They are voluntary. And so what the requirement is, is that you either comply with these requirements or you explain why not, and you have to do that publicly. You have to put something in your annual report on the website about why you're either accepting these new requirements or why you're not. So the idea is that you will shame companies who do not comply.

There is a new stock index that's been launched which only includes companies whose ROEs are above a certain level, and who meets certain minimum levels of achievement for corporate governance in terms of diversity of workforce, and disclosure, and so on and so forth. This has been a powerful means of sort shaming Japanese companies who don't achieve those levels of profitability and disclosure.

The Stewardship Code has been launched. This is for investors, pension funds, and the like, and it requires them to say that they will act in the best interest of their investors, of their savers. It was always interesting to me. I've served on a couple of Japanese government committees to learn that there is no Japanese translation for the word fiduciary. It's not really a Japanese concept. But this is an attempt at beginning that. The Stewardship Code also requires that Japanese investors actually speak to the managements of the companies that they invest in, and ask them why they are deciding this, that or the other thing, or wouldn't it be a good idea to do something else? So it's a very, very important tool. One doesn't work without the other. If companies are not feeling pressure from their stockholders to do a better job, they won't. That has been the case of Japan for the last 20 years. So this is a very important initiative. And in tandem with that, the biggest pension fund in the world, the Japan Government Pension Investment Fund, has had a massive reorganization. The result of which is they have more than doubled their investment in Japanese equities, and it is their task to lead the way in terms of engaging with investors and asking them to run their companies more profitably.

There are tailwinds to this movement, and one of them is that the Bank of Japan and its monetary policy has committed to buying enormous amounts of Japanese equities. Now, they are not choosing the best companies. They are not choosing companies who are doing a good job in increasing their profitability or hiring women or what have you. They are putting money because they have to and they're buying indices. So this is a sort of way for companies to become lazy because their stock price is going to be supported by the Bank of Japan buying because they have to, not because they're being selective, same bar for the trust banks. This is a proxy for pension fund buying, GPIF in particular. So again, there is a massive amount of money coming into the Japanese stock market which is not going to be selective on this basis.

The other key tailwind in my view is something very strange. The Stewardship Code of Japan is modeled after the one that exists in the United Kingdom, and there is only one element of the UK code which is not present in Japan. The UK encourages explicitly shareholders to get together and collectively pressure companies to do the right thing. There is no such requirement in Japan, and in fact, the FSA, the financial regulator, has been completely silent on whether they will allow this or not. And so I've had a number of public pension funds look to us in this country to kind of lobby for clarity about this. So that is another tailwind.

Another tailwind is the fact that although most of the Japanese public pensions have endorsed the Stewardship Code and have promised to engage with companies they invest in, almost none of the private sector pension funds have, and that's because there are myriad obvious conflicts of interest. If you're running Nissan Pension Fund, your decisions to invest in your suppliers or your competitors are going to be dictated by things other than what the value of the investment is. So that's another tailwind.

The other biggest tailwind in my view is the lack of labor reform. Japanese companies cannot maximize their best value unless they can hire the best people, and until the liquidity of the Japanese labor force and the ability to move - change - your company from one that's not doing well, to one that's doing better, or unless you as a company can't replace people who are not performing with people who can, you're not going to have the best result. So in my view, these are just some of the serious tailwinds that this movement is facing. However, there has been an enormous amount of

action in terms of bringing in independent directors on board, in terms of disclosure, in terms of engaging with investors, new investor relations activities are at record levels. And in fact, a couple of big Japanese companies have adopted job descriptions for the CFO and the CEO. So things are changing to that degree.

When you ask, how can we measure the success of this movement? Well, I would say in the case of Prime Minister Abe, as I listed up what his goals are, you know his definition of success, I think, would be to see Japanese companies spend their money preferably in Japan, raising wages, investing in capital, hiring women, jacking up their share prices.

For me personally, my definition of success would be to see Japanese companies hire more outsiders. I don't necessarily mean foreigners, even just Japanese outsiders. The extent you start to see Japanese CEOs coming from outside the company or Japanese senior management being recruited from outside the company. That would be my definition of success.

So the potential for this movement I feel is enormous. You remember the days in the '70s when Japanese companies were incredibly innovative and creative, you know, taking on the global world by storm. That all got lost as the company's management became more and more inflexible and insular. I think we could see a return to those good old days if Japanese companies succeed, posing themselves to more market discipline and then opening themselves up to new ideas and ideas from outsiders. And as I said, for me, the most important part of this initiative is that it should deliver a model for us all to look at because the need for better corporate governance in this country is just as pressing, I think. So, thank you very much for allowing me to make these remarks.

**Emma Chanlett-Avery:** Thank you, Alicia, so much. That was really an eye-opening presentation. I think we're going to change gears now, and ask for Funabashi-san to offer some thoughts on the Japanese political scene.

## **Japan & Populism**

**Yoichi Funabashi:** Why in Japan we have not seen a rise of populism? Although elsewhere in the world, the world has witnessed a very strong emotional thrust for populism, and populist nationalism is exemplified in Brexit as well as the advent of Trump administration. Actually, at our institute, we published a book titled, as Emma kindly introduced, *The Decline of the Postwar Moderate Conservatism*. We had a very, very intensive discussion amongst scholars whether we really should name Abe administration as sort of reflecting populism or not. To some extent, it's actually reflected a social impulse which has shared a lot with the other voices in the process of economic dislocation in the advanced economies.

But on the other hand, we have not seen a very disruptive populism particularly based on race or religion, those unnegotiable factors. So we decided not to use the word populism. But in that process, I really for one, also pondered on these issue, populism. So I actually, I would like to share some of my thoughts. It's all hypothetical but why in Japan we have actually not had this populism.

First, I think Prime Minister Abe himself is perhaps the most conservative political leader over the past 70 [sounds like] years in Japan. The LDP is a much more right-wing leaning party right now under the Abe leadership. And that perhaps is one of the reasons why the party and our leadership have been able to stave off that right-wing pressure from within in the party. At the same time, they have also been able to absorb that very much right-wing forces from that party itself as well as from society. They have been so far very much able to reign in those very much hard-edged populism.

Abe at first, in the initial stage, Abe was actually almost demonized by some political quarters, by left-wingers or liberals as sort of a fascist revisionist and a populist and nationalist and the others. But over the years, particularly throughout 2015, I think he has perhaps turned out to be more realist than nationalist. His speech, the future hope of alliance, which he delivered in the U.S. Congress in April 2015, and his prime minister statement to commemorate the 70th anniversary of Japan's defeat in World War II, and then eventually his critical role of concluding that Japan-ROK accord on comfort women in December in the same year, all point to that evolutionary process of Abe, himself as well as the Abe government, becoming to be center or mainstream.

So I think that's one of the reasons why the center still has been able to hold in Japan even though they have been on and off being attacked from the right-wing populism. Certainly, there emerged a left-wing populism in Japan, but as well as in the world right now the right-wing populism has the upper hand over the left-wing populism. In either Greece or Spain, there has emerged a very much sizable left-wing populism. But in the rest of the advanced economies, we have seen the strong movements of the right-wing populism.

Secondly, I think Japan's lost decade certainly caused this economic dislocation and a strong happiness on the part of the less fortunate people, particularly among the younger ones. But nonetheless, over the past 20-some years when Japan has gone through these two lost decades, we have not seen any major social upheaval, even social unrest. And I think one of the reasons is that the Japanese government has increased the social security budget in a significant way over the past 20-some years. In 1990, between 1990 until 2016, the social security budget has tripled in values. That social security budget in ratio to that total budget has increased from 28 percent to 40 percent. So in a way in this process, in this period social stability has been financed.

Thirdly, I think elsewhere in the world now that this social impulse to drive, to generate this populism – particularly the right wing populism – is heavily concentrated in areas where the people over 50, less educated, dwelling in rural areas are the epicenter of the right-wing populism. But in Japan, the people in this category actually enjoy politically and electorally a lopsidedly positive treatment. The value of one vote in rural area in Japan is twice or three times as high as the people in metropolitan area. I think this also has played very much a transcendent role in smoothing, placating the less fortunate, more insecure segment of the society - particularly people of 50, less educated, and people living in rural areas.

Finally, I think Japan's inability to adapt itself to globalization over the past 20-some years since the end of the Cold War – actually, in other words, a delay in globalization - has paradoxically helped Japan increase its resistance or immunity against that negative aspect of globalization. The most salient case is Japan's refusal to allow the immigrants and migrants to Japan. In 2015, Japan had only 28 people refugees, only 28, so merely 28; 2.2 million Japanese are foreign born, 1.5 percent. In the U.S., as well as in U.K., I think that people born abroad, in foreign countries, are about 13 percent or 14 percent. So this perhaps is a very telling, in my view. All combined, all factors combined, so far Japan has been very much resistant to that core driver of anti-globalization induced populism.

Having said that, I think those contributing factors [indiscernible] that populism movement in Japan actually could be detrimental to Japan's stability in the long run because financing the stability just will not be sustainable as Japan's budget deficit and national debt are now reaching to a very, very precarious level. Also lack of globalization even though it has started to change as illustrated, as Alicia mentioned, on say Corporate Governance Code and Stewardship Code that are much more compatible with the global standard.

Nonetheless, it still is I think lagging behind and that will eventually pay a high price because it will hamper that innovation in Japan's businesses, as well as in society because that innovation requires diversity, and foreign talents, and the new governance. So I think that this should not be regarded as a model. Emma talked about a model with Japan's stability, but I don't think it will be a model. It will never become a model. It's temporary, maybe transient. But for the time being I think we enjoy a relative stability in Japan. Thank you.

**Emma Chanlett-Avery:** Thank you, Funabashi-san. That was really, again, thought-provoking where for a while there at least you turned on its head all these factors that we'd always thought were dangerous for Japan and at least in the short-medium run have turned out to be somewhat helpful. So there's a lot of food for thought in those comments. Frank is going to bat clean up here and will undoubtedly have many colorful things to say.

## **Womenomics & Japanese Culture**

**Frank Jannuzi:** Thank you, Emma. I hope I don't disappoint. It's a wonderful pleasure for me to be here this morning in front of such an expert audience. I see in the audience many former Mansfield fellows. The Mansfield Foundation has been proud to be playing a role in helping to bridge the Pacific for the last 32 years. For the last 22 of those years, actually more than 22 years, we've been recruiting Mansfield fellows to send to Japan and to work inside the U.S. government. We just recruited our most diverse and one of our more selective classes in history to send to Japan, ten U.S. government employees who will miss the first year of the Trump administration here. Whether they'll be grateful or sad, I'm not sure. But they will be very productive in Japan.

I'm delighted to appear on the panel with a member of my board of directors who understands a lot about corporate stewardship, Alicia Ogawa. I want to thank her for her service to the board and other board members who are here.

It falls to me just to fill in a few gaps. As a sort of an in-expert observer of Japan, I want to touch on the topics that haven't been raised yet because I agree with everything that the previous panelist have talked about in their assessment of Japan's contemporary economic and political situation. But let me add a couple of observations, if I may. One has to do with the role of women in Japan. A critical component of the third era of Abenomics's structural reform is doing something about the workforce. Japan is likely to have only 100 million people in the next 25 to 30 years, and that's assuming that the birth rate increase from the current 1.4 to 1.8. Absent an increase in the birth rate in Japan, the population is likely to fall below 100 million. We heard from Funabashi-san already that they're spending 40 percent of the budget on Social Security, and pensions, and retirement for the elderly. Japan's economic future depends upon improving the birth rate.

Womonomics is designed to provide a set of policies and incentives to bring women into the workforce and bring them in not just in temporary positions but in full-time positions. Is it working? No, it's not. No, it's not - not yet. And Mashiko Mori, a member of the Diet, shared with us when she visited under the Thomas Foley Legislative Exchange Program last year a wonderful story. She said when she took over the office in charge of trying to promote gender equality and women's rights in Japan, the first thing that she did was to look at her own bureaucracy and she asked a question of her assistant. She said how many of the men in my office take, how many of them take paternity leave. The answer was zero.

Of course Japan on the books, on the regulations, on the laws has some of the most generous maternity leave and paternity leave in the world. You would think that that progressive approach would help women balance child care and professional obligations by having the assurance that they can leave their job for a year and have a paid salary and come back to their position without discrimination. But something I learned when I was working in the Senate Foreign Relations Committee is that if men don't take parental leave, super generous women's leave policies actually can be counterproductive because they convince employers that the last thing you want to do is to hire a woman who you're then going to have to say goodbye to for a year paid into an important position. So why not hire a man instead?

But when men take paternity leave, it levels the playing field. So the first thing that Mashiko Mori did was to say, well, I'm going to order all the men in my office to take paternity leave. Of course then she was then told, well, you can't do that. That's a human rights violation. You can't force them to take the leave. She said, all right; well, fine, then I'm going to include it in their performance evaluation. She actually did performance evaluations and any men who takes a parental leave is going to get a bonus on their performance evaluation. I can't penalize the ones who don't, but I'm going to give a bonus to any men who does.

I raised this story because the challenges Japan faces are more than legal. It's cultural. The revolution that Abe is trying to effect with his Abenomics, his third arrow, is more than legal in corporate governance. Although those are very, very important – the points that Alicia made. But also at the core, if he's going to be successful, he's going to need to change attitudes. And that's harder than changing laws. Look at our own country. So that's just one observation about Japan's future that is on my mind as I think about Japan.

## Globalization in Today's Japan

**Frank Jannuzi:** I also want to talk about openness, and internationalism, and globalism in the context of Japan. The Mansfield Foundation has partnered with the *Gaimushou* in the *Kakehashi* Program to promote exchanges between the U.S. and Japan. We're doing it, as Congressman Castro said, outside of Tokyo. So for the first time ever last year we had a group of University of Montana undergraduate students who went to Kumamoto. Kumamoto has not just a sister state relationship with Texas, but Kumamoto University has a relationship with the University of Montana in Missoula that dates back to Mansfield's days. So we sent a delegation to Kumamoto. What we're trying to do in this way is really to open up the eyes of young Japanese students to the value of globalism for their professional futures because, unfortunately, the number of Japanese students travelling abroad for education has been declining. Many in this room are actively engaged in efforts to try to reverse that trend.

It's a real challenge given the demographics of Japan but also given the corporate behavior of too many Japanese companies who upon seeing a resume, like Karen Makishima, a wonderful member of the Diet who graduated with her master's degree from George Washington University. They see a resume like that and they say, well, that person is not for us. That person went overseas. They're not on the fast track for advancement in the Japanese corporate culture. Maybe they're interested in working for the UN, but they're not going to have the brightest future here in Japan. That has to change if Japan is going to embrace the cultural shift necessary for that globalization. So we need more people like Karen Makishima, who is a junior astronaut and then joins the Diet and is a young dynamic political leader in Japan, to be a role model and to be an example to Japanese about how Japan can be successful globally through internationalization.

I agree completely with Funabashi-san that thankfully we don't see, I don't see strong evidence of a nationalist xenophobic kind of Japan. There was fear, I think, on the part of many - especially on the political left in Japan - when Abe came to power, that maybe he was going to cloak himself in this kind of a nationalism. I think he's been much more of a realist, but I also think we can't take it for granted that that's going to remain the case. I think the rise of China, I think North Korean nuclear problems, I think Trump sentiments casting doubt upon the resilience of U.S. commitments to core allies - all of these things could fuel a sense of insecurity among U.S. allies in Japan and Korea. That sense of insecurity itself could fuel a sense of nationalism or self-reliance and fear about the circumstances of Japan's surroundings.

So I think the U.S. could either be a contributing negative factor or we could be a boon to help Japan have the confidence that Abe seems to have to engage the world, to host the Olympics in 2020 with great fanfare and success we hope, and to use that Olympic moment as sort of another coming out party for Japan. Really underscoring that Japan is back message that Prime Minister Abe hopes to send to the world. If he is prime minister in 2020, and there is every indication to believe that he will do his very best to be prime minister in 2020, he will become the longest serving prime minister in Japanese history.

So in a sea of political instability here in Washington, in Seoul, South Korea, in Europe, Prime Minister Abe will indeed become potentially a bedrock of stability in the global economic and political order. And I don't think that's what a lot of us would have predicted in 2012 when he became prime minister for the second time. I think the expectations, he has far exceeded many expectations in terms of his longevity. And guess what? His popularity, the latest figures I saw, there may be someone in the room who has a more recent but from December 2016 he got a 64 percent approval rating. That's not bad. That's after his visit to Pearl where he saw a bump of 7 percent or 8 percent up as a result of his visit to Pearl Harbor.

The LDP approval rating is at about 44 percent, which compared very favorably to Congress in the U.S. It's single digits. And importantly it's much stronger than the opposition. The DPJ figures at about 7 percent in Japan. So 44 percent may not at first blush seem overwhelming, but there ain't no opposition in sight for the foreseeable future in Japan. That gives Abe a bit of a pass.

## **Negative Impacts of the Abe Administration**

**Frank Jannuzi:** Finally, there are some warning signs. Some of the tough choices that Prime Minister Abe needs to make on the economy, there's not a real popular way out for him. Social security has already been mentioned, 55 percent of the people oppose plans to cut or reform pensions. That's no big surprise. Nobody likes to cut pensions. Sixty-three percent oppose legislation legalizing casinos, a kind of a stop gap revenue measure which, I can tell you as a Marylander, doesn't work. Please don't go there. But here we are, people fall for it every time - the allure of casino revenue coming in to fill the coffers. It doesn't work out that way because governments tend to cut taxes. When they see a new revenue stream come from one source, they just cut something else. They don't increase spending on education or other things that are promised.

There are new sort of economic uncertainties that are impinging on Abe's prospects as well, most importantly I think the demise of TPP and whether or not it will be replaced by a bilateral trade agreement or not, and if not, what that does to the outside pressure that Abe and his government are counting on to help them ram through tough reforms that are necessary. Absent that outside pressure, it may be that much difficult for him to accomplish. So these are just a few observations I wanted to share and I look forward very much to your questions. Thank you.

**Emma Chanlett-Avery:** Thank you to all the panelists. Everybody just went exactly twice as long as they were supposed to go, so it's actually not too bad. I am just going to mention a couple of things that came to mind as I listened to this. Ask/pose a few questions here, and then we'll open it up for Q&A from the audience.

First of all, I want to make it totally clear that I did not put Frank up to preaching about parental leave. That had nothing to do with me. I'm glad that he brought it up. I also want to talk about the sense of these waves of change and this upheaval that's going on right now. I mean we do have to remember that it was just a few years ago when Japan had basically a revolving door of prime ministers and everyone was putting their head in their hands about how Japan had no stability and we couldn't work out agreements. So things can change and can change quickly. We'll see if that happens.

Also, just a plug since Frank brought it up about the work that Mansfield does on people-to-people exchanges, it's really a crucial time now when we may have more disconnects at the top levels of leadership. I had a really eye-opening conversation. Actually it was in South Korea, but it was with a very prominent and sophisticated guy. This is in October. I asked him about his impressions of the presidential campaign, on what was going on. He said I never realized that in the United States, until watching this, that there were poor white people there. I mean it literally had never occurred to him. He had not seen that. I'm from West Virginia, so I'm very familiar with poor white people. So that is just a sign that we need to spend more time in each other's countries and bring it up from there.

So I want to ask a couple of questions that were brought by some of these presentations. The first is, we've talked a little bit about how Abe came into office. There was a sense that he was going to be more of a nationalist leader, and that the pragmatic Abe has seemed to emerge and his behavior is moderated at least since that initial Yasukuni visit. But I think there are some people that say that the U.S. leadership played a role in that. There was a lot of pressure that came from the United States to get along better with South Korea, for example, and to not be as provocative. So I'm wondering if we have this period now where U.S. leadership is not as engaged and takes a different approach to Japan. Is that going to change Abe's behavior again? Are we going to see a drift back towards the right that some thought may emerge initially? I'd welcome a response from Funabashi-san, perhaps or Frank.

## **Impacts of American Administrations on Japanese Politics**

**Yoichi Funabashi:** Emma, thank you. I think this is a very, very interesting question and important question. To what extent has the United States administration, particularly under Obama administration, played a role in moderating Japan's conservative party politics and political impulse. I think with the regard to history issues, particularly with regard to accommodation between Japan

and ROK on comfort women issue, I think it has been very much a significant effect that U.S. has taken on to play. It has been very conducive in my view to tempering that otherwise more difficult and emotional opposite directions, and eventually contributing to diffusing the issues, and finally to the accord.

So if we would not expect the Trump administration to play a similar role because the Trump administration simply is not interested in value issues, will Japanese politics, Abe politics, could return to that base that is more hard conservatism? I don't think so. I think he has put and expended a lot of political capital already in making those agreements and delivering his speeches that he certainly has a strong incentive to uphold and continue and even to make it as a legacy as a political leader. As Frank said, Abe may be a Japanese political leader with the longest longevity since Meiji in 1890. So I think he certainly is very much conscious of his place in history and I think that he would not in my view upset that record. So I think that perhaps we can expect his legacy as constant, a positive. I think that values in my view.

**Frank Jannuzi:** Just very briefly, I want to commend the role here of Deputy Secretary Tony Blinken who played a largely unsung but really a vital role convening trilateral meetings with his Korean and Japanese counterparts. I think the key is, as Funabashi-san said, United States did not strong-arm Japan and Korea into reconciliation. That would have been both impractical, and frankly, inappropriate.

I agree very much with Congressman Castro's remarks earlier this morning that it's not the United States' role to broker reconciliation between Korea and Japan. I think what Tony did and what the Abe administration welcomed was an expression of the U.S. strategic interest in the cooperation of Japan and Korea. As the people of Japan, as the government of Japan evaluated its relationship with ROK, the clear forceful unequivocal statement by the President of the United States that it was important to the United States for Japan and Korea to work together factored into how Japan managed their relationship. I think that's what tipped the balance.

I also agree with Funabashi-san, that I don't foresee an absence of U.S. leadership on this. If that's what emerges, I don't see that absence significantly changing Abe's approach. I don't think the U.S. was the cork in the bottle in this issue. I think Abe will look to his legacy. I think, let's not forget, that within Japan there is a very significant body of public opinion that seeks peaceful and friendly relations with its neighbors. It's not like there does not exist a domestic constituency in Japan for compassion, reconciliation, dialogue with Japan's neighbors. There's a very strong domestic constituency within Japan. We just don't often see it in the form of statements from elected leaders of the LDP, but it's there.

### **Prime Minister Abe's Legacy**

**Alicia Ogawa:** Funabashi-san, I really appreciated your presentation. It did make me think about many things. But your comment just now about Abe's legacy disturbs me a little bit. I mean if his legacy is simply that he's the longest-serving prime minister, I'm not sure that we're being ambitious enough for him. Many people this morning have commented on the wealth of knowledge, experience, and insights in this town on Japan. All I can say is, for me as a New Yorker, it's like a breath of fresh air to be here with you. Because in New York, which is obviously the business center, there is no interest in Japan whatsoever.

I worked for 15 years for a Wall Street company in Japan. When I came back to New York and started working for a domestically-focused company, Lehman Brothers, I learned very quickly that I should keep my experience in Japan a secret. Because if somebody came to know that I had spent 15 years working in Japan's financial markets, the reaction was inevitably, well, she can't be very ambitious. She can't be very commercial; she wasted all that time in Japan. So what I would like to emphasize here is that it really disturbs me that outside of Washington there is such little interest in Japan. Unless Abe really succeeds in getting the economy a little bit more vibrant, I worry that that will continue.

I remember very few books that I read as grad student, but the one that I do remember was about the Suez Crisis and it was written by Hofstadter. The conclusion I remember to this day, it was really imprinted on me, he said that when the Suez Crisis erupted, for so long the United States had taken for granted its relationship with the UK. We speak the same language. We come from the same place. Nobody had bothered to do what the Mansfield Foundation does and build personal relationships. According to Hofstadter, when you know what hit the fan, they literally didn't know who to call. Like nobody knew each other. This is what really disturbs me about what I see outside of Washington in terms of the interest in Japan.

I'm at Columbia University. The number of Japanese students studying both at the undergrad and graduate level has dropped right off the cliff. We see very few academics who are doing research on Japan, I mean non-Japanese academics doing any work on Japan. I think unless Abe succeeds in raising the profile of Japan, maybe militarily is not the way we would like to see him to do it, I don't know, but certainly he needs to do it economically.

**Emma Chanlett-Avery:** Just to push one strand of this conversation a little bit further before we turn to the crowd. What Frank said about there being a significant body of people in Japan or Japanese people who seek reconciliation and are for peace, and there's certainly a body that's pacifist, I think that that population really appreciated things like the Hiroshima visit and the Pearl Harbor visit and that that was received really well by the Japanese public. Those two visits were based on there being a very solid, stable, and growing U.S.-Japan alliance. If we see that alliance fray a bit or drift or there's certainly a concern, I think that the United States is not going to have the same rock solid security commitments. They're not going to demonstrate it in the same way. Then what happens within Japan?

Because there are certainly very prominent people in Abe's cabinet now who have already called for greater security autonomy and Japan providing for its own. They could look to develop some capabilities that are difficult for a big chunk of the Japanese public to accept. So are you going to see some divisions there between the still very pacifist and peace-loving and then another set that says we need to get together our own, we can no longer just depend on the defense of the United States and need to move in more aggressive ways? I don't know if there's an answer to that, but I think that that's a danger if we don't have the same solidity to the alliance.

**Frank Jannuzi:** I used to work for Senator Biden when he was chairman of the Foreign Relations Committee. I remember a big fight I had with him once on the train going to Wilmington where he was trying to argue to me that Japan would go nuclear if it needed to. I was like, oh, Senator, you don't know Japan. That's bullshit. He said, No, Frank. You misunderstand my statement. Sure, if Japan really can rely on the United States and knows that our nuclear umbrella is secure and that the alliance is secure, Japan doesn't want to develop nuclear weapons. I'm a politician and you're not. Don't tell me that in the face of a nuclear-armed China and a nuclear-armed North Korea, the potential of a nuclear-armed South Korea and no U.S. security guarantee that the Japanese people will sit around and do nothing in response.

This is 15 years ago, all right, that he made this comment to me. Now we're starting to see Japanese realists asking disturbing questions about how Japan ensures its own security if the United States abrogates its responsibility. I don't mean to switch to a really heavy topic, but I think it's not just nationalism where Abe will take the country if the United States retreats from its engagement and commitments to the region. There are serious national security ramifications of this that will drive events in a way that would be very much against, in my view, U.S. interest. So Emma's cautionary words, I think, are well put. We shouldn't assume a steady trajectory if the United States diverts from its path in a very dramatic way. I hope that we won't.



## **Panel Q&A**

Emma Chanlett-Avery: Okay. Shall we open it up. Does anybody have more? Okay. Questions from our audience for our panelists. That right there and wait for the mic and identify yourself please.

## **Japan & Nuclear Power**

**Edgar Snow:** Edgar Snow from the Japan-America Society. You spoke the last comments you made about the nuclear weapons. Now we have Secretary Inada who in the past has obviously brought up the possibility of Japan developing nuclear weapons, and again we enter that climate. I took a seminar recently with the Japan-America Society where lot of the people really felt that perhaps Japan should develop nuclear weapons. Is this a concern for ourselves and the Japanese neighbors?

**Yoichi Funabashi:** We have been hearing some suggestions, utterances, whispering to have for Japan a nuclear on many occasions in the past. In 1998, after North Korea fired a Taepodong missile over Japan's archipelago, we did. Cheney was frustrated with China's inability to rein in North Korea; he also touched on that issue. I was not aware of that, you know, Biden also sharing this kind of sentiment. But I don't think it will happen.

When Nakasone was the JDA Chief in late 1960s, he instructed JDA officials to come up with a report, a highly confidential report to examine Japan's nuclear option and the pros and cons and its merits and demerits. They concluded that it would be very much counterproductive and it would not help Japan ensure its security. I think the Japanese government has maintained that position up until this moment. I don't think in the foreseeable future it will change even though Trump said that it would be not that bad if Japan would go nuclear because Japan simply does not have any strategic depths compared to the big spacious countries such as the United States, Russia, China, India.

Japan would be decimated and Tokyo's metropolitan area would be truncated immediately if the nuclear war would be raised. So that's one of the reasons. Also I think that if Japan would go nuclear or would decide to go nuclear, that automatically means that the United States would abandon Japan. The United States would give up on extending that nuclear deterrence with Japan. So I think that will be tantamount to ending that alliance. I do not think in the foreseeable future that U.S.-Japan alliance would end even though Trump administration would increasingly go isolationist.

**Frank Jannuzi:** I want to be very clear in case I wasn't before. Senator Biden was in no way advocating Japan going nuclear. He was in no way saying that that was a desirable outcome. The only circumstance under which he was envisioning it was the circumstances under which the U.S.-Japan alliance had already essentially crumbled with the U.S. abrogating its responsibility. So I want to clearly differentiate his views from those of the president who seemed to suggest during the campaign that it might not be a bad thing. Biden thought it would be a disastrous thing but an understandable thing under those circumstances, if Japan were to find itself in those circumstances.

**Emma Chanlett-Avery:** I think there are going to be a lot of eyes on General Mattis as he makes his trip pretty soon. More questions.

## **2017 Japanese Elections**

**Male Voice:** Thank you. Sorry to jump in here, but I wanted to ask the political forecast question if I can, probably mostly for Funabashi-san. Do you think we'll see an election in 2017? And related to that question, how important do you see the role of Governor Koike and Tokyo and the political dynamics that are at play kind of vis-à-vis LDP and the opposition there? Will 2017 be the year of constitutional revision formally starting as a formal process for the first time in Japan's history?

**Alicia Ogawa:** And I'll add your thoughts on potential successors to Abe too.

**Yoichi Funabashi:** Again, thank you for your question. I wish I would know the answers, which I don't. But I'll try to respond to your question.

First, I think it's likely that Abe would go for a snap election again this year. Perhaps later this year. I think now the Abe administration enacted or will enact the special law to allow the emperor to abdicate, especially applied to the current temper. It's not a permanent law. They decided not to revise that Imperial House Law because to do so would invite vicious criticism from the right-wingers. They would not like to see that revision of the law would open the possibility for a woman emperor in the future. I think that's the core issue behind the scenes, it's about whether the Abe government would allow a woman emperor to reign or not. At this point they have decided to seal that issue because politically it could be too explosive. So I think they perhaps will likely contain these otherwise very much explosive issues.

The advent of the Trump administration will inevitably increase the sense of insecurity among the public, so I think that once again we may see rallying effect around Abe. Koike's challenge I don't think it will appeal to the general public nationwide. It's basically confined to Tokyo Metropolitan Area. So I think this would be a very good opportune moment for Abe to once again go for a snap election.

The problem is that this is related to Alicia's critical view of Abe's administration, and I agree. Because the more they have victories -- they already have won four elections in the past four years, two Upper House and two Lower House, right? The more they have won, the less driven for them to pursue reform because the old pork barrel types have come back and they have actually gathered around Nikai - the general secretary of LDP - and I think they have formed a formidable impediment wall against that structural reform.

So with regard to Abenomics, it may not be that helpful. Kishida, our current foreign minister, may be in a good position to succeed Abe because he has been very loyal to Abe. Now it seems to be, to me, that Inada will not be a darling to Abe any longer because she has challenged Abe's position on and off visibly to put Abe on the spot and which *Kantei*, the Prime Minister's Office, simply hates to see. So I think her chance is very much now closed. I think though Kishida perhaps may have the best chance to succeed Abe.

Alicia Ogawa: It's funny. I have to jump in here and say that if this conference is taking place in New York, nobody would ask you this question about a successor to Abe. They would be asking who's the successor to Kuroda.

## **Japanese Public Resentment Towards the U.S.**

**Jim Gannon:** Hi. Jim Gannon with Japan Center for International Exchange. You look ahead and I'm sure there are going to be a lot of demands out of the Trump administration. It seems the U.S.-Japan relations are much more transactional than would seem in the past. But from Japan's perspective, it's very hard to see any place to go but the U.S.-Japan alliance despite all the security changes. So it seems that the only choice for Japan, for Prime Minister Abe, is to give some more, then give some more, then keep giving some more as you go down the road. At what point in Japan start to build up public resentment against the United States, as well as on the policy elite? This is also hurting Prime Minister Abe politically by making him look like the weak [audio glitch]. Any thoughts on that?

**Yoichi Funabashi:** Thank you for that question. Actually, I was planning to touch on that issue in my speech, so thank you very much because I can now reduce my speech time. It's still too early to tell when Japan will start to resent. But if Trump administration would decide not to allow Japan to pursue multilateral trade agreement in Asia-Pacific, not just TPP, minus the United States, so 11 on TPP forum, whether it's independently pursued or would be independently pursued, or it would be at that RCEP forum, then I think Japan, the Abe government, would start to question that wisdom and the strategic sense of the Trump administration. Because if the United States simply

would not be interested in coming up with an Asian comprehensive policy based on multilateral framework, then I think it would very much compromise Japan's strategic room to rule and I think it would be very much detrimental to Japan's Asian policy. So I think that maybe one scenario that we can envision.

## **Corporate Governance and Social Concerns**

**Emma Chanlett-Avery:** More questions? Ben?

**Ben Self:** Thank you. Sorry to hug the microphone. Ben Self, Mansfield Foundation. Alicia, your very first slide after the title slide had the list of outside stakeholders that management paid the most attention to. But the one's that missing from that list is management itself. I'm wondering how much you see as sort of in-group constraint that individual managers are actually most constrained by their peers within the company. I mean I think your suggestion of bringing outsiders in is tremendously important, but where can you see any management that's willing to take the risks of breaking up their group or violating the group norms and bringing in the outsiders? And I think it's not only a corporate governance, right? It's a social and even a nationwide concern.

**Alicia Ogawa:** Yeah, this is actually a really hot topic. I work by day for an activist fund and there hasn't been very much opportunity to do much in Japan. But cross-border M&A is now at record levels and there are all kinds of mistakes being made. I mean Japan has not had a good record in acquiring overseas to begin with. Even a company like Nomura, who has such global experience, completely botched the acquisition of Lehman. So let me give you an example. The problem is that many acquisitions are made by CEOs who of course are the *sempai* to everybody on the board, and so nobody is going to challenge that. The problem is compounded when that CEO retires and is kept on as official adviser.

So in the case that I'm involved in at my company, there is a financial institution has made an acquisition overseas. It's been terrible. This target acquisition, it's full of corrupt people. Some of them are going to jail. It's obviously outside Japan, right? And yet, nobody on the board will say to the guy who bought it let's get out, let's sell it, or let's do something even though that guy is no longer CEO. He's an adviser, he has an office down the hall, but his presence is such a pressure on the rest of the board who owe their careers to him that it's a problem.

Now one of the things, I don't know how much, in the audience, you guys know about proxy firms, but these are firms that make recommendations about how shareholders should vote. One of the big proxy companies in Japan is recommending voting against any company that has these kinds of informal advisers around in an attempt to remove that kind of pressure. But you're right, it's a huge problem. It's a huge problem. And again, to the extent that there are outsiders who are coming to serve senior positions, it will alleviate the problem.

I'm really encouraged to see that there are now about half a dozen Japanese companies where the CEO came from outside. So the guy who runs Shiseido used to run I think Coca-Cola, and the guy at Japan Post used to be chairman of Citi. These are Japanese nationals, right? There are half a dozen examples now. Santory, Minami who used to be at Lawson, and so on and so forth. I think this is the only way you're going to get real analytical discipline around how to run a company.

**Emma Chanlett-Avery:** I think we're going to wrap it up here. I want to thank Carnegie for hosting Japan-America Society and for all the very, very important work that they do on this relationship and of course most of all our knowledgeable and enthusiastic panelists here. Thank you everybody.

# **Luncheon Keynote Address: Japan's International Agenda in the Trump Era**

**By Mr. Yoichi Funabashi**

**Co-founder and Chairman of Rebuild Japan Initiative Foundation (RJIF)**

**Yoichi Funabashi:** I extend my heartfelt gratefulness for organizer. Particularly, I would like to express my gratitude for Ambassador Malott of course, Dr. Jim Schoff, and my friend Matt Goodman. Particularly, I'm delighted to be back to Washington and to be invited to this forum. I see many familiar faces. As John just touched on, I was particularly delighted to see Robin Berrington again here.

Actually, I had been stationed in Kumamoto to cover the Minamata disease for three years, and then I moved up to Fukuoka and Robin kindly invited me to a study group which he had formed. He was at that time director of an American center in Fukuoka. They had a very really good library, and they had a stock of *Foreign Affairs* magazine. I started to read the *Foreign Affairs* magazine in the American center in Fukuoka in 1970. Since that time, I have continued to read *Foreign Affairs* magazine. So I eternally owe you, Robin. Thank you.

Yeah, I covered the trade wars throughout 1980s in Reagan era. It carries a lot of commonality between now and then. At that time, the target was Japan. I have been thinking of this. Has America changed over the past 30 years or it has not changed at all? I was so struck hear, read Trump's speech during the campaigns We are told that don't take his words literally. But now I think we have to take his words seriously and literally and take him seriously. That's really troubling. He said, as all of you know, with regard to the alliance with Japan, "It's not fair to deal." and, "Congratulations, you will be defending yourself."

We talked about this to some extent, maybe Japan would go nuclear. It may not be that bad and Japan should pay full cost to maintain the U.S. military bases in Japan. Japan now covers 75 percent of the cost to maintain the U.S. military bases in Japan. It's really mindboggling. But I came here last Saturday. Monday he finally put nails into TPP's coffin through the signature of an executive order.

Actually, last week I was at Davos. I listened to China's President Xi Jinping's speech. It was really a propaganda masterpiece. Many Europeans sitting around me were so enthusiastic. When Xi talked of something like denouncing protectionism, he said to the effect, well, it's like locking yourself in a dark room which saves coal and water but blocks light and air. It created a big applause.

Then tomorrow British Prime Minister Theresa May will come to meet with President Trump as the first foreign political leader since inauguration but Trump certainly will give special favor and perhaps rewarding Brexit, hard [sounds like] Brexit. We are witnessing the revival of Arab realpolitik these days driven by geopolitics and the geo-economics. But it looks like serial realpolitik in my view. It really does not make sense, but, nonetheless, that's the reality unfolding before our eyes.

I would like to share some of my thoughts with you today on what really signifies this Trump phenomenon to the world but particularly to Asia-Pacific and Japan, its implication for the U.S.-Japan relationship and how Japan really should respond to this radically different political entity. First, I think the immediate risk we will face or already facing is a trade war. There's no question about Trump's trade policy. The nature of that, the essence of that; that is, protectionism. Even though some Trump apologist pains to argue that this is not protectionism, we all know it's really protectionist. It will cause trade wars only between the United States and China. America First clashing with China First. Xi Jinping's China First. It will spill over the effect. It will spill over the effect into the Asia-Pacific.

Second, I think Trump's team's belief is bilateralism. They are very much hostile to multilateralism, and this I think poses very serious risk to the liberal international order - free trade - particularly in the Asia-Pacific region because we have seen emergence of multiple multilateral and regional free trade negotiations and enterprises in the region.

If Trump administration would be determined to pursue bilateralism, not only TPP would collapse. It already actually has collapsed. But TPP signatory countries such as Japan, Australia, Canada and the others, I think they are very much interested in maintaining that TPP framework but

minus the United States. And I think the 11 should I think maintain this framework, in my view. But if Washington would be opposed to that and they would impose the bilateral deal at the expense of multilateral framework, I think we would see serious tensions between the United States and the United States traditional partners and allies which are a member of TPP signatories.

Not only TPP is the first casualty, but it's most likely that ASEAN will be the next casualty. ASEAN already has been under tremendous stress as China has put tremendous pressure on the ASEAN countries by resorting to divide and rule, more accurately divide and trade. On top of that, if the United States would apply bilateral measures to each ASEAN countries, I think ASEAN's integration process would face a huge setback. ASEAN is going to celebrate their 50th anniversary from its inception this year. There are many, many events now in line; I am invited to two events myself. So this bilateral thrust could pose a serious risk to regional order building.

Third, we have seen many signs of interest on the part of Trump administration in giving priority to short-term economic deals over long-term strategic rational imperatives. In other words, that long-term strategic interest will be subordinate to the short-term tactical economic deals. This if realized, if that should be the case, that also will pose serious security risks to America's allies and partners.

Second, when it comes to alliance management between the U.S. and Japan, Trump administration is very much decided they are different from the previous U.S. administrations over the past 70 years. They seem to believe that alliance mechanism is a transactional object. We already have seen some of the Trump proposals in this area.

But it looks like it, and this sounds a bit a farfetched comparison, but in 1971, in the summer that year Nixon stopped linkage of the dollar to gold, and hence, cheapened the dollar which led to the floating exchange rate system. Up to that point the U.S. and the other IMF countries maintained the fixed exchange rate system. So under the floating exchange rate system, every day the currency is sold and bought. Not dissimilar to this kind of dynamics. Alliance mechanism now looks to be sold and bought as if that alliance mechanism is now changing from the fixed exchange rate into floating exchange rate. It's all so transactional.

Then perhaps we may see next that Trump administration, being very much interested in transforming that U.S. role in Asia-Pacific, from that stabilizer provider to offshore balancer. Offshore balancer is that the hegemonic country will try to play regional powers against each other. And then it will not directly get engaged in that scene. They consciously try to distance themselves from the scene in order to maximize their leverage vis-à-vis the regional powers. If realized, I think Japan will suffer greatly. Certainly, there will emerge a vacuum of power only to be filled by China.

So if that perception would emerge and would start to gel, I think China would be emboldened to push forth their aggressive posturing to challenge that U.S.-based order, alliance system included, whether it's South China Sea, East China Sea, Korean Peninsula. Then, as far as the East China Sea is concerned, Japan would feel forced to increase their military presence in Okinawa to defend the islands. China in turn would regard it as evidence of Japan's remilitarization, then getting the relationship between Japan and China deteriorating dramatically as a result. So I think that offshore balancing strategy, if that would evolve under the Trump administration, could be very much detrimental to the peace and security in Asia-Pacific.

Also we should perhaps think of China's great game, of geo-economics great game of Eurasia if the United States will push back from the scene, from world and withdraw from the world. China's One Belt, One Road design for instance encompasses 64 countries now - a design to connect China, Central Asia, Middle East, and then Europe - deliberately excluding the United States and Japan. When I asked a high-ranking Chinese diplomat about this, why China excluded the United States and Japan in the OBOR, his answer was that, well, in case of Japan, Japan should be advised to form a free trade agreement with China and Korea as soon as possible. If Japan would be hooked to this far eastern part of Eurasia as a member of free trade area, then Japan would be efficiently entitled.

And then Japan should be advised to be a full member and very much a responsible player in RCEP, the Regional Comprehensive Economic Partnership, in which China is now trying to accelerate liberalization at the expense of the now defunct TPP. Then this should be seen as part of a maritime Silk Road, which is part of this One Belt, One Road grand strategy. What about the United States?

His answer was, well, United States has been traditionally extension of Western Europe. So once this One Belt, One Road extends to and compasses Europe, the United States also should be seen as part of Europe.

So it does not make any sense. What it makes only sense is their determination to exclude the United States from this Eurasian strategy. And I think this is part of that great game that we are very much organizing [sounds like], slowly appreciating, unfolding and China is so ahead and we, Japan and United States, are so behind and Trump administration particularly seems to be so insensitive. Yes, they do not seem to be interested at all in this wholesale game of geopolitical and geo-economic game. They have only focused on retail, micromanagement of the deals. So I think that we are going to be faced with serious risks, geopolitical and geo-economic risks, because we are so much behind now.

Finally, on the question of liberal international order and American soft power, Trump administration will unravel the whole foundation we have benefited so greatly over the past 70 years, that is, the liberal international order. The U.S.-based Bretton system, alliance system, OECD, G7, they are all part of this liberal international order game. I referred to Xi Jinping's speech at Davos and I said that Europeans seemed to be very much enthusiastic with that. I felt keenly there had emerged a huge gap between myself, perhaps the Japanese in more general terms, and the Europeans as to how to see the nature of China's position on globalization or global free trade. They all have praised China as if China is a champion, custodian, savior of globalization and global free trade.

I think globalization is a concept or process and liberal international order is a principle and value. One noted, famous Indian journalist blogged after he listened to Xi Jinping's speech saying that, well, is China a global leader? If China really believed in globalization or free trade, how then we should think of China which blocks that global high-tech company such as Google and the Twitter into Chinese market. China also creates that types and non-type barriers. China robs and steals intellectual property rights. China vacuums out all the data from your personal computer. China hectors and browbeats China's neighbors, and the Europeans are so enthusiastic with China as a global leader and globalization savior. It does not make any sense. And I agree to his views.

So liberal international order is different from just globalization, but liberal international order is now very much at peril as the United States and the Trump administration now seems to be abandoning on that. I think Japan has developed since the end of World War, since the defeat of the World War II by embracing [indiscernible] being embraced by this building block of liberal international order. So, for Japan, the liberal international order is not just a world institution, mechanism. Its principle and values have been deeply embedded into Japanese political belief and political institutions. It's not separable.

In China, perhaps they can separate that game outside and the game inside. But among the countries and societies under that liberal international order, those values and principles are universal. So I think we are now in a very, very critical juncture as to whether we will be able to uphold this liberal international order or not. I think Japan should and can play a large role, a significant role to uphold that liberal international order together with likeminded countries. But first we have to maintain that free trade agreement and regime in Asia-Pacific.

Trump administration may not like Japan and the likeminded TPP countries to keep forming TPP or TPP forum but, nonetheless, I think Japan should do form it. Perhaps 11 countries should change that clause to allow themselves to form TPP, and then that 11 countries minus United States. This will not be a platinum standard as once it was described, but if we would maintain this 11 as a sort of caucus or forum within RCEP, for instance, to promote that RCEP into much better global standard - if not gold standard but silver standard - I think that also would be better much helpful to provide oxygen to the Asia-Pacific trade liberalization. Certainly, perhaps it should not be mutually exclusive.

So I think we perhaps should explore ways to force U.S.-Japan free trade agreement, a bilateral one. If the United States under Trump administration would be very much interested in doing that, I think that we should not refuse that. I think it can be compatible and could be mutually reinforcing in some cases particularly when it comes to the digital trade and the others. But I think that condition should be that United States should allow that Asian or TPP countries to pursue that multilateral regional free trade agreement and forum.

Second, I think Japan should conclude a free trade agreement with European Union as soon as possible. The European Union seems to be now intensely interested in forging FTA with Japan. They seem to be in a hurry for good reasons. I think that should be welcomed because Europe, particularly under the leadership of Germany and Japan, should cooperate to maintain that liberal international order. If Merkel is defeated in September election, perhaps this Japan-EU liberal international order axis would not be tenable, would not be sustainable. But I think we should make our efforts to maintain that between EU and Japan.

I think that would also signal a strong message to the American political class, Congress particularly and the people as well, that United States would be left out from the free trade agreement among the major players. I think U.S. industry sooner or later would have to voice against the champion protectionist, whether it's agriculture, service industry, Silicon Valley, Boeing and the others, many American companies which have a competitive edge in export business. There are many, many of them. They have been very much silent right now. But I think that if we would continue to give a strong signal to the United States, I think that would help those international business form sort of a coalition against that protectionism.

Then I think we should help ASEAN integrate further. Without Japan and European's strong support for ASEAN, ASEAN could start to unravel or even collapse. So that's also very much vital because that's, with regard to that East Asian regional architecture, the most successful and always without exception having ASEAN base - based on ASEAN centrality whether it's APEC, EAS, and RCEP. RCEP, the ASEAN ten countries, are all members.

So when I argue for China's divide and trade tactics being very much detrimental to ASEAN centrality and ASEAN's integration, then the repost from China's strategists was and still is that, well, TPP also could be very much divisive because the ten ASEAN countries, all of them are not members with TPP. There is some merit in that argument, but I actually responded to him by saying that, well, but Philippines and Myanmar have shown interest in participating in TPP. So it's open-ended. We also will welcome all ASEAN countries if they will meet the standard.

Second is with regard to how to maintain the alliance system. I think that Japan and other countries should be advised to explore autonomous foreign policy, a little bit more independent from the United States. It should not be full-fledged independent, but I think for instance Japan's effort to provide a civilian coastguard capability for Philippine, Vietnam, Indonesia, Malaysia is just one of the examples, illustrations of this kind of more autonomous role that Japan can and should play to maintain that more robust maritime law enforcement capability to countermeasure with China.

Australia and Indonesia have recently agreed to initiate that joint patrol, maritime patrol in South China Sea. But the United States is not a member of this. It's all Asian initiative, but it's all compatible and very much I think mutually reinforcing with the U.S. traditional policy to strengthen its engagement in the region. Also, I think we should perhaps explore Asianizing that defense cooperation and security collaboration among likeminded Asian countries. When Nixon came up with that Guam Doctrine in 1969 and Nixon Doctrine 1971, that was basically designed to Asianizing that Vietnam War effort. But it was the U.S.-imposed approach. I think now what we need is that Asian-based bottom up approach to share the burdens and responsibility to enhance that rule-based order in the region.

Finally, is how to uphold and strengthen that liberal international order? My fear actually is China's globalization, China-driven globalization. Why China is so much interested in now pushing forward globalization, in my view that is because that's [indiscernible] state capitalism base. State-owned enterprise-driven globalization would benefit China most now because they are very much now in a stronger position by harnessing/mobilizing all those state assets to dominate a scene and impose their rules and norms on the others. So I think that has to be resisted and we have to come up with our alternative to this China-driven globalization.

That is exactly why TPP has to be maintained, and TPP framework sooner or later. Even though it's not the TPP form, I think that the American public and the U.S. political leaders would come to appreciate how crucial that Asian regional order based on that likeminded countries' effort and political leadership and values will be for that U.S. interest. I think for the time being the Japanese government, Japan really must articulate the values of that U.S.-Japan alliance, and then

persuade the American public how valuable that is, that base. In other words, I think Japan must make a case for the merits of that alliance to the American public. America certainly will perhaps get more than give even though Trump said that it's so unfair, it's an unfair deal that the others are free riders at the expense of the American taxpayers. That's not the case.

How to then make the case, first, I think that alliance mechanism - the U.S.-Japan, the U.S.-Korea - will enable the United States to project the power to the Asia-Pacific.

Marines stationed in Okinawa not merely given the roles and missions to defend Japan proper. They will go everywhere, elsewhere in case, whether it's the Middle East or the others. The Seventh Fleet also has roles and missions to ensure security and peace in South China Sea, not only in Pacific and East China Sea. So I think the alliance system really ensures that U.S. forward [sounds like] deployment and presence, and also enable the United States to project the power.

Also I think that the alliance is the best force multiplier for the United States. If the U.S. allies and partners will strengthen their security arrangement and framework, that also would be very much conducive to the United States' security. The question is if the U.S. administration under President Trump will not be interested to project the power. If they are not interested in developing forward deployment their presence, then they don't have any incentive to maintain the alliance. I'm not so sure at this point how Trump administration will translate the campaign rhetoric into the actual policy and actions.

With regard to that trade policy, I think that we see already a new enterprise [sounds like] initiative mutating from campaign rhetoric into strategic reality. It's so scary to see that, but I think it already has started to unfold. But at this point, I'm not so sure whether the Trump administration equally will be interested in or determined to translate the campaign rhetoric into the actions.

Secretary of Defense Mattis will visit Japan and South Korea next week. One of his staff requested me to have lunch with him by inviting a couple of strategists/thinkers in Tokyo. I certainly responded to him by saying affirmative, yes. So I'm still hoping that on that national security policy and alliance strategy that the Trump administration could make not much difference from the previous ones. Mattis' trip to Japan and South Korea in very early stage I think has a very clear message, that Asia first rather than NATO first. So perhaps, possibly the Trump administration may maintain some part or element of the rebalancing strategy. But I'm still not that sanguine about that prospect at this point. I should stop here and I'm more than delighted to exchange views and notes with you. Thank you very much.

**John Malott:** Dr. Funabashi is very happy to take your questions, so I will point to people. Please wait for the microphone to come to you. So go ahead. Anyone, please, right there.

**Male Voice:** Hi. My name is Emon Clyne [phonetic]. I'm with the Department of Defense, but I'm a student at the National War College and looking at Japan. I wonder to what extent you think what Trump has done and with TPP might be a negotiating ploy. That it's a way to pull out and to have some leverage to then pursue a bilateral agreement with Japan. Based on what they're doing with NAFTA, it looks like the NAFTA tinkering, some of the things that they're looking for are elements that are already in the TPP. So the NAFTA rejiggering, it looks more symbolic for a domestic constituency than what the reality will bear.

**Yoichi Funabashi:** Yeah. I think both Canada and Mexico are members of TPP. It's now actually linked up to NAFTA, too. So if the TPP would completely collapse, it would have also implication for NAFTA. But I think that we should try to maintain some elements of free trade, and environmental standards, and labor right standards. WTO extra I think should be maintained in TPP. Certainly, we should not discriminate against the private sector companies, the enterprise, okay? We should treat them equally. That's also another principle. At this point, Vietnam and Malaysia are exempt from this temporarily. I think this also is very much important. That's reason why I explained that, because TPP strategically speaking should resist China's SOE-driven globalization. That's I think the essence of TPP as far as strategy is concerned.



But I think on this account we really should -- or Asian countries and Canada and Mexico. Because as Congressman Costello reminded us, China would maximize their effort to influence Mexico and to help Mexico in a way after Mexico would be abandoned by the United States. But I think that Mexico also should be very much an important partner for Japan and likeminded countries, as well as ASEAN.

**John Malott:** Straight back, the gentleman.

**Male Voice:** In Dr. Funabashi's excellent talk and throughout most of the proceedings today there's been an undercurrent of concern of course regarding the Trump administration policies, an implication already made explicit that there's a pulling back by the U.S. from Asia. It seems to me that many of the things that the Trump administration appointees have been saying, including the president himself, on Taiwan, China and the South China Sea, North Korea is just kind of in the opposite direction. There may be a more assertive U.S. policy in Asia than we've seen up until now. I wonder if you would comment.

**Yoichi Funabashi:** Thank you for raising that question. Yes, when you take their words at face value, actually you really -- because they really seem to be determined to unravel the whole foundation they have so diligently built over the past 70 years. Taiwan for instance, as you mentioned. I have talked to Taiwan's policymakers in the past couple of weeks. They are deeply fearful of being abandoned by Trump administration. They are deeply fearful of being used and exploited as a pawn, as just a bargaining chip vis-à-vis China. Even though the public feels a bit heartened to see Taiwan being now paid attention by Washington, the policymakers and professionals are deeply concerned about that.

With North Korea, I'm not so sure how the Trump administration would respond to Kim Jong-un's challenge. Curiously [sounds like] enough, they have been very reticent on that. My guess is that, I think they don't have any choice but to come up with contingency planning before they didn't, the biggest enemy for complacency. I think that the sooner the better for them to come up with a contingency plan. But to make the contingency planning viable, I think that U.S.-Japan alliance and the U.S.-ROK-Japan trilateral cooperation are indispensable. But they are not prepared for strengthening those mechanisms at this point. It's very, very I think fragile at this point. That will become to be more so.

Under the very conservative estimate, North Korea will acquire that ICBM capability hitting the West Coast of the United States in five years. Some have forecast that they could do that; they would do that even this year. That'd be too late for them to allow them to do that, so we have to do something before that, whether it's regime change, peaceful revolution from below, whatever it is. So whatever they envisioned strategic options and scenarios, it requires that robust alliance system particularly between Japan and the United States, ROK and the United States. That is now very much a question right now.

**John Malott:** Yamakoshi-san.

**Atsushi Yamakoshi:** Thank you very much. My name is Atsushi Yamakoshi from Keidanren USA. I think you have already answered my question to some extent, but I'd like to pick upon energy. Endo Shusaku's *Chimmoku* became kind of a popular movie and I'm afraid we will be presented some *fumie* - I don't know how to say it, stepping plate [sounds like] or something - by President Trump. I'm sure that we need to keep liberal international order. We should try our best. But sometimes we may face the need to think about transactional response. So I'd like to get your advice, suggestion how to deal with President Trump in that situation.

**Yoichi Funabashi:** Yeah, I understand your point. I don't think we should allow the U.S.-Japan alliance to be just reduced to a transactional deal. However, I think certainly we would perhaps do some business quid pro quo in any deal or in any agreement. I think Japan, with regard to host

nation support, I 75 percent perhaps is the upper limit. Otherwise, it would make the United States troops mercenaries. Not possible, U.S. are not troops mercenaries. So I think perhaps we should increase our military defense budget and we have to allow things actually. So that's one. But I think more importantly, we and the United States should collaborate in defense military technologies, AI-based and the others. And I think there is a huge potential on the frontier in this area judging from my conversation with Pentagon officials and [indiscernible] officials at NOD.

I think China is not a big deal, but a part of a deal. But I think it may be time for Japan to recalibrate Japan's China policy, somewhat transforming from very hard-edged China policy into more soft-edged even though we certainly remain to be committed in strengthening that balance of power and deterrence power vis-à-vis China. But I wouldn't say that's under the Obama administration. I think tactically I have kept telling them that they are too soft. But when dealing with the Trump administration, I think it's a bit dangerous if we would tell them to be more tough on China. That could possibly lead to confrontation with China.

So the worst case scenario for Japan, in my view, is that U.S.-China confrontation. U.S.-China accommodation at the expense of Japan also is a big risk, a huge risk. We have to make the utmost effort to avoid that. But I think that compared to that U.S.-China confrontation, it's a little bit better, at least less evil. I think, for instance, we should form a TPP caucus in RCEP to try to promote RCEP into more higher standard trade liberalization and regional order. I think at one point Japan and China should cooperate. India may be more bigger obstacle to promote that rather than China. Also, with regard to the North Korean Peninsula question, China must be a central player. You cannot come up with any plan, even contingency plan without getting China involved. So I think perhaps it's time to rethink China policy, too.

**John Malott:** Mr. Yamakoshi mentioned the phrase *fumie* for which I don't think there is any translation. But to put an advertisement for our Japan Bowl which is the academic competition that we have for American high school students who are learning Japanese, that was actually a question a couple of years ago. It's the act in the Tokugawa era when they banned Christianity. In order to prove your loyalty and to prove that you are no longer a Christian, you have to actually step on a picture of Jesus or of the Madonna and Child as an act of fealty to the emperor.

Anyhow, we ran out of time. So thank you all so very, very much. We will be setting up the stage. Thank you, Yoichi. Thank you.

**Yoichi Funabashi:** Thank you.

## **Afternoon Panel Discussion**

### **Japan, Asia, and the US-Japan Relationship in 2017**

**James Schoff:** Let me briefly introduce everyone here. You have a little bit of information on their bios. But we're so pleased and I'll start in order of our presentations.

Mr. Satoshi Ogawa, on the end here, is the Washington Bureau Chief of *Yomiuri Shimbun*. I'm very pleased to have him here with us today. He began working at *Yomiuri* in 1994. He's covered all the key areas of interest to us here today - the prime minister's office, the LDP, Kōmeitō, the foreign ministry, the defense ministry beat. And he was also here in Washington for an earlier stint, also at a time of transition, I believe, from the Bush administration to the Obama administration. So it would be interesting to hear your perspectives on things this time around.

We're also very pleased to be joined by Andrew Beatty, who is the White House correspondent for Agence France-Presse. You may notice this is not David Nakamura who was originally supposed to be with us but had to run off to Philadelphia to follow the Trump train as the president was addressing the retreat there. So, Andrew, a real special thanks for coming to join us on short notice. But we thought it's really important to have someone to get both the journalistic perspective of people who are covering and following this transition so closely. So we're very glad to have you here. He's been with the AFP since late 2014. Before that, he's also worked -- well, you've been at the White House, a correspondent since 2014.

**Andrew Beatty:** Yeah.

**James Schoff:** And has also worked in South Africa, Panama, in Brussels, in addition to another stint some years ago on economic issues here in Washington. I'm also very pleased to have Bonnie Glaser here with us, the senior advisor for Asia and the director of the China Power Project at CSIS just down the street where she covers a wide-range of China and regional geostrategic security issues. Thank you, Bonnie, for joining us today.

And of course Abigail Friedman, a trustee at the Japan-American Society; founder and CEO of the Wisteria Group, a consulting firm; and a long-time veteran of the State Department of the U.S.-Japan relationship, but also more broadly in Asia and has worked significantly for the last few years at least with The Asia Foundation as well. So, very pleased to have you here.

So I'm going to ask each panelists to give us a few opening remarks. Then I'll facilitate a conversation on some of the key issues in 2017, and we'll take it from there. Ogawa-san, let me ask you to start.

### **Japanese Political Response to U.S. Policy**

**Satoshi Ogawa:** Thank you, Schoff-san, for organizing this panel. I'm going to talk about U.S.-Japan relations and how Japan is responding to the Trump administration. But before that, I have to admit that all argument - what I'm going to say - that Funabashi-san covered all of that. But I'm happy, if I may, to put some details and atmosphere.

So first atmosphere. Recent Japanese opinion polls found that over half of Japanese people expect U.S.-Japan relations to deteriorate under the Trump administration. This bleak outlook stems from President Trump's past remarks during his campaign where he characterized the U.S.-Japan alliance as unfair, calling on Japan to pay the full cost of basing the U.S. troops there if it expects the U.S. to continue defending the country. He also hinted on the full withdrawal of troops from Japan if such conditions were not met.

Now if Mr. Trump were to actually implement policies based on these remarks, U.S.-Japan relations could very well be plunged into turbulence. However, if we were to think that Mr. Trump was using a negotiation tactic, he is showcasing his memoir, *The Art of the Deal*, then we can say a much different future awaits Japan. So the two Trump-style tactics most relevant here would be maximize your options and use your leverage which essentially means to play your hand well. Make

the other party worry. You might walk away from the negotiation, then gain position that will reap high returns.

Former Defense Minister Ishiba recognized this earlier and called Mr. Trump the president of suspense on dealmaking. I agree with that assessment. So what become important is for the government of Japan and the media to know the difference between Mr. Trump's bluffs and his policy, and not overreact to every option maximizing statement. For example, when Mr. Trump say that the U.S. must be prepared to work in negotiation to get Japan to pay more for U.S. defense, the media were quick to fire off stories with headlines that read Trump suggest pulling U.S. troops from Japan. But this is likely a bluff.

So really the policy Mr. Trump is ultimately aiming for is for Japan to increase their contribution to the cost of stationing U.S. troops in Japan. Perhaps I'm wrong, but based on careful consideration of the confirmation hearing of Secretary of the State nominee Tillerson and Secretary of Defense Mattis and from what I learned from the interview with the National Security Adviser Michael Flynn, Mr. Trump's perplexed comment on U.S. forces' withdrawal from Japan sound more like a bluff. I believe Japanese senior officials share my views on this.

One example, this is the Senkaku issue. Mr. Trump has been reluctant to answer whether the U.S.-Japan Security Treaty would be applicable if China attempts to attack the island. In Japan, this has sown the fear that without clear U.S. commitment of a policy proclamation on this issue, China would treat it as a green light to escalate its aggressive posture near the Senkakus. However, based on Defense Secretary Mattis' appointment and his tougher stance toward China and the South China Sea, the Japanese government has gradually regained confidence in that U.S. is still committed to the ally.

How is Japan responding? Rather than simply increasing the host nation support, it appears that Japan is looking to meet Mr. Trump's request by ramping up defense capabilities by increasing its own military budget. Most specifically, the Japanese are purchasing weapons that would enrich U.S. defense industry coffers while considering constitutionally appropriate ways in which Japan could heighten ability to protect the U.S. and its interest. A clear-cut example would be strengthening missile defense.

Earlier this month Defense Minister Tomomi Inada visited Guam to inspect the THAAD missile defense system deployed at Andersen Air Force base as Japan actively consider whether to introduce THAAD, a U.S.-developed defense system. If Japan gives a green light to purchase the advanced system, it will not only be a financial gain for the U.S. but also offer a way for Japan to contribute to U.S. national security.

Regarding the presidential campaign, Mr. Trump complained that Japan wouldn't have to do anything if the U.S. were under attack. And if introducing a new asset for Japan's missile defense could effectively send a strong message to Mr. Trump that Japan is ready to take on burden on expanded role in addressing the rapid growth of North Korean threat.

Another example I would like to raise is a quiet debut of a new measure called asset defense under Japan's new security legislation effective from last December. Asset defense now allows the Japanese Self-Defense Forces to protect U.S. ships, including aircraft carriers, when Japan security is at risk or when U.S. ships are engaged in joint exercises or reconnaissance activities related to threat in the region.

Mr. Trump will surely welcome those development and steps Japan has taken to shoulder more of the burden, but the question is whether this is enough for Mr. Trump to say that he made good on his campaign pledge to make ally pay more for security provided by U.S. forces. So the government of Japan is hoping that the implementation of these steps and measures, coupled with modest rate hike for host nation support will satisfy Mr. Trump. However, an expert close to the transition team has said to me that Japan will need to increase host nation support so that Mr. Trump has a tangible achievement he can then regale his supporters with. But how much more is more? Therein lies the real issue.

The Japanese asserts that its financial contribution to host nation support is the highest among U.S. allies. In fact, as Funabashi-san mentioned, the defense minister internal calculations have Japan paying up to 75 percent of the full cost. That means Japan is paying for the salaries of base employees, from commissary cashiers to aircraft carrier maintenance engineers. Defense Ministry

officials have said that even if it were able to increase its burden sharing, it would only be a very small margin. It would only be able to cover utilities, which only amounts to a modest increase. So 100 percent defense burden sharing would mean that Japan would have U.S. troops on its payroll while also paying for weapons and ammunition, which would be a controversial arrangement that would receive fierce domestic oppositions.

With that, I'd like to mention relation with China or TPP later. But I'm running out of time, so I'll stop.

**James Schoff:** No problem. I want to talk more about China after we all get some opening comments, and I want to add the Russia piece and some other things in there too. But that's a good place to pause it for now because I would like to turn to Andrew to build on the Trump transition, the new Trump administration. Obviously there are always many variables. I mean you're looking at what's going to happen in the coming year. In my mind, there's no doubt that one of the most important variables is exactly how the Trump administration will conduct its foreign policy. We don't know exactly how yet, so I want to get your thoughts on that.

I mean a question that came from the audience earlier is there are aspects of what -- in the hearings we've heard, the confirmation hearings. Trump himself have suggested that the Trump administration could be even more engaged in Asia and more deeply involved with allies in certain ways, but then other comments have taken us in different places. So, Andrew, let me get your thoughts on what you've noticed so far.

### **President Trump & Foreign/Domestic Policy**

**Andrew Beatty:** Thank you very much. I would just start by saying that with the caveat, I think everything here carries the caveat that Trump's foreign policy might be quite orthodox until it's very unorthodox. But I think you're starting to see a little bit about how decision-making is being taken in the White House.

Fundamentally, I think President Trump doesn't really care too much about foreign policy except through the prism of domestic policy and through the prism of its influence on his image. I would put in that category Mexico and probably China although he hasn't moved yet on the currency issue and so on. I would put in that category all kinds of trade. This goes for TPP in particular, counterterrorism, and Israel. So apart from those things, just from the outset I would expect basically the White House to outsource much of its foreign policy thinking to DOD states who I actually think will be relatively more powerful than they were during the last administration.

There's a couple of other areas where I think the White House will be really involved, where it's really about Trump's self-image. One is Europe. The Europeans are extremely worried. They basically see a president who will be negligent of the relationship but being advised by someone in Steve Bannon who has a very, very different idea about transatlantic relations. I think probably the best way of putting Bannon's view would be to -- he has an idea of building a kind of nationalist, populist international -- so feeding populous movements and nationalist movements across Europe. He's deeply influenced by people like and very close to people like Marie Le Pen, Nigel Farage in the UK, Dan Hannan in the UK. For obvious reasons, this make Europeans incredibly worried because we tried nationalism a couple of times and it didn't work very well. There were 20 million people dead. So that's one example.

I think another aspect of Trump's foreign policy that might be quite interesting is, and it might be specifically interesting for diplomats, is if you're working on something for two or three years or a year or two-years - whatever it is - you can be working along and you can be ready to sign this agreement and suddenly his spotlight comes on to your thing. If that damages his reputation in any way or he perceives that it's unpopular, I think a lot of work would be unraveled very, very quickly.

On things that Trump doesn't care about, I think it's very, very difficult to know where the administration is going to go. The NSC hasn't stood itself up yet. That's a pretty charitable way of putting it. In the last week we've seen responses from the White House on Israeli settlements and the South China Sea which has been very incoherent.

I mean I don't want to criticize Sean Spicer too much partially because I'm going to have to work with him for the next two years, but I know also it's his first couple of briefings so this is not an easy thing to do. But he was in Naval Reserve. His mother, I think, is involved with the East Asia project at Brown. He studied international relations. He studied Japanese for a while. So the idea of the South China Sea and FONOP should not be alien to him. So the fact that he give such an incoherent answer I think tells you more about the fact that he's not being briefed by the NSC and the fact that the NSC doesn't have a policy yet.

Just to finish off, I'll just say a little bit about I think a lot is going to depend on how four or five factions within the White House kind of relate to each other. I think you have the kind of orthodox Republicans like Priebus, Pence and Spicer as well, who have been steering domestic policy so far albeit with Trump putting up a kind of veneer of quite extreme rhetoric on top of it. Then you have Bannon, Kellyanne Conway, and Mike Flynn who are extremely close to the president. So I think their influence might be felt in foreign policy beyond the issues that we see at the moment as we go down the road.

Then the unknown quantity, at least for me, I think is Jared Kushner who I think really has the president's ear; has been active on Middle East policy, but also had served as something of a gatekeeper for foreign governments who are trying to gain access to Trump. So where his views are on Latin America, Africa and Asia developed beyond the Middle East will be interesting to see. I'll leave it there.

**James Schoff:** Terrific. Thank you, Andrew. I want to come back to you later on with some follow-up questions, but that's a very helpful insight thinking about that variable. Then another key variable obviously is China, U.S.-China policy. Even though our whole event today is focused on Japan in 2017 and we're trying to look at foreign policy in some sense through a Japanese lens, I don't see how we can separate that. Japan's position is hard to separate from how the U.S.-China relationship will evolve, and there's nobody better to ask about this than Bonnie. So I want to turn to you, Bonnie.

### **President Trump & The U.S.-China Relationship**

**Bonnie Glaser:** Thanks, Jim. My interpretation, from what one can divine from what President Trump has said during the campaign, throughout the transition and now as president, is that there really is an effort to try and reset the U.S.-China relationship in a way that is more favorable to the United States; that there is clearly an assessment that elements of this bilateral relationship that have not worked to America's advantage, and to the prior speakers' point, particularly looking at it through the lens of the domestic economy of the United States.

So some of what we've heard in terms of specifics may not end up getting, in fact, implemented. We don't know for example whether there is going to be continued adherence to the One China policy. But it does seem to me that all of what has been said is really aimed at keeping China somewhat off-balance and telling the Chinese that they're going to have to make some compromises on economic issues. So whether or not people would agree or people would agree with the approach, I think that there has been a growing consensus in recent years that many aspects of the U.S.-China economic relationship are working to China's advantage. And certainly there's been a toughening in the stance even in the last few years by the Obama administration.

But it seems to me that this is a particularly interesting time in 2017, which is what we're talking about today, where we have the plans for the 19th Party Congress this fall and Xi Jinping is under a great deal of pressure to ensure that this Party Congress goes the way that he wants it to go, which begins first and foremost with personnel and putting people who are close to him and are likeminded in positions on the Central Committee and in the Politburo Standing Committee. So I think that the Trump administration sees that this is a good time to try and put this kind of pressure on China, because it believes that it can compel China to make concessions.

Indeed I would say that the Chinese are willing to bargain on some issues. The question is what issues? So you look at trade. There certainly could be some opening up of investment, for

example, for not just U.S. companies but foreign companies. We've already seen some announcements of restrictions being lifted because the Chinese certainly don't want to have their investments in the United States become more difficult for them to make. That was already the discussion, I think, under the Obama administration.

So deals can be made, but there are some areas where I believe that the Chinese do not want to negotiate. Indeed they have used the term "non-negotiable" to refer to the "One China" policy. So if the Trump administration really were to push on Taiwan, I think we could potentially have a great deal more friction.

On South China Sea, I agree with the remarks that you made about what we've seen the Trump administration say. But I don't think the policy is clear. The reality is it's pretty difficult to reverse what the Chinese have created in the South China Sea in terms of their building of artificial islands and military outposts. Denying the Chinese access to those islands could potentially provoke a military response.

I came in late today but at the tail end of Funabashi-san's remarks about how for Japan the prospect of conflict between the U.S. and China is far more worrisome than the prospect of cooperation. So we've heard for so many years this concern about a G2 and that the U.S. and China might do something at Japan's expense, and so now here we are. Potentially this is now shifting to the other end of the spectrum. Now this should surprise no one. Japan is not alone in wanting to avoid a U.S.-China conflict, and I wouldn't be surprised if we start hearing this from other countries in the region. Whether or not a Trump administration policy is going to lead to conflict is a big question mark.

Maybe we will see more dealmaking between the U.S. and China. As I said, I would not rule that out. Xi Jinping very much wants a stable international environment in this period. He has to be seen as managing the U.S.-China relationship well, and so there is the potential for dealmaking. But he also can't be seen as weak when it comes to sovereignty and territorial integrity. Clearly these are issues that he's not going to be able to compromise on. But it is an interesting opportunity, I think, for the Trump administration to see what kind of concessions they can extract from China.

In this period, I think in 2017, in the run up to the Party Congress, we're probably not going to see any very aggressive or provocative Chinese behavior in the region. I would include the Senkakus; I would include the South China Sea. I think that the Chinese do not want a crisis at this point. If there is an aggressive step that's taken against China along the lines of what Rex Tillerson perhaps said during his confirmation hearings, then I predict that there will be a tough Chinese response. But I don't think that's actually going to happen. I think that the Chinese are looking for a pretty quiescent neighborhood this year.

Recently there was a new Asia-Pacific security whitepaper that came out. The dog that didn't bark was that there's no mention of the Asia for Asian's security architecture, in other words excluding the United States, which Xi Jinping had talked about in 2014. So that seems to have been put on the shelf. But we do see the Chinese, I think, and we'll see probably more of it this year, trying to take advantage of a Trump administration that may be less multilateralist; less engaged in some of the global governance issues, climate change of course being one.

We've already seen Xi Jinping at Davos giving a speech in which he essentially says that China is the supporter of free trade. Any of us that follows the Chinese's own domestic economic policy know that China is really not a great advocate of free trade and China is plenty protectionist. But I guess my takeaway is that the Chinese do see a sort of void created by a bit of a pullback by the United States on some of these issues and they will take advantage of it.

I think TPP is particularly important. Although we can debate whether or not TPP was really good for the United States, the Chinese certainly saw that this was going to be a big win at China's expense. That's a big strategic move. The fact that the U.S. has now pulled out of this treaty I think has jarred the Chinese in a way because they now know that the U.S. is essentially willing to shoot itself on the foot. So now we've got a really, from their point of view, unpredictable president.

So just as China wants to have stable relations with the U.S., I would say the same is true for having stable relations with Japan this year. This is not the time for any huge confrontation with Japan. But there is this undercurrent of continuing and growing concern in China about Prime

Minister Abe's ambitions and including potential revision of the constitution, increase in defense spending, the bolstering of capabilities around the Senkakus - what they see as disputed islands.

So I think that those tensions, although they may not become a real flashpoint in 2017, that they will stay remain and perhaps will grow in the future after the 19th Party Congress. Then that raises big questions for China. If Xi Jinping has further consolidated his position, what that then means for Chinese policy towards the region and towards [inaudible].

**James Schoff:** Thank you very much, Bonnie. That's a terrific introduction on those issues. [Audio glitch] Abigail, we give you the opportunity and the challenge now to kind of take on all the other issues. No. Pick on the areas that you'd like to focus on, and we'll cover the rest in our follow-up discussion.

**Abigail Friedman:** Great. Thank you. I'd like to make two meta points and then get back to the topic of Japan, Asia, and the relationship in 2017. I've been listening to all of the speakers today. And this has been a lot of fun for me and I think for all of us because we all have expertise in these areas. So this is really an opportunity exploring together what it all means.

### **The "Slow Erosion" of the Foreign/Domestic Policy Distinction**

One thing that struck me – and this my first meta point - is that we keep looking at the Trump presidency as a break, a historical break. But in terms of foreign policy, I would suggest that actually this is the logical consequence of the longstanding slow erosion of the distinction between foreign policy and domestic policy. Let me give you an example. I was a career diplomat for many years. I remember at some point the State Department thought, you know, we ought to have these things called hometown diplomats where diplomats go back to their hometown and talk about foreign policy. And almost everyone in the foreign service at that time thought, well, that doesn't make sense, that's a waste of time. Diplomats are supposed to be out overseas doing our jobs, representing America. What's the point of talking to people from our home towns? Today no one in the State Department would think that because we recognize the connection between domestic public aspirations and expectations, and our jobs representing the US overseas.

When I look at President Trump and his vision of foreign policy it is clear to me that for him, foreign policy is domestic policy. The distinction has evaporated. Tweets on Mexico? Gee if it upsets Mexico and the Mexican President decides not to come, well, "that's too bad for Mexico" is how President Trump seems to approach it. Because the measure for him is what his domestic constituency wants. This melding of domestic and foreign policy is a problem when the response to American workers who are upset that their factories are no longer there is for the President to fire off a tweet about Toyota, "We'll show them". Yet there are huge foreign policy consequences to these kinds of actions. So that's one of my meta points.

The other one is a smaller one, but I want to put down a marker. We tend to talk a lot about Asia as independent of the rest of the world. I appreciated, by the way, Funabashi-san, that you talked about Europe. But when I hear people talking about how they hope the next administration doesn't forget Asia, doesn't withdraw from Asia, I hope this kind of thinking isn't at the expense of a focus on Europe. The U.S. doesn't have the luxury of saying we're going to focus on Asia while Europe is for the Europeans, because that will come back to bite us in Asia. America has to be able to walk and chew gum. So that is my other meta point.

To the specific topic of Asia and Japan and how the rest of Asia look at Japan in the context of the new Trump administration. I just came back from some trips to Asia where. I was working with the Asia Foundation on a report they did: *Asian Views on America's Role in Asia*. What the Asia Foundation did was gather Asian experts separately from Northeast Asia, Southeast Asia, and South Asia and held three separate workshops to talk about what the U.S. role in Asia should be. The workshops consisted of Asian experts Then there was a U.S. response to that and also a next generation discussion. The book that came out of these workshops is available online at The Asia Foundation website.



During the roll-out of this report, and in discussion preceding, I had the privilege of listening to the views of these Asian experts. One thing that really came through, especially among the Southeast Asian experts and the South Asian experts, was that, in the face of U.S. unpredictability and what they saw was underwhelming U.S. engagement in Asia, they are looking to Japan to fill the gap. They see the U.S. as unpredictable and the idea is Japan will help provide stability in the region.

Another thing that we haven't talked about yet is India. There is a whole middle power strategy going on. Of course, I can't speak to the Indian government's position, but certainly among scholars and experts in India and on India, there is a sense that the absence of reliable U.S. engagement in Asia is an opportunity for India and Japan - the middle powers - to step up and provide security and stability for the region. We can talk later about whether, in fact, this is possible. What are the limitations to that? We know there are limitations to Japan's ability to provide security. Japan certainly could not provide security in lieu of the U.S. security. Could there be a more ASEAN-Japan economic integration? Certainly. But that would have happened with or without a U.S. presence. I think that's pretty much my opening comments.

## **The China Strategy**

**James Schoff:** Good. Well, I hope [audio glitch]. [Background conversations] I want to encourage everybody to jump in on some kind of rapid-fire questions as I work through some of the key issues.

I want to start with China, but this could involve anybody who wants to join in. Because the early signals that I see with the Trump administration is mixed. If you think about factions within the leadership coming in, there definitely is a group that is particularly focused on China or views China primarily as an eminent military threat, that we are in a fierce pending peer-to-peer geostrategic hegemonic struggle with China. So they are already looking for opportunities. How do we press our strategy against China politically, diplomatically but primarily through a military lens?

I think there is another group that sees it primarily in a trade context, in an economic context. It's not so much about this big geopolitical game in Asia as much as it is about how do we restore American greatness by defending, punishing, or otherwise taking care of our own on the trade front.

Then I guess the third faction would be this - China as a deal partner, as a potential partner to help us solve the North Korea problem or solve some kind of a trade problem or something. But it's not viewed as much in the context of a competitor or struggle but a big player in the room that has a lot of chips and we need to work with them. I wonder -- we're forecasting here. You're not going to be held on anything. Do you think that's a correct assessment of how the incoming Trump administration sees things? Which one do you think will win out? What are the implications for Japan?

**Satoshi Ogawa:** I'd like to explain how Japanese people or the Japanese government feel the current situation by Trump administration. Japan has two concerns. One is potential conflict, I think, which Dr. Glaser mentioned and Funabashi-san as well so I will skip that. But another concern is that U.S.-Japan bilateral relation will be neglected and cast aside if Mr. Trump and Xi Jinping were to join hand in a grand bargain. This view that if Mr. Trump would employ suspense on dealmaking strategy toward China and use America's position on the One China policy or a South China Sea's tougher position at stake in negotiation, negotiating economic deals.

Now a senior foreign ministry official told me that he links this approach to Nixon shock in 1971 and called such situation Trump shock. Japan wants to have a stable relationship with both China and United States, so I think Japan is going to reach out to both leaders. Prime Minister Abe is trying to meet with Mr. Trump as soon as possible. Maybe it will be held on the 10th, and that is the right strategy of Japan, a current strategy.

**James Schoff:** Thank you.

**Bonnie Glaser:** Jim, I'm not sure that I share your view, that there are these discreet schools of thought. I think all these views are interconnected. I don't really see them as at odds. Generally there is a sentiment which existed in the Obama administration as well, I think, that the competitiveness of the U.S.-China relationship is growing. Some people would say it's cooperative on a few issues, but it has been moving in a very competitive direction. So there is a desire, I think, to sort of push back. If there had been a Clinton administration, I think there also would have been a desire to push back.

But I see the Trump administration as really, as I said, being driven by an economics first and an America first policy. Foreign policy and domestic policy in this regard are inextricably linked, and so the idea is to use the pressure and the leverage to try and get China to make some concessions- -you can call them deals- -but to make this relationship work more to the advantage of the United States. I haven't heard anybody talk about China as an imminent threat to the United States. Like everybody talks about the various ways in which China is gaining an upper hand on the United States, whether you talk about sort of cyber or some developments in its military. But I just don't see this as discreet groups of people with different sets of policy options.

I think that, first, we don't have a lot of officials in key places yet either at state or defense. Even at the NSC, we're just beginning to put people really in place. So no real coherent set of objectives or strategy has yet been decided on, which should be fair. It's only the first week of the administration. But the impulse is to try to build leverage to make this relationship work better for us and to not look weak in places like the South China Sea. But that pushback, I think, we have yet to see how it's going to be applied. So I don't know. I guess I don't see the framework quite as clearly in the way that you do.

**James Schoff:** No, no. That's okay. That's fair enough. But quickly I want to ask then, if you prioritize the trade side first and really engage in punitive measures on trade, you're weakening your hand to contain or confront China on the military side. Because you're almost rallying, you're forcing people to choose in the region and you don't think American officials will kind of look at, oh, should we prioritize the military containment of China or should we prioritize the resolution of trade issues. Do you think they can pursue both at the same time?

**Bonnie Glaser:** It's very difficult to posit at what the Trump administration is doing at this point, but we've heard comments that suggest that they're not going to keep these issues in discreet silos. So there is the discussion about, well, maybe the One China policy is somehow up for reconsideration if there aren't trade concessions. So I don't think it's just a whole trade discussion over here that then weakens us over in the military realm. But I think it's fair to encourage everybody to be a little bit patient and see what the actual policy is going to be.

The Chinese themselves have been restrained in their response because they do not want to push this president into a corner and then end up in a position that's even worse for them. So I see the Chinese as being very careful in their responses; waiting to see what the real policy is going to be quietly, I think, probably trying to influence it through the various channels they have with individuals in the Trump administration. But I would just encourage all the observers who are watching this unfold to maybe be just a little bit more patient.

**Andrew Beatty:** I would just say on the military thing, if you imagine a situation where Trump is in the situation room with his advisors Mattis, Kelly, Dunford - all Marines - are going to be a pretty powerful group of individuals collectively.

I would say one other thing on the kind of China-Japan-U.S. point that was made before. I think the miscalculation is obviously a huge risk, as one of the people in the previous panel said. But I think there's also a risk for Japan in kind of a very transactional politics between the U.S. and China. I think in many ways the Trump administration and China might see the world in similar terms in this regard. I mean Bonnie knows more about this than me, but I can perfectly imagine a situation where Xi Jinping offers five factories in Iowa in return for dropping the currency issue which would be a big problem for Japan and Europe both.

## **The Future of North Korea Relations**

**James Schoff:** Thank you. Moving on to North Korea, I have a hard time seeing how confrontation or tough times in the UN, more confrontational policy with China helps with sanctions enforcement or helps with an ability to apply pressure on to North Korea. What do we see with North Korea and potentially the Japanese interest vis-à-vis North Korea in 2017? Are we basically going to have a replay of 2016 - slow, steady improvement in North Korea's military capabilities but not a whole lot of instability? Or do you see a much more dangerous dynamic tenuous situation in 2017?

**Abigail Friedman:** I worked on the Six-Party talks early on, and worked on North Korea when I was at the U.S. Embassy in Japan. A couple of things strike me. First, the policy of strategic patience really hasn't worked. It's pretty evident in terms of where we are now. So the question is what takes its place? I don't have a short answer to that but I do hark back to two. One is that China really kicked in and engaged to address the North Korea issue when then President Bush started talking about the axis of evil and there was a real fear that the U.S. was going to do something militarily in North Korea. So that is one data point.

The other data point that I would want to look at is the role that Russia plays in all of this, because Russia is always looking to play a greater role in Asia and on North Korea. So again that's another data point. I'm reluctant to wrap this all up and tie a bow on it and give you a conclusion and prediction for the future, because there is nothing simple about dealing with North Korea. But those are two things that I would want to consider in shaping a new policy.

## **Japanese Policy Towards Russia**

**James Schoff:** Speaking of Russia -- and I'll end up extending this session probably at least for about five minutes or possibly ten minutes, because we started late, so we will get a chance to get to the audience here. But Japan's policy toward Russia, possibly a bit of a set-back here at the end of the year. Abe at least and some of his supporters I think were hoping for a little bit more light at the end of the tunnel coming from their summit meeting. But they're pressing ahead. I noticed there was just a little shake-up and now Minister Akiba is heading up a group to focus on how the economic investment in Russia will move forward. What do we expect to see between Japan and Russia ties? And if anybody wants to talk about kind of the U.S. Russia link in that, I'm open to that as well.

**Satoshi Ogawa:** Just mentioned, Prime Minister Abe and President Putin held a summit mid-December. There was no big breakthrough on territorial issue, but they agreed that they start talking on joint economic activities. Then the Japanese government in public appears to have interpreted the summit positively. I'll introduce some polls. Now the Japanese public appears to understand Prime Minister Abe's new approach. In the *Yomiuri* poll, only 17 percent responded that they believe the Northern Territories issue were on the path to settlement, while 73 percent responded negatively. However, 66 percent reported that they supported the summit agreement to begin discussion on joint economic corporation with Russia while 24 percent reported they didn't. So I think you can see that public opinion has shifted quite a bit.

Prime Minister Abe is going to visit Russia in April and in this autumn. I think he's trying to finalize agreement on the joint economic activities even though he will not be able to get a solid commitment from Putin to return those islands. I'm not sure, but I think the Japanese people would accept that outcome. Possibly.

One thing I'd like to mention is that the Trump is trying to remake the U.S.-Russia relations. That's how Japan is feeling. Japan has a mixed feeling about the improvement of U.S.-Russia relations under the Trump administration. The Obama administration frequently went and sent

negative message not to negotiate with Putin. But with the Trump administration, that kind of view will cease so that paving the way for further Russia-Japan relations.

With that said, Japan has to put a different position if American condemnation of Russians' occupation of Crimea cease and sanctions are lifted. Because Japan adhere to and strongly emphasize the rule of law on the issue in the East and South China Sea, so Japan has objected strongly to China as a unilateral movement/unilateral action in the East and South China Sea. Japan feels that if it follows the U.S. lead and ignores issues of sovereignty and rule of law, this may not only benefit China but it may also erode Japan's standing as a responsible player.

**Abigail Freedman:** I'd like to add that apart from the northern territories issue, I believe a main motivation for Japan in trying to improve the relationship with Russia and having the summit between Prime Minister Abe and Putin was really to drive a wedge between Russia and China. There's been growing concern in Japan about the strategic cooperation between those two countries and a desire to prevent Russia's cooperation with China coming at the expense of Japan. It is perhaps a little early to say whether that has succeeded; there will continue to be meetings between Japan and Russia and we'll see where this goes.

There is also the potential for the Trump administration to reach out to Russia. From Beijing's perspective, these kinds of trends - both of them must be worrisome. China has been in the position of having better ties with Russia and the United States than they have had with each other and they do not want to see that position weakened if there's a better relationship between the U.S. and Russia.

**James Schoff:** Thank you. Interesting. Andrew, you wanted to chime in?

**Andrew Beatty:** Sure. Just to express a point of skepticism about the U.S.-Russia bit of this. Obviously, everybody sees that Trump wants to have a better relationship with Putin and he obviously personally respects Putin, but there are a number of structural reasons why this is going to be incredibly difficult to achieve. First of all, public opinion. I think a lot of Americans are extremely concerned about Russia's role in the election. That's going to constrain what Trump can do and how quickly he can forge some kind of rapprochement with Putin.

Secondly, the Republican Party. There's incredible unease in the Republican Party about Trump's position on this. As one official said the other day, you know, we're going to get on the right side of this; we're not dummies. The third point I would say is America's allies in Europe. Some of them are going to try and engage with Trump in the hope of getting his ear. If they do succeed or not, their message is going to be about Russia. Because with Dutch, French, German elections coming up, there's a lot of concern that Russia may interfere.

The fourth point I would say, which could be an obstacle towards more rapprochement is the Iran piece of the puzzle and Russia's relationship with Iran. I can imagine a situation in which people like Flynn don't demand Russia to cool its ties with Iran as a *quid pro quo* for actually improving U.S.-Russia relations.

## **RCEP Trade**

**James Schoff:** Good. Thanks. All right. Quickly. I got two more quick things I wanted to hit. RCEP trade. I think the next meeting is March, April, or so. Will 2017 see a signing ceremony for RCEP? Does it matter whether they do it or not? Is that an issue one way or the other?

**Bonnie Glaser:** I would just say from the Southeast Asian perspective - and again Funabashi-san hit on this but I heard the same thing when I was in the region and so that we're talking to a lot of these scholars - is that RCEP works fine for ASEAN centrality. That TPP was a bit of a problem because only some of the ASEAN countries were part of it. And even way before this, I remember being in Bangkok and it was like the first time I've heard about RCEP. It was barely on the screen. I would have all of these people talking about RCEP and they were telling me, well, don't you know what RCEP is? I'd be talking about TPP. So RCEP has been kicking around in the region for

quite a while. What does the U.S. have to do with that? What does it mean for Japan? Are these two incompatible? I'll leave that to Matt and your expertise on this. But for Southeast Asia, RCEP was seen as a good thing.

### **Lack of U.S. Interest in Asia**

**James Schoff:** Yeah. Oh, I could see that's key. When people raise their hand for questions, we'll accept answers to the questions that I've given. My final question, big picture question, and it relates in part to what Funabashi-san was talking about as well. In Asia we had been moving toward this liberal international order multilateralist approach through various mechanisms, and dialogues, and theories. Not perfect. Always came up short in certain ways. But that was the momentum and that was the direction. We maybe and we don't know, it's still too early to tell, but we may be moving in either pause or a retreat due to a significant lack of U.S. interest in adding its weight and strength behind that momentum. Therefore, more of a bilateral, transactional, might-makes-right approach. If this is the case, do you think this will tend to actually bring countries in Asia together - whether it's the middle power rallying together to fill this void because they see it as ultimately beneficial? Or is it more like this will tear it apart, and pit countries against each other, and force people to pick and choose big dogs to stay in their yard?

**Bonnie Glaser:** I think I'd just like to reply. Really what my fear is, is that is we have seen a number of countries that -- because they all share some concerns about China's rise and the way in which China has been using its power, including economic pressure and coercion activity in the East China Sea and South China Sea. This has been widespread throughout the region. The reaction really has been, and this has varied from country to country, a decision to hedge by moving closer to the United States.

So my fear is that that trend is reversed if there is a perception that the United States is not going to be a reliable balancer. It's an "if", and so I'm not drawing that conclusion. But there are already concerns that the United States may not pay as much attention to Asia. Frankly, even if we increase the size of the U.S. military and the number of naval ships from the perspective of most Asian countries, that's not enough. Everybody talks more about having its diplomatic engagement and economic piece to that strategy as well as they don't just want military. So there is the potential for countries to then hedge in the direction of China. We have seen some already, I think, countries that are beginning to shift in that direction. So that's my worry.

**Abigail Friedman:** Apparently Philippine President Duterte just announced that he would open five bases in the Philippines to the U.S. after all. It was on the BBC app. What's interesting to me is Duterte might be the one person who has figured out how to play the Trump game, which is you say one thing one day and another thing the other day. I actually, by the way, don't think that Trump and Duterte are similar because their popularity ratings are dramatically different within their countries. But we are living in a world where people are going to start getting comfortable with people saying one thing one day and doing another thing another other day. So the fact that the U.S. military presence is not going to go home after all, as the President Duterte asserted less than a month ago or so, is a really important piece to this.

I could see the diplomatic role piece being taken up by Japan more. Japan has been doing a lot with ASEAN. That was one of the signature priorities of Prime Minister Abe when he came into power in 2012, he went to all the ASEAN countries. So will we see some kind of a division of labor where the U.S. maintains its engagement militarily while Japan plays the role of keeping ASEAN centrality going and of keeping up the diplomatic engagement? I don't know that is what the future will look like, and I also don't know whether that would be sufficient. I am skeptical that it would be.

**Satoshi Ogawa:** I like just to remind you that Prime Minister Abe visited Philippines and a couple of Southeast Asian countries two weeks ago and agreed that they would seek international order based on a rule-based order. Then Prime Minister Abe will visit the United States and I think

ask Donald Trump to have that same recognition, the importance of the international order based on the rule. So he is reaching both - the Southeast Asian countries and the United States.

## **Panel Q&A**

**James Schoff:** Okay. People have been very patient. Thank you for your patience. We're going to start up here in the front, and I know I had a hand at the back at some point during the course of the discussion. So we'll start here, and then we'll move our way.

**Male Voice:** Thanks. Excellent discussion. Thanks. Everybody had great thoughts, and I prompted some further thoughts of my own. Well, everybody talked about the [audio glitch]. Abigail, I think, in particular captured this notion [audio glitch] Trump as the logical conclusion of a process that has been going on for a long time. Certainly that's been the biggest lesson to me. It's the logical conclusion even if it's slightly bizarre [audio glitch] that conclusion. But it has been something that's going on and I just wanted to endorse that I think that is the big lesson of Trump-ism.

But this panel is about Japan's international agenda. So let me ask a question. It's a little unfair because it's oversimplifying a very complicated situation. But Japan has got to be worried about the erosion of the liberal order for that from everybody today. I'm really asking everybody. If you are advising him what sort of one thing he could do in Asia to reinforce the liberal [audio glitch] not just in my stuff and trade and something -- and it could be that, I mean TPP. But it could be something else with ASEAN. It could be a coalition with India to reinforce the law of the sea or something. What single thing do you think would be useful to sort of step forward and can Japan do that without the United States alongside it? Which it has always had.

Three reasons I suspect it might not be able to do that - one is that others may not be as receptive to Japan doing this alone without the United States; others may, secondly, try to play interference, run interference, and prevent Japan from doing that; and third, Japan itself lacks confidence to step out and do these kind of things. So a lot of stuff in there, but I'd just be interested in what would you advise Abe to do to reinforce --?

**James Schoff:** Abe advisers here from the panel?

**Andrew Beatty:** I think it's not really a regional point, but I would say talk to the Europeans. They're basically in the same boat. Japan, and Europe, and Southeast Asia probably have the most to lose from the collapse of a kind of international liberal order. The second thing I think, is probably continue along the lines of developing Japan's military capability and having a free standing kind of strategic outlook.

**Abigail Friedman:** I'm going to say something controversial: I think that Japan needs to get its development house in order. Japan does so much in terms of overseas development assistance. It gives so much money to the U.N. but it's rarely attached with the Japan logo in the region and as a result it has almost no diplomatic or geostrategic impact. Japan needs to be much more visible in terms of what it's doing. High quality infrastructure, that's Japan's thing. You can't just sort of wait around for the U.S. to be at the forefront of it because the U.S. is not going to be at the forefront. So I think Japan needs to step up in terms of high quality infrastructure.

I admire Prime Minister Abe's willingness to say all of the right things, and I wish that there was more oomph in terms of the execution behind it. I'm thinking of Prime Minister Abe's speech to the UNGA about womenomics. In that speech, he made the case that Womenomics is not just within Japan, but it's part of Japan's global strategy. But then what happened, basically he did what so many governments do, including the U.S. government: he, repackaged a bunch of existing activities and that was kind of the end of it. Well, I'd like to see the next phase - with real, new money going into his vision. As I said, Prime Minister Abe's vision on the international scene is something that I have a lot of admiration for. But the execution, the implementation is lagging.

**Satoshi Ogawa:** My advice is very simple. Show the strengths of U.S.-Japan alliance to the world and to the region. There is no alternative fact.

**Bonnie Glaser:** Okay. Matt, there are obviously many things I think that Japan could do. But I would say building on its relationships with likeminded countries who support the liberal international order - particularly Australia, India- -these are relationships that are already growing. But if the United States is not going to be talking about the rules-based order and the need to strengthen the post-World War II liberal international order and, yes, there's going to be concern among some countries that Japan shouldn't be doing this all by itself, so Japan needs to find partners to do that with. So I would like to see this be made in whether it's speeches but also joint statements with other countries, raised in multilateral meetings.

The Trump administration can be brought along over time. Even as we've talked about in the economic front, we'd like to see the Trump administration over time be brought along to support multilateral and economic agreements - TPP or something similar. So I think that keeping these very important ideas alive in the context of relations with other likeminded countries would be my suggestion.

**James Schoff:** And as been discussed today, I mean I think there are a lot of stakeholders in this country, in the government who share that objective. So it's not all on or off. We got Glen.

### **Trade Policy and Export Restraint Agreements from China and Japan**

**Glen Fukushima:** Glen Fukushima from the Center for American Progress. I have a specific question about Trump administration's trade policy. During the campaign, the candidate Trump talked about 45 percent tariffs on Chinese products or 38.5 percent tariffs on Japanese cars in the United States. So that attracted a lot of attention. But thinking about Bob Lighthizer with USTR, who was a deputy when I was at USTR back in the late '80s, he was actually quite engaged with and quite proud of export restraint agreements. Basically he has actually written that he's quite proud of the fact that during the Reagan administration, the U.S. government got Japan to restraint exports of steel, consumer electronics, semiconductors, cars, and protected Harley Davidson.

So rather than imposing tariffs, we could have some WTO ramifications or presidential authority problems in terms of the level of tariff and the duration of tariff. I think it's quite possible that there will be an attempt not only at market opening but also export restraints, and it's much easier to claim that you're protecting American industry that way and workers. Also at least in the '80s many people in Japan found it easier to restraint exports rather than open the markets. I'm curious from both the Chinese and Japanese perspectives now how much receptivity you think there would be to the notion of negotiating export restraint agreements from China and Japan.

**James Schoff:** Who would like to take that on?

**Andrew Beatty:** One thing that's kind of related to this is it might be a mistake to see the tariffs as actually kind of an end in themselves or to try and solve a problem as it were. If you look at the border adjustment that might come, you need that to pay for tax reform unless you want to explode the budget which they might decide to do. But I'm not sure I would take them on face value, that they actually want to reduce to readdress the trade balance.

**Bonnie Glaser:** Glen, it actually makes sense to me if you raise the question what kind of a deal could you have if you stay within the sort of trade economic silo with the Chinese. They want to avoid being labeled a currency manipulator or to see 45 percent tariffs imposed and other things that the Trump administration has threatened. The excess capacity issues of steel and aluminum, this is big. So I think one could imagine that if the Chinese would be willing to put something like that on the table or if the U.S. was looking to get something from China, that would make sense. Of course the Chinese then would want to get something in return or at least to avoid some negative outcome. So

one question that comes to mind, and you know more about these trade issues than I do, is are these short-lived agreements. Did they have a certain lifespan? Is this something you agreed for one or two years or does it -- ?

**Bonnie Glaser:** Right. At least for the administration, maybe they perhaps would not want to agree in perpetuity. And I'm sure that there's no trade deal that is in perpetuity in any case.

**Satoshi Ogawa:** I'm not an economic guy, so I can't answer directly to that question. But I'd like to introduce some interesting atmosphere in Tokyo. Prime Minister Abe emphasized that the TPP is one of the centerpiece of the Abenomics dialogue. But despite the death of TPP, Prime Minister Abe's approval rating has risen and there are bullish outlook in economy in Japan. Many people believed that Mr. Trump's pro-business policy will positively impact the Japanese economy. So I believe these forces will sustain Prime Minister Abe's approval rating while creating the political space and time for him to forge something like a bilateral FTA.

**James Schoff:** Well, ladies and gentlemen, unfortunately, I can't believe I'm denying the president of the Japan-America Society a question here. But I think over *sake* we could continue to have these discussions. So I just want to say thank you. It's my role to wrap this all up today. First, to reiterate my thanks to the Japan-America Society of Washington D.C. and all the partners who put this together. I hope to do this again next year. Also please join me in thanking our panel. Andrew especially on short notice coming in. He really contributed. So thank you all.

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