



RJIF

Rebuild Japan Initiative Foundation

**The Era of Geo-Economic Competition:
Risks and Challenges for the Japan-U.S. Alliance**

**24 JANUARY 2017
CSIS HEADQUARTERS
WASHINGTON, D.C.**

2:00 PM Welcoming Remarks
John Hamre
President and CEO, CSIS

2:10 PM Opening Remarks
Yoichi Funabashi
Chairman, RJIF

2:20 PM Panel Discussion
Moderator:
Michael J. Green,
Senior Vice President for Asia and Japan Chair, CSIS
Chair in Modern and Contemporary Japanese Politics and Foreign Policy, Edmund A. Walsh
School of Foreign Service, Georgetown University

Panelists:

Ken Jimbo, Associate Professor, Keio University
Toshihiro Nakayama, Professor, Keio University
Takashi Terada, Professor, Doshisha University
Yoichi Kato, Senior Research Fellow, RJIF

U.S. Perspectives
Matthew Goodman
William E. Simon Chair in Political Economy and Senior Adviser for Asian Economics, CSIS

PROCEEDINGS

DR. HAMRE: Welcome. We are delighted to have you all here. This is going to be a new experience for us, because when we start a project like this – we started it six months ago – and had a little different understanding of what the election may have produced. You know? Now, all of a sudden, we have questions being raised about “America first,” and all that sort of stuff. So, we’re going to have to be a little bit flexible today when we have our conversation, and we’ll count on all of you for asking questions, to kind of bring out a little bit more of the richness of this conversation.

My name is John Hamre. I’m the President here at CSIS. And, before we have events like this, with friends from outside, we always start with a little safety announcement. I am responsible for your safety and so, if something happens, I would ask you to follow my instructions. The emergency exits are right back here. Obviously, that door and that door over there. This one is closest to the stairs that will take us down to the street. We will go directly behind us, around to the National Geographic, where we have an arrangement. I will bring in ice cream and we’ll sing a song of praise for our survival. Okay? We’ll be just fine; if anything happens, just follow my instructions; we will be fine.

It’s my role, really, just simply to welcome you and to say thank you to Funabashi-san and his colleagues, who are here with us to help explore this. But I cannot help myself to just say something about the narrative that’s unfolding right now in Washington, this narrative that the next four years are going to be about “America first.”

And I said to my colleagues, “I don’t remember a time, in my 40 years, when it wasn’t about ‘America first.’” I mean, the implication that America has one of its deepest and most important alliances with Japan and that that’s a gift to somebody else is nonsense! It is what we do for ourselves. It is what it means to be “America first.”

I mean, our strategy was we knew we had to provide global security in the post Cold War era, or certainly during the Cold War. We weren’t going to do that by ourselves. We couldn’t afford to do that by ourselves! We had to do that with allies! And think what a blessing it’s been that we’ve had allies as strong as Japan to be our partner with this.

So now to create the image or the implication to Americans, who are feeling weird these days, or feeling sorry for themselves – you know, I don’t know exactly why – but they’re feeling sorry because, somehow, we’ve been cheated by other countries who have taken advantage of it. That’s just wrong! It’s completely wrong!

We entered into these alliances because they were crucial for our well-being. So we’ve got to start talking about this openly! I mean, rather than have it hidden behind some narrative, you know, this idea that somehow we’re not trying – we’re doing this for our own best interest – is wrong. And we’re going to explore some of that today.

We’re also going to explore today, I think, a neglected area of intellectual inquiry, and that is the way that the global patterns of commerce and trade are fundamentally creating new geopolitics. I

mean, this is completely new for us. And the idea that somehow we can revert back to an autarchic environment where we're going to be safe because we'll only trade with Maryland – you know? – only Maryland and Virginia are going to trade with each other – I mean, that's just completely crazy!

Our well-being is tied very much to our role on a global stage, economically, as is Japan's. And so we're going to talk about those things today and understand a little bit deeper what this is meaning, because we're seeing a phenomenon that is, I think, under-appreciated in America, the way in which global commerce is reshaping the nature of the Eurasian continent. These are very big issues, and I'm glad we have these colleagues that have been spending time, for us. We're going to take advantage of their research over the last six months. So, thank you all for coming.

Funabashi-san, let me turn to you. You're going to open their conference for real, and I want to say thank you for being our partner here; I look forward to hearing your thoughts. Thank you, everybody.

(Applause.)

DR. FUNABASHI: Thank you. Thank you very much, John. Thank you for your kind introduction.

For me, it carries a special significance to be, always, at CSIS. We have been very much privileged to cooperate with CSIS on many programs. Particularly, today, we will be focused on geo-economics and its significance in the world, particularly in Asia-Pacific.

At our Institute, we initiated a new program, on geo-economics, a year ago. Because we had thought Japan, perhaps as well the United States, is very much behind the game which China and Russia and some other countries have been working for. Perhaps that we are seeing, very much, states utilizing that economic leverage to achieve their geopolitical goals. And we have been totally unprepared for this new challenge and risks.

I think that perhaps AIIB and “one belt, one road,” I think, were perhaps a crude awakening to all of us how unprepared, intellectually and policy-wise, we were. So, we decided to stand up a program as we came to realize there are more and more instances and cases where states resort to geo-economic measures.

And the product we are going to publish in May, and we have been very much fortunate to have very strategic thinkers, authors, and I have, actually, brought four of them, the authors, to the CSIS seminar today. But, we have all benefited from strong support and collaboration from CSIS over the years.

With regard to this program, we are very much fortunate to have Dr. Michael Green. We invited him to our exercise in Tokyo last summer, and we had a very extensive exchange of notes of views and notes. And the essence of those profound discussions is actually incorporated in that book. The English version we are going to publish by the end of the year.

We are going to hold a fifth anniversary commemorative event next month, in Tokyo. And we are very much privileged to have Dr. Hamre serve as the keynote speaker for this event. The theme would be about 21st century think tank visions, what kind of role the think tank really should play in the coming years, and particularly against the Asia and Pacific international environment, how can think tanks

be a value added.

So, there is no think tank leader better qualified than John Hamre anywhere in the world. So, we are very much privileged to have him as the keynote speaker.

We also have been very much fortunate to collaborate with Mr. Matthew Goodman. He is, as you know, a Senior Adviser on Asian Economics, with the William E. Simon Chair in Political Economy, at CSIS. Matt has kicked off a new program titled “One Approach to the US-Japan – forging a stronger economic alliance between the US and Japan.” He kindly invited Mr. Hiroyuki Nakashima, RJIF’s first Washington liaison. He is an Oxford-educated economist and we have been very much fortunate to now have him as our Washington liaison.

This program actually, really, meshes with our RJIF economic program, so thank you very much, Matt, for inviting Mr. Nakashima. Mr. Nakashima, would you stand up? Yeah. Mr. Nakashima is our Washington liaison.

We actually published a report on “quiet deterrence,” a report, three years ago. This is about the power equation, the new dynamics power equation, in East Asia, as we are confronted with China’s more aggressive, assertive and aggressive, posture, particularly in maritime security, as well as North Korea’s rapid development of nuclear capability. And the conclusion was “quiet deterrence.” That aims to avoid provocation and escalation while cultivating the capability to strengthen that capability to deter, defend, and deny that possible aggression. This is a strategic concept to strengthen the balance of power without a security dilemma, without suppressing China’s rise.

But, mostly recently, as I said before, we have been confronted with a challenge and risks and challenge of geo-economic thrust, particularly from China but also, to some extent, Russia and other countries. So, that’s the backdrop of our exercise.

Today, we are very much fortunate to have four presenters. All of them are authors of the book, forthcoming book.

First, Professor Toshihiro Nakayama. He is a professor at Keio University, specializing in US domestic politics and the US-Japan alliance. He will share his study and insights of this radically changing US domestic politics and its implication for Japan and the US-Japan relationship. He will warn Japan not to be caught in what he calls a “Trump trap.” He will elaborate further.

We also have Professor Terada Takashi of Doshisha University. He is an economist, particularly specializing in the international economy and trade. He will focus on the failure of TPP and its impact on Japan’s trade policy, as well as Japan’s Asian policy. Yesterday, President Trump finally put a nail in TPP’s coffin, so there looks to be extremely little hope of maintaining this, having this TPP strategy. It’s almost dead now. But he argues that Japan, with other Asian TPP signatory countries, could maintain this framework and, if possible, form TPP minus the United States. But, at the same time, realistically speaking, we should come up with a plan B. So, what should this plan B be all about? That’s what he will elaborate.

We have, also, Mr. Yoichi Kato. He is, as you know, kind of the most celebrated Japanese journalist specializing in national security policy. We are very much fortunate to have him as a Senior

Research Fellow at our Institute right now. He is also an Adjunct Fellow at CSIS. That's another feature of our very close cooperation with CSIS. He will be focused on how Japan can really cope with this "Trump shock."

If the United States would be determined to pursue an "America first" policy, how can it really mesh into Japan's traditional alliance strategy, the Japan-US relationship? What possibly could be the alternative to that, if it does not mesh, if it does not fit well?

Finally, we have Professor Ken Jimbo of Keio University. He is a theoretician, a theorist, of international relations and world politics. He would deal with the future and the viability of the liberal international order, which the US and Japan have cooperated to uphold over the past 70 years, but now it looks increasingly that the foundation of the liberal international order is now being challenged, no other than by the United States. So that implication would be profound; what kind of implication that would be, and how Japan and the United States should deal with that.

So, we have a very good, strong, lineup of presenters today so I am looking forward to hearing that conversation. Thank you.

(Applause.)

DR. GREEN: Thank you, Yoichi. Thank you, John Hamre. I'm Mike Green, Senior Vice President for Asia here at CSIS. And it's my privilege to moderate this panel.

I met with these scholars in Tokyo over the summers, and others involved in this geo-economics projects, led by Dr. Funabashi, as a reviewer of their papers, as a skeptic, as a decision – not a "decision maker" but as a, sort of, conversation driver, as a "stick in the mud," and sort of challenged these excellent scholars.

I understand that the new manuscripts they've written in each of their areas, for each of the chapters of this forthcoming volume, have been revised, and I think after today's discussion and my colleagues' visit here to Washington, may be revised again. So, we want to hear from each of the authors about their argument. We won't summarize the whole chapters. But the basic argument, how they've adjusted that since the US election. And then challenge them a bit, up here on the stage, and also invite your questions, to help make this a strong product. It will be published in May and then translated into English.

RJIF has an excellent track record on doing something that think tanks don't do that much anymore, which is large volumes on major problems. The first big success, early in RJIF's life as a think tank, was a report on the causes and lessons from the 3/11 tsunami, earthquake and nuclear disaster, which, of many, many reviews and reports done, had probably the most impact on public and political opinion and, ultimately, policy, and then, as Dr. Funabashi said, the national security strategy that RJIF did, drawing on these four gentlemen and other scholars, and producing what is really a very clear, coherent, comprehensive, national security strategy – I've worked on several of our national security strategies and Quadrennial Defense Reviews – we would be lucky to have as much coherence in our strategic documents these days.

And the other interesting thing about it – I recommend it to you – is that – of course, Prime

Minister Abe put out his national security strategy, the first by a Japanese Prime Minister, and I'll leave it to you to decide which was better – (laughs). They were both good. The RJIF version was more honest and makes for excellent reading, and really demonstrates the wealth of strategic thinking in Japan and the success of Yoichi one and Yoichi two – Funabashi and Kato – in harnessing the really best and brightest rising minds in Japan's foreign policy, economic, and international relations fields.

The premise for this project on geo-economics was, in part, that certain things are immutable in international relations, such as geography, and that other things, such as economics, often take some time to assess in terms of their impact on international security and international relations. So, our panel today is presenting papers that assess, as they did before the election, these kind of immutable and larger trends, but trying to do it in the context of a new administration, that's only been in office a few days.

And one question inevitably will be “Does the rhetoric we hear out of the new administration, and particularly the Inaugural Speech which was, I think it's fair to say, shocking to most people around the world, does that represent a linear path, a linear trajectory, of what America's role in the world will be? Maybe. I tend to think not. It's hard for me to imagine the Cabinet, that's being confirmed this week, implementing much of that, to be honest. And you can clearly hear in the testimony of key national security Cabinet members on the Hill – you can clearly hear open disagreement with elements that were in that speech.

So, we're in an uncertain world, and I think we can help our colleagues make sense of it in our Q&A, and they can help us make sense of what is, really, part of the larger dynamic in international relations and US-Japan relations, and what might now be at risk or changing, or not.

So, with that as a brief introduction – and we'll come back and have some Q&A – let me open up with Nakayama-sensei, who is, like John Hamre, from South Dakota, and has done other important things that Funabashi told you about.

PROF. NAKAYAMA: Okay. Thanks, Mike. Since I was in charge of US-Japan relations, which we thought was a constant and “a rock,” I totally had to rewrite my manuscript. I think we are facing radical geopolitical uncertainty, and this geopolitical uncertainty is coming from the United States.

Like I said, we thought this American internationalism – we have taken that for granted. But now we see a chance that this may be fundamentally changing. The American “carnage” speech was a bad sign in particular. We hope that he didn't really believe what he is saying, but I guess we now we know that he actually believes what he is saying.

And this Inaugural Speech was a manifesto of “America first” and the economic nationalism, and it wasn't your typical Inaugural Speech but it was sort of like a launching of a political movement. We all hoped that this American internationalism would never change, but now, I guess, we have to realize that the hope is not a policy, so we must deal with the Trump administration as it is.

But also, at the same time, we have to realize that this predictability, which is one of the important elements of the alliance, has become a very scarce resource.

For the past decade, I think, the United States of America has been a rock and a constant, and a bedrock of many of the institutions in our region. And Japan also took American internationalism for

granted, and much of our policy was premised upon the fact that the US would remain a resident power in Asia-Pacific.

We always knew that you had this cycle, of intervention and retrenchment. But, sooner or later, American internationalism would prevail. That was the perception we had. But, Mr. Trump and the phenomenon may be representing something totally new. So, I would like to, sort of, address how we are, sort of, accepting or understanding the result of this election.

I think there are three patterns to our reaction. There is, one, Trump pessimists or Trump skeptic types. And the second is the Trump optimists. There are quite a few Trump optimists in Japan, and many of them are the business types, and there are anti-establishment types in Japan as well. And the third category is the “nothing really happened” types. And I would say that the alliance handlers, many of the alliance handlers, are type one at heart but acting like the type three. There is no choice I guess.

And, during the past presidential elections, we have been complaining that Japan is never on the agenda. But, this time around, there were many colorful statements about Japan.

In the past, US-Japan experienced some difficulties, for sure. In the early nineties, Dr. Funabashi actually wrote a book, Alliance Adrift. And that was a result of the common enemy disappearing because the Cold War ended.

So, there were arguments in Japan and arguments here, I guess, in the United States, as well, that “What is this alliance for?” There was this question period. Of course, we were too confident, on the Japanese side, and you had your own, sort of, revisionists, which were very critical of Japan.

But I guess in the latter half of the 1990s, we came out with this rhetoric that sort of would justify the alliance, which is that this alliance is not just to deal with threats but it is about two nations sharing values, upholding a regional order which is good for the US and Japan but, not only that, it would be good for the region as well. So that was how, sort of, the alliance was redefined, and it was deepened since then.

So, the US-Japan alliance became, sort of, an alliance which would uphold a liberal international order. And, precisely because of this formulation, in spirit, it sort of became an alliance of co-equals. We stopped talking about whether we rely on the US or not. Because, in spirit, we were together, upholding the alliance. And this was the very successful narrative we developed. But I think that’s being shattered, I think.

Yes, after the election, this talk about Japan has more or less – not disappeared -- but toned down, I would say. And we hope that the importance of Japan to the United States has penetrated the team.

But just the simple fact that the President has stopped talking negatively about Japan, and the fact that he seems to be tough on China, doesn’t, sort of, signify that everything’s okay, because the US-Japan alliance is not a stand-alone institution. I think whether it truly functions depends on how American embraces Asia as a whole and defines America’s role in the region.

So, you have interest in the alliance, you see the importance of Japan, but if you’re not interested in the region and if you’re not interested in the order of the region, maybe the US-Japan alliance

itself won't function as we planned.

Also, the statement that Japan is important doesn't convince us fully. America has to convince us that you are a resident power, an integral part of Asia, and I think that was the essence of the rebalance policy of the Obama administration.

For us, no matter who the President is, US-Japan relations remain to be the most important relations. Not the only one, but the most important one.

But, in Japan, there is this sentiment that we are choosing the United States because there are no other options, sort of a reluctant embrace of the United States. And that is particularly strong among the ordinary public. Among the policymakers and among the alliance handlers, we realize that America is the best choice. So, we affirmatively, positively, choose the US. But among the Japanese public, there is this sentiment that, because there is no other choice, we are with the US.

Therefore, that narrative that I just talked about, that in spirit we're the co-equals, becomes important. But, under the Trump administration and the "noise" on US-Japan relations increases, I think the uneasiness about Japan relying on America would increase, for sure. So, in order to avoid this, I think it is important for us to rethink why we're choosing Japan and, in sense, we have to reselect a US-Japan relationship precisely because it is the Trump era.

And, in Japan, there's a "Trump hype" right now. Mr. Trump is all over the media, not only on serious news but on entertainment television and tabloids and all that. And we are sort of overreacting to Mr. Trump and what Mr. Trump represents.

But, this hyped-up image of Mr. Trump makes it very difficult for us to understand what really is going on in the United States. So, to lose this overreaction and sort of meddle with this uneasiness about our reliance on the US is the "Trump trap," I think. And that's the "Trump trap" we have to avoid, because US-Japan is, still, the most important relationship for us. So, we have to – the attitude we have to maintain is don't overreact, stay calm, but be aware. That would be the advice I would, sort of, give to the Japanese, not just to the policy people but the Japanese public, and especially the media, as well.

Thank you.

DR. GREEN: Excellent. Thank you. Terada-san is in the unenviable position of having just finished an excellent strategy paper on TPP the day Donald Trump announced we're leaving TPP, but he still has a solution, I think. So, Terada-san, please.

(Laughter.)

MR. TERADA: Thank you. Thank you very much, Mike. I don't know if I have some solutions or not, but I'll just try to describe some sort of possible scenarios, particularly after Mr. Trump signed the Executive Order yesterday to withdraw the United States from TPP.

My role in this book was to write a chapter on, particularly, regionalism or regional integration, and particularly from the perspective of the mutual exclusiveness pursued by China and the United States. So, what sort of policy implications will, for example, AIIB excluding the United States or

TPP excluding China have, particularly for Japan and the US-Japan relationship?

But today, particularly after coming to D.C. – I came here Sunday from Singapore, where I am currently living, a 20-hour flight – more than that – so I’m still struggling with something – (light laugh) – but I’ll just try to extend some of the argument which I originally wrote for the book and reconfigured some of the scenarios which I just completed in a PowerPoint submitted two hours ago.

Okay. Only a few – two – pages. (Laughs.) So, the first page just describes how TPP would be helpful for achieving what Mr. Trump wants to also achieve. So, I think some of the points already you must have heard. For example, that would be helpful for America’s exporters, particularly agriculture. You know, Japan made huge concessions on agriculture. Of course, not only for the United States but also America’s rival agricultural exporter, Australia.

Even Japan already had signed an FTA with Australia, in which tariffs on beef had been already reduced, reduced, reduced, making the American beef in a very disadvantaged position in terms of the prices. Of course, I’m not talking about quality, but something like that. Even, someone talked about that China may take the leadership role, regional integration or something like that.

Well, I personally take a little bit cautious view on China taking the leadership role instead of the United States, especially writing new economic rules or something like that. Particularly this year, China should be busy for more domestic politics and also sort of suffering from the social security programs which recently the Xi Jinping government has been tackling. So, I think the Trump government’s decision to withdraw from TPP or just make TPP dead would be pride. Of course, fortunate, particularly because China can buy time for promoting some of the more domestic economic reforms like SOEs, for example.

And someone said China should join TPP or something like that. But, in order to do that, China needs to make some huge domestic political reforms, economic reforms, like SOEs. But SOEs currently account for more than 40 percent of China’s total GDP, so it’s very, very difficult.

If you look at steel, you know still China cannot solve the so-called “over capacity problems” of steel, but partly because they cannot destroy the steel companies; they’re all SOEs. And the Chinese Communist Party has a very strong voice within each SOE company in steel. If China did it, I’m sure domestic turmoil would take place.

That would be so disastrous for the Chinese government. So again, I’m still thinking that even if TPP were alive, China would find it very difficult to join. So that’s why my logic is that. Again, without TPP, China will certainly be relieved and take more time for the domestic economic reforms, rather than taking some radical initiative in promoting regional economic integration or something like that.

But anyway, but a key message here today is the next page, so-called “possible scenarios Japan can pursue or may pursue.” Well, plan A, plan B, I also have “plan B plus.” Plan A is, yes, TPP takes effect, despite Donald Trump’s harsh criticism of TPP. But, in order for the other 11 TPP member countries to still make TPP alive, it takes some revisions. Again, I know it’s probably already impossible. However, some of the probable possibilities still exist, it seems to me.

Prime Minister Shinzo Abe had a telephone call with the Australian counterpart, Turnbull,

yesterday. They had already met, two weeks ago, when Prime Minister Abe visited Sydney. He also visited the Philippines, Indonesia and also Vietnam. But in Australia the summit meeting was purely focused on TPP. So I think, now, Australia and Japan have been working quite closely to work on what should be done about TPP.

And Prime Minister Turnbull's offer, as far as I read, was to promote TPP without the United States. But Prime Minister Abe still has some strong reality in facing Mr. Trump. You know, without the United States, TPP would be useless. So, in this case, still some different views existed, but the Japanese government, it seems to me, gradually – well already – understands the destiny of TPP, particularly after Trump's decisions over the last day or two days, something like that.

So, plan B, TPP minus the USA. This is something which already some Latin American leaders, Chile and Peru, have already mentioned. But could it be possible or not? I think it's possible, by changing small parts of the clauses. So, if the countries agreed, then we should set it up.

But, on the other hand, following Mr. Abe's statement yesterday, still the US was significant for TPP, and also for the Japanese economy. I think concerning the US-Japan bilateral FTA, this is something which Mr. Trump wants to achieve and should also be accepted. So again, plan B means TPP minus the USA, and a US-Japan bilateral FTA. I'm not talking "or" A or B. A "and" B. Otherwise, the significance of the US could not be sustained. So, probably Japan and other TPP member countries should keep some of the options for the United States to come back.

In TPP negotiations, even bilaterals, FTA negotiations take some time. A few years. Probably three or four years. In four years what will happen in this country? Another election. Your government just started, but we should consider then who will be coming next. I think the government should consider about it.

So, plan B, TPP minus the USA and a bilateral FTA between Japan and the United States. I know some Japanese media have expressed concern that for the US the pressure could be much stronger. This is something which I think Trump wants to do, particularly focusing on agriculture. But personally, US external pressure on agriculture liberalization would be welcome – (laughs) – because this is, sort of, necessary for promoting more Japanese agriculture liberalization, it seems to me. Otherwise, the LDP has been always facing the so-called "election," the destiny, every two or three years. So, to overcome that, I think some strong pressure from the United States would be, I think, useful.

But, on the other hand, Japan should also work harder to make the US more concessions on automobiles. You know, TPP's automobile concessions to the United States are almost nothing, according to the automobile industry in Japan. Twenty-five years time is necessary for eliminating the 2.5 percent tariffs on commercial, 30 years for 25 percent on the pickup trucks. Who would be surviving in 30 years among the negotiation teams? So, I think Japan should work harder in this case, again, to get more concessions, as sort of creating the rationale for Japan to pursue bilateral FTAs with the United States.

Finally, plan B plus. We have another framework of regional integration in addition to TPP. RCEP or "Arsep," the Regional Comprehensive Economic Partnership, ASEAN plus six – the framework. The point is that the United States is excluded.

And Mr. Trump also said China might feeling easier to come to TPP without the United

States. (Laughs.) So, in this case, some RCEP members are invited to TPP, but have a bit different, opposite, views. TPP member countries who are not part of the RCEP should be invited to TPP, which are Canada, Mexico, Peru and Chile. I think that's much easier. And that would be welcome for Japanese consideration, to make RCEP a high standard regional integration framework.

Again, Mr. Abe already mentioned in his platform speech a couple days ago RCEP was also something which Japan wants to pursue. So, I think the RCEP-TPP linkage, which initially didn't agree because of the exclusiveness of the regionalism, as I mentioned in the beginning, I think, strategically, this element is very significant for the United States, I thought. But now TPP probably would not exist.

So again, the TPP-RCEP linkage could be, probably, considered, to create a sort of step towards realizing FTAAP, Free Trade Area in Asia-Pacific. This would not be the real formation of FTAAP, because FTAAP is an APEC wide FTA, which includes Russia, Papua New Guinea, Hong Kong, Taiwan, something like that. But, RCEP includes the ASEAN 10 member states, so it's a bit different.

But, nevertheless, this could be, probably, useful, to form a 20-country FTA. Again, sorry to say this for the United States, this is sort of the way to put pressure on Mr. Trump's government to consider, reconsider, regional integration. It's also significant in Asia because the US businesses would be suddenly discriminated against and facing quite strong discrimination. I'm sure the US business lobby should be working much harder to persuade Mr. Trump. Otherwise, their business would be very, very difficult.

So again, it would take time, but probably is something which we should, Asia or Japan should, consider, as a way for making the US more friendly and cooperative.

Thank you so much.

DR. GREEN: Thank you. Yoichi? Japan's strategic options now.

MR. KATO: Sure. My argument is pretty simple. I call the Japanese alliance strategy toward the United States "America hugging," and when it's faced with an "America first" strategy as the Trump administration puts out, the compatibility between those two deteriorates, and it's hard for Japan to maintain this "America hugging" diplomacy. And this mismatch between Japan's diplomacy and US diplomacy will weaken the alliance and weaken, complicate, the Japanese political situation, domestic political situation, and probably weaken the Abe administration, and eventually destabilize the region. That's my argument, and I'm going to explain in a little bit more detail.

So, what are the characteristics of Trump's foreign policy? As we have seen in the Inaugural Address, I think it was clearly explained that he prioritized individual interests over common values, and he prioritized unilateralism over multilateralism. In short, those are the, I think, two main characteristics of the foreign policy of the Trump administration.

I made kind of a matrix to see how the values and interests in common and the individual interact with each other and how you can analyze the Trump foreign policy. Basically, the Trump foreign policy is based on, as I said, driven by, mainly individual interests, the right button. So it's very close to China's foreign policy, which is driven by "core interests." So, "America first" is basically "core interests." So, China's foreign policy and Trump's foreign policy are very similar, in that sense.

And the pre-Trump US was basically in the upper level, based on, driven by, common values like democracy and human rights. Of course, there was an exception, which was the Bush administration, which was in the down left, which was individual values, led by the neocons and conducting foreign policy by unilateralism. But basically, US foreign policy was driven by common values. And, of course, it doesn't really deny the existence of interests, but basically.

So, this is a really drastic change from the traditional US foreign policy, and that really makes it difficult for Japan to "hug" the United States, because the main structure of the foreign policy is totally different.

So, what is going to happen? And I think it is not possible for any other countries, like Japan, to push Trump from this individual, interest-driven, foreign policy, to common values, because Trump doesn't care, it seems to me, about democracy promotion or human rights. He never said anything through the campaign and also the Inaugural Address.

So, I think the key battlefield of foreign policy in the region will be "common interest," the upper right. And that's where China can come in, and so there is where Japan, the United States, China, and other Southeast Asian countries also, can really compete with each other. And that's the source of the problem that we are going to have. Japan is not going to have any leverage by being what we call a "like-minded country" with the United States, because the United States is not "like-minded" anymore.

So, that's the problem. And I'll just skip this.

And so Japan has two kinds of concerns about the Trump administration. Number one is about the domestic economy. Before Trump really came into power there was a view in Japan that Trump could be good news because, the view was, Trump will increase public works, increase investment in public works in the United States, which will lead to an increase of domestic demand in the United States and make it lead to a strong US dollar, and that will make Japan, the Japanese economy, economic handling, easier.

Because the reason why Abe has been successful in handling the economy are two reasons. One is the cheap yen, Japanese yen, and high stock prices. That leads to economic stability. And the other one was the argument of structural reform, by using TPP. And TPP was kind of an excuse, or maybe it's a façade, a reason, that Abe can talk about "the third arrow," because TPP could be the driver for domestic economic reform.

But now, as we see, TPP is gone, and there is a concern in Japanese business circles that this cycle of investment in public works, increasing domestic demand, and a strong US dollar may not really happen because there is a strong rivalry between the Executive Branch and Congress, as you know. And Trump has to have the Congress on his side in order to really execute this economic cycle. And McCain and the other side are trying to criticize Trump, so it may not happen. So, there is a serious concern that Trump actually could be really bad news for Japan. That's one element.

And the other element, the other concern, is foreign policy. As I said, there is an absence of values and no democracy promotion or human rights. And, as we have heard in the Inaugural Speech, Trump said that "We do not seek to impose our way of life on anyone." It was very clear. And there is a

concern that he doesn't really understand the value of Japan as an ally and, because of those elements, the absence of values, the lack of understanding of Japan's values, perhaps he could cut a deal with China, ignoring Japan, like Nixon did when Nixon normalized relations with China, and trading Japan's national security interest away in return for economic gain. That's a concern. I'm not predicting that's going to happen, but there is a serious concern.

But, if you look at the public opinion polls, the Japanese public still has high hopes on the United States, or dependence. This is a public opinion poll that the Yomiuri Shimbun conducted right after the election. The first question was, "Was that good news for Japan, that Trump won?" And 60 percent of the people said it was not good. And actually it's growing. In the recent public opinion poll by the Asahi Shimbun indicated that this trend, to see the victory of Trump, is more negative than favorable, to Japan.

But, if you ask about this heavy dependence on the United States through the alliance, whether this should be maintained or reviewed, as you see, 60 percent of the people say that it should be maintained. And if you ask another question, "Should the United States stay as a global leader, even under President Trump?" 70 percent of the Japanese people thought the United States should stay as the global leader. And that's really contradictory but that's the view that the Japanese public has.

So, with this kind of domestic situation, what kind of impact would it have on Japan's policy, foreign policy? First of all, as a reaction to what is happening, it has to be multi-dimensional hedging. That's, I think, what has to happen.

As I have listed a number of the risks that emerge, I don't go over each one of them, but you can categorize them as US-related risks, starting with the emergence of the Trump administration, China-related risks – I think I don't have to go into detail – and Korea-related risks. There are a number of risks and they are increasing and getting stronger. So, Japan has to take a multi-dimensional hedging policy. That's a must.

And then, what's the strategic choice that Japan has, if Japan cannot depend on the United States anymore? So, the default position is "America hugging," as I said. I mean, what are the other theoretical choices? This is an area where Professor Jimbo is really an expert.

But the first is internal balancing. Those three categories I took from Professor Jimbo's website, by the way.

(Laughter.)

MR. KATO: First is internal balancing, and to build-up its own military capabilities, to be independent of the United States. And second is external balancing, look for alternative alliances or coalitions. And third is "band wagoning," flat out accommodation to China. So, let's see them one by one.

Internal balancing, build up its own military capabilities, to be independent of the United States? It sounds good, right? If we can't depend on the United States, perhaps we should build up capabilities on our own, so that we don't have to depend on the Trump administration anymore. But the question is – and there are drivers: anti-American nationalism and anti-Trump sentiment. But those are the kind of elements that Japan really has to be careful about in dealing with this, as Professor Nakayama explained in his concept of a "Trump trap."

And eventually this internal balancing, building up its own military capability, is self-defeating, because if Japan really builds up its own capabilities, without talking about “going nuclear,” to cut to the chase, Japan’s security doesn’t increase. The region is going to be destabilized and the surrounding security environment will deteriorate. And Japan will be in worse shape than it is.

And second, external balancing, okay. Alternative alliances and coalitions, theoretically, may be viable, but with whom is Japan going to align with? Middle power coalitions like Australia, like one of the scholars in Australia advocates? But Australia, Korea, or Indonesia. But, is it going to be strong enough to, really, replace the Japan-US alliance? No, right? And we don’t have any other possible partners. So, this second choice is not really viable either.

And third, “band wagoning” to China, there are very few people in Japan who want to accommodate to China. The public opinion polls would not allow that.

So, looking at all those options, actually there are no options; Japan has to stay with this default position. Japan has to keep on “hugging” the United States. Whether we are frustrated or not, that’s the reality. And so what is going to happen is, with this kind of reality of strategic choice, but with the Trump administration pushing this “America first” agenda, that will really increase the pressure in Japan on the Abe administration to do something different. But actually, as I said, there is nothing that Abe can do, as a strategic choice. That will really weaken the Abe administration and that will really deepen the dilemma that Japan, as a whole, is going to feel.

And, as I said, not just does this weaken the political basis of the Japanese Abe administration – by the way, I’m not really in a position to support Abe, but I am just talking about the political reality. And also, eventually, this will really weaken the alliance, even though Trump said that he will reinforce the old alliances, in his Inaugural Address. But, if he pursues this “America first” agenda, it will really damage the alliance with the United States, and this will really destabilize the region. With that I will stop. Thank you.

DR. GREEN: The conclusion: “a group hug.” That was excellent. Thank you. We’re going to come back to those themes, I’m sure.

PROF. JIMBO: Well, thank you very much. I know that we need to secure the time for interaction, so I will try to make my presentation as brief as possible.

What I’m going to talk about is to provide the broader outlook of why the concept of geo-economics matters and why this concept should be factored in as one of the pillar concepts to manage the US-Japan alliance. And I will offer my observation of the external circumstances surrounding the US-Japan alliance, over the rise of the concept of geo-economics.

And let me start by introducing the most recent publication by the Eurasia Group, “The Usual Suspects,” of the top 10 risks which they published at the beginning of this year. The overall theme of this year’s theme that they actually put forward was the recession of geopolitics, “geopolitical recession.” And we’ll say “Wait a minute!” In recent years, we have talked about the “revenge of geopolitics,” in every part of the region. China’s rise, North Korea, Russian reassertiveness in every part, and then we talk about how the concept of the geopolitics has been so important.

By looking at the report by the Eurasia Group, they are talking about a geopolitical recession by the United States. So, the “America first” policy is all about the retrenchment of the exceptionalism policy of the United States, which maintained the stable world order for the past many decades.

But, in my understanding, it is not all about the United States. It is about the geopolitical reality, because the intensity has risen so much in both regions, both in Asia and in Europe. We have lost the interactiveness in both regions.

By looking at 10 years ago, in 2006 and 2007, we actually offered a lot of, like, a globalized agenda, on the alliance management. Looking at the US-Japan alliance, in 2005 we actually conceptualized the common strategic objectives, which stretches from the region to the globe. And the Self Defense Force has dispatched our forces to the Indian Ocean, Iraq, and participated in the anti-piracy operation in the Bay of Aden. Those are the global outreach of our Self Defense Force in the past 10 years.

NATO was also talking about the globalization of its scheme and operations. They serve at the headquarters at the ISAF operation in Afghanistan, security sector reform in Afghanistan, and participate in various operations in the Mediterranean Sea. They are even talking about adding membership beyond Europe. So that we were interacting in an alliance function together much more than what we are having as of today.

As of today, what we are doing is the rise of China, North Korea, Russia, massive inflows of refugees into Europe, and also potential terrorism. So, each region is very busy with each other. So that that kind of geopolitical recession also applies to the geographical space concept, that allies are now looking very much inside, rather than interacting with each other. That’s a very interesting phenomenon.

But it doesn’t mean that the globalization phenomenon has shrunk, because the economic scale has been another great measurement, to look at the current external circumstances. If I go to Brussels, many of the European experts ask me “Why is Japan so inclined to Russia on upgrading the Japan-Russia relationship?” And, if those people come to Tokyo, we also express our blunt view, “Why are Europeans so engaged economically in China, without making conditionality?”

Which means that if the geopolitical space has been shrunk, the geo-economic space is always very much interactive. What is missing is cross referencing of each other’s conditions. So, what we need, probably, is asking Europeans to engage China with higher conditions, to look at our situation, in the South China Sea, in the East China Sea, and also in the Korean Peninsula. And what we need to address, from our Japanese government perspective, is to provide a broader, kind of, outlook over how we should engage Russia, in dealing with not only Northeast Asia but also in the European front as well.

So that’s why we really need, why those geopolitical concepts have to be, in line with our economic engagement policy, especially in emerging economies like China, and also Russia, as an economic power.

So, we also have found that there has been a series of so-called “opportunistic rise” of geo-economy, mainly in the Eurasian continent. And the concept of the geo-economy, as Dr. Funabashi has laid out at the outset, it can be defined in various terms. It probably – the utility of having a definition

of, like, a use of an economic instrument to promote and defend national interests for geopolitical goals may help to understand the phenomena, what's been happening, especially in the Eurasian continents.

For example, the “one belt, one road,” initiative that contains two components, like a “silk road economic belt” and “maritime silk roads,” which was also funded by the China silk road funds, and also the AIIB. And Russia has its own version of expanding its Eurasian economic community, encompassing Central Asian countries and also beyond.

And what is striking is that those concepts are beginning to be merged together, since the two countries are seeking a connection between the “silk roads economic belts” and also the Eurasian economic community. So, these might be the emerging reality of how those aligned concepts can emerge as a huge impact on international relations, especially in the Eurasian continents.

So, let me just offer what would be the impact for Japan and also the US-Japan alliance, faced with this new reality. And probably we are faced with an unprecedented, systemic, challenge to the so-called “liberal international order,” briefly by shifting of the balance of power and, second, is the rising of the state capitalism as the standardization of those emerging economies, to forge its powers to the economy, and also we have witnessed the poor performance of democracy, especially in the advanced nations.

Under those circumstances, I think what we need to do in 2017 is we really need to anchor the efforts to vanguard the free trade, rule of law, and also democracy. And Kato-san mentioned that there is no other choice. But I think what we will try to do is to at least really try to anchor those longstanding concepts, to forge a liberal international order, from our end. And that should also be the guiding principle at the G7 summit meetings.

And second, as I mentioned, what we also need is cross referencing between Asia and Europe. And we also need to embrace European engagement in China, vice-versa for Japan's engagement in Russia, but in a more coordinated manner, and economic engagement needs to entail political, geopolitical, conditionality.

And finally, I think Japan is, I think, in a way, defining its own so-called “economic diplomacy.” Probably tomorrow the Japanese government will publish the first white paper on the economic diplomacy, and that also entails how importantly the geo-economic concept should be factored into the Japanese diplomacy. And I think that this concept will also lead the global agenda that Japan and the United States mutually need to pursue.

Thank you very much.

DR. GREEN: Excellent. Thank you. Thank you to all of you.

Let me abuse the Chair and ask a quick set of questions and then we'll open it to the audience. So, listening to your presentations, I kept thinking of the quote attributed to the British Foreign Secretary at the beginning of the Reagan administration, and Reagan confounded a lot of our European allies – not the British but many of the continental allies – quite a bit. So, the Foreign Secretary, in a meeting of European foreign ministers, listened to all the complaints about Reagan, “unilateral, unpredictable,” yada-yada-yada. And, at the end, he said “Yes, yes, everything you say is true, but they're

the only Americans we have.”

(Laughter.)

DR. GREEN: And he started trying to shift the discussion to “How do we deal with this new President and strengthen our position, taking advantage of the elements of Reagan that might be good for Europe?” And it turned out to be very good for Europe.

So, with that spirit, let me ask, first – I’m going to ask Nakayama-sensei and Kato-san one question. Nakayama-sensei, you said the US-Japan alliance is not a stand-alone institution. That’s an excellent line.

And, Kato-san, you said Japan has no place to go. So, implicit in that set of statements is the idea that – it suggests a certain passivity to Japan’s – Japan has no place to go and nothing to do but “hug the US.” That sounds very passive. Sort of accepting the fate that Japan has been dealt.

And yet, as you said, Nakayama-sensei, this is not a stand-alone alliance; it’s part of a network of alliances, the neo-liberal order, the United Nations. So, my question for you, Kato and Nakayama-san, is can you give us one or two ideas of how Japan might affirmatively, or proactively, shape a Trump administration’s role in the world?

And then, building on that, for Terada-san, your discussion of the geopolitics of TPP was really interesting. And, of course, one of the major purposes of TPP, aside from the economic benefits, was geopolitical, was to lock the trans-Pacific geostrategic relationship in place, to lock the US in with key partners and push back against any notion or any effort to create an Asian-only bloc. That was a large part of TPP, for Abe, for the Australians, for everyone.

So, when Malcolm Turnbull says, “We’re going to invite China to TPP,” that strikes me as a really silly thing to say because, as you point out, china is not going to be able to do that. But, it kind of completely undermines the geopolitical purpose of TPP.

So the question for you is how can Japan maintain the geopolitical purpose and intent of TPP, without TPP? So, building TPP with other partners, so the US can dock in, is also quite passive, in a way. It keeps open an option but it doesn’t shape China’s perception or regional perceptions. Is there something Japan can do, an economic dialogue, in areas that might be easier with Mr. Trump? Coal, and energy, and nuclear power? Or the role of the ADB and the World Bank. Or protecting intellectual property rights, or WTO cases. Is there an affirmative, positive, agenda that Japan might lead, with the US, on?

And finally, for Jimbo-san, let me ask you, you did an excellent job describing the cross referencing of Europe and Asia and the economic drivers. I take one exception. When you say state capitalism is one of the major challenges to the international order, I cringed because, as a graduate student – I think I’m older than you – in the late eighties and early nineties – I was forced to read “I don’t know how many” books about state capitalism being the new threat to the neo-liberal order, most of them written by people at Berkeley – or Stanford – and most of them pointing to Japan as the threat, because of Japan’s state capitalism. So, you might briefly help me understand what’s different. Or maybe those guys were right.

(Laughter.)

DR. GREEN: But what I really wanted to ask you about is the geopolitics. To the extent one can discern a geostrategy from the Trump team – not the Cabinet Secretaries, who sort of know what they’re doing, but from the new team in the White House and around Mr. Trump – to the extent you can begin to discern a geostrategy, if there is one, and I think they’re trying to turn Mr. Trump’s words into a strategy – it would be, I think, align with Russia to isolate ISIS and China. Does that make sense, particularly in light of the geo-economic factor?

So, those are the questions for you. Maybe Nakayama and Kato first.

PROF. NAKAYAMA: Thank you. The question you gave us is a tough one, because a global commitment is the antithesis to what Mr. Trump represents. But I take issue with the fact that we sounded passive.

DR. GREEN: Okay.

PROF. NAKAYAMA: Because what I was trying to say is that we have to be “forward leaning” in choosing the US, and that’s a bit different from being passive. Maybe at the moment we’re passively choosing the US.

DR. GREEN: Right.

PROF. NAKAYAMA: But that’s not the right choice. What I was focusing on is that we should be more forward leaning.

DR. GREEN: “Lean in” is the term of art in the US.

PROF. NAKAYAMA: Yeah, “lean in.”

DR. GREEN: “Lean in,” yeah.

PROF. NAKAYAMA: And that is because what we worry most about in our region is the uncertain rise of China, of course. And if you pile up what China is doing, we see a glimpse of a China-centric order, and we don’t think that’s good for our region, not because we are anti-China; because we think the open and liberal, rule-based, order is good for our region.

And maybe Japan may be the only country who is explicitly saying no to that kind of order. But can we deal with that alone? And we cannot.

DR. GREEN: China is the only country explicitly saying no.

PROF. NAKAYAMA: No, no, we are saying no to the Chinese-centric order. And we need partners and we need institutions. But are there any options? There’s no sub-regional organization, global institutions like the UN – you can’t really trust it. Japan sort of becoming a full-blown military power, there’s no willingness among the Japanese public to do so. This notion of a neutral, unarmed, nation, that’s a fantasy.

So, we have to realize that this is the only choice we have, but it is the best choice we have. So, we affirmatively choose the US. So, I wouldn't call that a passive decision. It's the most rational and the best choice.

DR. GREEN: Thank you. And you implied it, and that's very helpful. Yoichi?

MR. KATO: Well, I think Japan can do two things. One is to show the reality of what is going to happen if the Trump administration really pursues the "America first" agenda.

I made a presentation in a very simplistic way but actually Japan has a place to go, not no place to go, because with those four options that I laid out, they are not, as you know, not mutually exclusive. It's not one or the other. Those four options can coexist, actually, and even in one country, at one point, those four options can exist at the same time, and it depends on where the center of gravity is. But this alternative shift can happen without really abandoning the default position.

So, what Japan can show is that if the United States really pursues this, sticks to this, kind of approach, the alliance could transform to the detriment of the US national interest, and the US diplomatic standing will deteriorate, and regional states have to find a way to live with that kind of reality. And that doesn't really make the United States in a better position. That's one point.

And the second point is to show that the alliance network is an interests multiplier. And actually that's what it is. It seems to me Trump is thinking in very simplistic, zero sum, terms, in many ways. But actually, in terms of the relationship, it is dominated not by zero sum terms but actually "plus sum." It could be "plus sum," depending on how you structure it and implement it.

And actually, the Japan-US alliance is, I think, an interests multiplier. And if we show how the interests could increase by staying in the alliance and improving the alliance, then perhaps we can engage the United States and the Trump administration.

Thank you.

DR. GREEN: Thanks. Terada-san?

PROF. TERADA: Hai. Thanks, Mike. I think what Japan can probably work towards the United States on is not necessarily some specific policy area like energy and development, which you just described. Probably that may be so. But I think what, probably, Japan should try to do is, first, to tell the United States the usefulness of multilateralism, in which Japan can cooperate with the United States more effectively.

Yesterday I heard the press conference by Mr. Spicer, and he denied the so-called "reciprocity," in his comment. It is the basis for the multilateralism in both the political and economic spheres. And only a superpower like the United States can actually say like that. But, the smaller nations or so-called "middle powers," tend to more focus on the so-called "multilateralism" to realize their countries first. In other words, bilateralism is not necessary in this case. Smaller nations are, more like, finding the place for their voices to be heard.

So, Canada and Australia, for example, work very hard to promote the UN. Singapore, the WTO. Something like that. And, more significantly, in TPP – in my view, TPP is a product of the so-called “US-Japan cooperation” in some of the negotiated agenda items. The most prominent one was, of course, the dairy products, blocking New Zealand’s claims. (Laughs.) And even the local content ratio, which now I heard Mr. Ross, the Secretary of Commerce designee, strongly criticized, actually TPP would offer lower. That would probably be a bit difficult for the United States to accept. (Laughs.) But, nevertheless, that would be, actually, quite coordinated, the result of coordinated diplomacy and negotiation between Japan and the United States.

So personally, I am quite looking forward to Mr. Trump’s first appearance in some sort of multilateral diplomacy, or in the Asian context, in an APEC summit meeting, half a year later, in Vietnam. The TPP summits have always been held at the APEC summit, as a sideline meeting. I think Japan or other countries should invite Mr. Trump to come to TPP summits, and how useful – even APEC, you know, the summit could be, also, an interesting window for Mr. Trump to talk directly with Asian leaders first.

Just quickly, I agree that TPP with China would be geopolitically almost meaningless. So that’s why I disagree with the Australian government’s views about China’s participation in TPP. So, my view is that other TPP members’ participation in RCEP could be – again, it’s strategically an insignificant move, from China’s viewpoint, but again, even from the Japanese viewpoint, that could be, as I mentioned, a useful way for the US to reconsider the TPP position.

DR. GREEN: A quick yes or no question, Terada-san. Is RCEP, the Regional Conference of Economic Partnership, a Chinese-led FTA?

PROF. TERADA: I don’t believe so.

DR. GREEN: Thank you.

(Laughter.)

DR. GREEN: Yeah, I read it every day in the paper now. There are a lot of problems with getting out of TPP – a lot – but RCEP is not a Chinese-led trade negotiation. Yes?

PROF. JIMBO: Well thanks, Mike, for a great question about state capitalism. Obviously, Japan’s development model since the 1960s was coined by the government’s strong involvement in the government, which actually led to the success of the industrialization policy of Japan, and also that has been copied to many of those Asian economies. That created the “Asian miracle,” as a whole.

But I think that the model also entailed a promise of some kind of “taking off” model, to making deregulations, marketization, as political correctness, and also as an economically viable option in many parts of the world, Japan for increasing its competitiveness, for Asia to break through towards the middle income trap. So, that has been regarded as, like, a late stage of the government involvement, but eventually that will be coming into the liberal market order.

But what we are seeing today as a model of China and Russia is the government-backed economic model, even in the extreme end of the developments’ maturity. So, Terada-say mentioned about the SOEs, which occupies 40 percent of the Chinese GDP. In the 1990s the SOEs were almost, like, a

source of the huge problem. Now they are actually driving the Chinese economy, because there has been an external market, especially in the real estate, energy, and also the financial provisions that create the huge, I think, externalities of how those models can also be applied in the world markets. So, that creates a huge challenge, in my terms. So, that's response number one.

And second is on Russia. I think you're right; I think the Trump administration's – one of its first priorities in foreign policy is counter-ISIS. In that case, the US-Russian rapprochement will make some sense. But I do not know how this policy might apply to China, under that concept, because it has huge, kind of, parameters, in dealing with China.

And I think, from our Japanese point of view, the best scenario that we can imagine out of those options may be that Obama's quasi-pivot concept could be fulfilled by the Trump administration, because of the huge investment in defense and then tough policy on the major flash points in that region. But they also, I think, entail, like, three major risks. One is a retrenchment risk. Second is an emotional response risk to many problems. And the third may be the "grand bargain" risks, with China.

So, in that regard, in China policy we had huge parameters from pro-China, anti-China, pro-engagement, anti-engagement, and then the Trump policy can go anywhere. That's my assessment on it.

DR. GREEN: Good. It's so interesting that several of you have pointed out your concerns regarding a Trump administration involve completely incompatible and mutually contradictory outcomes, a grand bargain with China or unilateralism. And I think it's evidence why a foreign policy based on unpredictability may have some utility vis-à-vis adversaries, but with allies it's never good.

Let's open it up for some questions. Yeah. We have microphones, and quickly identify yourself and fire away.

QUESTION: I don't mind standing. Vago Muradian from The Defense and Aerospace Report. It's a tremendous panel, Mike. Thank you very much.

The question I have is obviously there is an expectation that many have that the incoming administration is putting a strategic priority on a better relationship with Russia, including perhaps, even unilaterally, lifting sanctions that have been imposed after the invasion of Crimea. Seeing as how President Obama's red line also resonated in Asia when it was crossed and unenforced, what's the Japanese view of the United States potentially – from a European perspective – putting its allies under the bus, which is how it's perceived by some? How would that resonate over in Japan and in Asia?

DR. GREEN: I'm going to select people, for timing considerations. So, Jimbo-san, you should answer that because your cross referencing between Europe and Asia is right on this point. And then maybe one other person, if you want to weigh in. Please.

PROF. JIMBO: Well I think, for Japan, Russia has been viewed as the significant power in Asia, which provides alternatives for broadening the Japanese strategic portfolio. That's how, I think, how I should view Russia's role in this region.

Because something we want to avoid, utmost, is Russia-China entanglement in every

strategic arena in Asia, alliance, missile defense, countering China and North Korea. And something that we would like to do is to diversify Russia's interest in Asia. And we know that Russia has its own version of the pivot, to Eastern Siberia. Economic, political, and geostrategic. But we also sense that Russia doesn't like to pivot to Asia only through China. So, in that sense, there have been opportunities for us to invest in Russia's interest, economically and also in a political sense. And that is, I think, our strategy in developing the Japan-Russia relationship.

In that regard, I think the US rapprochement in Russia may provide us that alliance management, and our diversification panel may align with it. But, from the Russian perspective, probably they have another thought, which is using the Japan card in, probably, countering the influence of the US-Japan alliance.

So, I think we are building upon a very fragile balance in those relationships, but I think our policy remains to be priority number one, maybe how to deal with China. In that regard, something that we want to do is to divide the interest between Russia and China in every possible arena that we can find it.

DR. GREEN: Stanley, in the back?

QUESTION: Hi. Stanley Roth, no affiliation. If Mike thought the presentations were perhaps passive, my thought was they were perhaps too rational. You worked backwards. You said every alternative is lousy – to which I agreed. Some of them are scary. But since they're all lousy, therefore "America hugging must work."

But what if the Trump administration ultimately doesn't want to be hugged? Where would you go? One of the options identified, or is there a less lousy "hunkering down" option, built on surviving four or even eight years?

DR. GREEN: Maybe Kato and Nakayama?

MR. KATO: Well actually, I think Japan has an option, and I think it's possible and likely that the Trump administration will come out and say "I don't want to be hugged." Then we can't hug.

And then, think of the combination of those alternative options together and make it one option. For example, if you combine three options together, the alternative options that I laid out, build up the military capability, looking for alternative alliances and coalitions with other states, and accommodation to China, but it's controlled accommodation to China, limited accommodation to China. If you combine all three, I think that could be a fairly good option.

And then, perhaps – I'm not saying that there is going to be a hundred percent US hugging or zero. I think the reality is somewhere in between. But, with this increase of liberal hugging could be supplemented with those – a combination of the choices. I think that is, in reality, going to happen. Thank you.

PROF. NAKAYAMA: There's a group named "the alliance mafia," and the common mental attitude – common mental attitude – among the alliance mafia is "Let's not think beyond the alliance, because there isn't any." If you accept that, you can become a member of an "ampo mafia."

Right?

And it's so true, in a way. There were some student protests in the sixties. There were some movements – last year, in fact, or the year before last, going against what Prime Minister Abe is doing, and the US-Japan alliance. The “seals.” Professor Jimbo was at the forefront in countering those movements, to some degree.

But, because of Mr. Trump and what he represents, I think there's a mood, in Japan, that maybe we have to start thinking about this. Although it's not a rational choice at the moment, this intellectual dead stop – dead end I mean – maybe we have to think beyond the alliance. And my answer is beyond the alliance is... the alliance. That we have to rechoose the alliance.

So I think it was a shock, but I think that's – I won't say it's a positive effect, but it's a different effect that Mr. Trump, sort of, had upon us. So, I'm not answering you directly – (laughs) – but it's an interesting effect that we're experiencing in Japan.

DR. GREEN: Just to clarify, you were describing what you have to do to get in the “ampo mafia,” in Japan.

PROF. NAKAYAMA: In Japan.

DR. GREEN: Okay. In the US you have to be bald.

PROF. NAKAYAMA: Okay.

(Laughter.)

DR. GREEN: Like Joe and Rich Armitage. Or like me and Stanley get an exception – (laughs) – get a waiver.

The last question, from Mireya, which I'm hoping might get Terada-san into the conversation.

QUESTION: Thank you, Mike. I am Mireya Solis from Brookings. And yes, my question is for Terada-san. You know, I am puzzled as to why the Japanese government continues to double down on the notion that they can persuade Trump on the merits of TPP, especially after the “carnage speech,” to borrow Nakayama-san's term. And also, given the fact that the first Executive Order was withdrawal from the TPP.

So, if the concern is that Trump is going to advocate a protectionist agenda, I think that saying that the TPP is meaningless takes away all leverage from Japan. And I would say that TPP is not meaningless, economically or geopolitically. We talk about a “TPP-11.”

I don't know if you've seen Kawasaki-san's estimates of the economic gains from a TPP-11. They do show that the market access gain is sharply reduced, but that the largest gains were always going to be in the rules area, and those are not diminished by much. So it actually makes a lot of sense for Japan to go forward.

And geopolitically, if TPP was discussed as creating an incentive structure for China to reform, why couldn't you now reformulate it as an incentive structure, for the United States not to fall into unilateral protectionism? If you have two on-going, multilateral, trade negotiations, RCEP and TPP, and the United States is not part of it, you begin to get allies in Congress and business who actually may like to temper some of the protectionist impulses of Mr. Trump. And I think that will work better than direct appeals. Thank you.

PROF. TERADA: Well, thank you very much. Probably what I can say is TPP, compared with RCEP at the moment, it's still the growing framework, which means already Thailand, Indonesia, the Philippines, and of course South Korea as well, have shown interest in joining it. So I think, well, TPP's weakness was said to be the scale of economy, the United States and Japan simply predominating, and the small economies just following it. But, Indonesia, Thailand, the Philippines, the population is – of course, Indonesia is more than 200 million people and the Philippines and Thailand are also following it, just less than 100 million.

So, I think those growing economies in Asian countries showed an interest mainly because the United States just supported it. So I think we are, of course, talking about TPP from the geopolitical implications, but TPP – the first purpose was, of course, to maintain economic growth. And then how we can use it for political and strategic meaning.

I think now the United States and Japan, it seems to me, have quite diverging views on that. The Obama administration, Japan, other countries, even Vietnam and the Philippines, shared this view on it.

For example, Vietnam is now very engaged in so-called “domestic economic reforms,” and that's partly because of TPP. But, of course, the major purpose was to, of course, help the economic growth, but another purpose was to reduce the trade imbalance, to reduce trade reliance on China, and that could probably be the best way, one of the best ways, for Vietnam to maintain its claims in the South China Sea and something like that.

But, the Trump administration is probably, still, not showing any sort of interest in Southeast Asia or ASEAN types of issues, particularly using TPP or something like that. So, Prime Minister Abe is probably coming here next month. I don't know, he will probably showing trade's possible benefits and things like that. But some of the skeptics emerged, particularly after his meeting with Trump. Again, no information was given to the public like us normal people, but there is probably a strong view that he talked about TPP, it is believed. At least I believe it.

But, soon after that, Mr. Trump – (laughs) – said the US would withdraw from it, within the first day of his administration. Okay, what happened to Abe's attempt to persuade him? I think he might lose face, in a sense. But he continued to say Mr. Trump is still reliable, according to his speech last week in the Diet.

So again, probably he tried to do it. If other ministers try to persuade the Trump Cabinet, the Trump administration members, but personally I'm still doubtful. So, it's simply part of the US – the attempt within the country to just move. Otherwise, foreign countries find it very difficult to persuade other countries, particularly big powers like the United States, to change its views on it.

Anyway, I'll stop here.

DR. GREEN: Thank you. Thank you all. Thank you for that last intervention, Mireya. I think it sort of reinforces why right now we could use a lot of gaiatsu. (Laughs.) And, of course, gaiatsu was never effective when it was just gaiatsu, external pressure, on Japan, "back in the day." It only worked when there was naiatsu, when there were constituencies or interest groups within Japan that had a stake with opening and internationalization.

And, while the Inaugural Speech threw a lot of people off who were growing optimistic, the reality is there remain incredibly powerful actors and interest groups in our system, from the Republican Congress to state governors, to business, to farmers and exporters, to work with, and other allies and friends who care about the international system.

So, if Shinzo Abe has to take some criticism for hugging Donald Trump and building a relationship, to be able to make that work, I'd say he's doing not just Japan but, frankly, the rest of the world a big favor, for the reason Nakayama-san said, this is not a stand-alone alliance. And I think Abe-san is positioned, actually, to do something for the whole world, and helping a friend and ally think through how to separate the bad from the good and start putting together a foreign policy that might actually grow the economy and help people who want change, in this country.

That's my final sermon. But, for a really substantive and analytical one, before our reception, we've asked Matt Goodman to tie together the threads of this conversation and give us our closing benediction.

MR. GOODMAN: Thanks, Mike. And I know you do want to get to the reception so I'll try to be brief.

So, it's hard to follow a dream team like this, and I won't really try to comment on everything they said. But there was great "food for thought" there and I think I am going to take a lot of that back and think further on it.

I love this talk about geo-economics. That's not a term that I, exactly, use but my whole life, for actually 30 years but certainly here at CSIS, working in a foreign policy environment as an economist, has been about elevating and spotlighting the importance, the strategic significance, of economics, in foreign policy. I think it often is left to an afterthought or seen as sort of, at best, a tactical measure, you know, "How can we incentivize someone with a little gift of some kind or punish them when they're naughty, with a sanction?"

But we don't think of it in terms of the strategic place that it plays. And a lot of other countries. China certainly thinks of economics as a strategic tool of their foreign policy. So I think it's great to have this conversation.

Look, just three points. One, the liberal economic order is under great stress. That's a statement of the obvious. I think there are two main sources of that stress. One is new challengers to the order. Large, emerging, markets, of course. China and Russia. But also democratic countries like India and Brazil.

For now, up to now, I think the interest of those groups has been more about seating arrangements than it is about the actual rules. It's more about the setting of the table rather than the menu. But there are some differences on the menu, and I'll come back to those "in a sec."

But I also think the other source of stress in the order is that its economic benefits are not as strong or not as clear, at least, as they were for the sort of 70 years post World War II. Growth is slower everywhere. Imbalances persist. Wages and incomes have been stagnant or growing very slowly. Inequality is rising. And all of these things gave rise to the, sort of, nationalism and populism that fed the Trump phenomenon.

Now, Trump is right about the anxieties that underlie these changed economic circumstances, and about Washington's failure to address – first of all, to recognize, in some cases, and to address with real policy solutions those anxieties. And I think people like us need to spend more time thinking about those things, and we're going to certainly do that in the Simon Chair, and think about solutions to those domestic, economic, anxieties.

But, Trump was obviously too quick, has been too quick, to dismiss the benefits of the liberal order and of globalization. And, just to "throw the baby out with the bathwater." And his prescriptions, especially the protectionist talk on trade, are misguided and they'll actually make those anxieties worse, which is the irony of all of this. So that's sort of my first point, about the stresses in the liberal order. Again, an obvious point.

But, to me, the biggest failure of Trumpism so far is the failure to recognize what the real flaw in the global economic order is, which is that the rules are out of date. They don't meet the current challenges of a supply chain based global economy and they don't deal with the digital economy sufficiently. They don't deal with a lot of new realities in the global economy.

And there's going to be a competition over those things, if there isn't already. And that was the power of TPP. That's what TPP was really about and why yesterday's action was so harmful even though, perhaps, inevitable or expected. Not "inevitable." Expected. But very harmful.

You know, I always say that TPP really has three objectives or purposes. One is economic, obviously. Another is strategic. And the third is what I call "strategic-economic." So, the economic is obviously something that is at the core of this. But let's not kid ourselves; it's not, probably, game changing for the United States, economically, what TPP would do. But, cutting 18,000 tariffs in one agreement and raising US GDP by a quarter of a percent doesn't sound like much but a quarter of a percent, from one initiative, I'll take that. As an economic policy guy, that's not bad.

So, it's significant. It's not game changing but it's significant economically. Even better for Japan, obviously, much bigger gains for Japan.

The strategic one, these guys know much more about and have talked about, but it's obviously an essential complement, TPP, to our military strategy in Asia. But the strategic-economic, which is the one that sort of interests me, is this point about rules, and TPP really did move forward the ball. It didn't solve all of these problems, it didn't fix all of the rule issues, but it really did advance the ball and establish a set of disciplines that is more appropriate for a supply chain-based world, where a lot of the

frictions in the economy are behind the border, not at the border. So tariffs and things are not the only problem. They're still a problem but they're not the main problem, today.

So it had disciplines on services, on IP, on intellectual property, on digital trade, on labor and environment, on regulatory transparency, on state-owned enterprises, and so if you go through the 30 chapters of TPP – you don't have to read the whole 6,000 pages; just read the headlines of each chapter and ask yourself whether the United States, and Japan, have a stake in establishing strong rules and disciplines on those things. And I think you'll find that we really do, and that without the things that were advanced in TPP, we're worse off.

All these benefits are now foregone and, of course, they've also – the walking away from TPP has really raised serious questions about our credibility, not just in Asia but globally, because we put so much capital behind this initiative.

But look, I also think – and I think it's been touched on here, when you talk about the immutable things in life – you know, you can change – an election can change a leader. It can change policies. But it cannot change national interests. And our national interest, the United States' national interest, is being engaged in high standard rulemaking in Asia, in the Asia-Pacific. And so I think that we must – we will – get back to something like TPP. It may not be called TPP, it may not have exactly the same 30 chapters, but I think we will get back to some sort of high standard, multilateral, or maybe a network of bilateral if you can make that work, agreements, that serves those broader interests.

So, I sometimes use the metaphor of golf. You know, it's like we're playing the game of golf and the United States has just hit the ball into the woods, and we're going to be hacking around in the woods for a little while. But we're still playing golf and we need to get that ball back in that hole. That hasn't changed. So, we're going to get back on that course eventually, but we may have to wait four years.

(Laughter.)

MR. GOODMAN: Or maybe eight, because I was so wrong – until about 8:30 on November 8th, I was completely wrong, in predicting what was going to happen at 8:31. So, don't believe anybody who tells you that this is going to be over in four years. It could take eight.

A third and final point, so it's ironic that we've decided to pull the plug on TPP, just when the United States and Japan had reached the pinnacle of their cooperation on economic issues. After 30 years, all the time that Mike and I have been working on Japan, since we were studying Japanese right down the road here at SAIS, 30 years ago, has been all about bashing, and passing, and other things, that are in that sort of broad set of negativity. But here we are, we've reached this pinnacle of our cooperation, and now the US is pulling the plug.

I mean, we had gone really far. Read Article Two of the US-Japan Security Treaty. It talks about, quote, “eliminating conflict in our international economic policies and encouraging economic collaboration between us.” That's a mandate in the Security Treaty, that we should be doing this. And TPP did that, and we've just pulled the plug on it.

But, we've done that. So what do we do? Keeping TPP alive in some form, as an 11 undertaking, or maybe trying to get something going in an FTA, as Terada-sensei mentioned, you know,

getting TPP and RCEP – TPP-11 and the RCEP countries together – doing something like that would be, I think, very helpful for Japan to be working on over these next few years, even if it doesn't come to even a clear conclusion in that time.

I personally think this talk of a bilateral FTA between the US and Japan is not all that constructive. I mean, I think I understand that's what the new team wants to do, and there's a certain logic to it, but I think that's going to be really, really hard, because imagine the agriculture, the auto negotiations, in that bilateral talk. It's going to be a lot harder, and so we'll get distracted, kind of, with the old issues, but the problems are the new issues. Right? And the US and Japan agree on the new issues. That's why TPP was so powerful and why Mike Froman, against my advice, by the way, leaned so far in, to bringing Japan into TPP back in 2010, when it was first raised by the Japanese.

And I said, "Wait! We can't do that!" Because of the old issues, is what I was thinking. But Mike understood that the new issues is where the power of having Japan in this agreement is.

And so I just think if we do that bilateral FTA we're going to spend all our time arguing over autos and ag for the next 20 years and we're not going to get anywhere. So, I think we need to work on the rules, and we're not going to be able to do it in TPP, so let's work on the digital economy. Let's figure out what we want. We want an open internet, we want unimpeded cross border data flows. Let's use all the forms we can find, to do that. I'll mention some of those in a second.

We need to work on frontier rules and standards, from 3D printing to 5G wireless, from the internet of things to space. There's a lot of stuff for the US and Japan, where we're aligned, where we can work together.

Let's work on the global multilateral agenda, on TISA, on environmental goods, on OECD export credits. Again, I'm not sure the Trump administration is going to have the stomach for all of those things until they hit reality and they see that those things are actually useful.

Let's work on quality infrastructure together. Japan has launched a great initiative in that space, in Asia, focusing on life cycle cost issues, social environmental safeguards, basically bringing the rule of law to infrastructure investment in the Asia-Pacific. We both have a lot to offer there.

Let's work on women's empowerment. Let's work on youth empowerment. These are things we both feel strongly about and have a lot of need to move forward on. And I would use every forum we can use to do that, bilaterally if that's the preference. Let's have an S&ED between the US and Japan. We used to do that kind of thing with Japan and we stopped doing it. Let's have a high-level dialogue between the US and Japan and bring the private sector into that.

Regionally, APEC. I'm not sure whether President Trump is going to – how he's going to feel about APEC. Most presidents are not enthusiastic when they realize they have to fly halfway around the world for a "talkfest" and put on a silly shirt.

(Laughter.)

MR. GOODMAN: But, I think Trump may be drawn to it because it's a chance to interact with his peers –

DR. GREEN: And the silly shirt.

MR. GOODMAN: -- and maybe the silly shirt. And there's a promising sequence of hosts coming up. You have Vietnam this year. You have Papua New Guinea, believe it or not, is the host of APEC next year. But that really means Australia will be in charge, so that's a good year. And Chile in 2019. So there's a good trajectory of hosts in APEC. Let's take advantage of that and find ways to advance on some of these issues.

And then globally, if you don't like the G-20, again, I'm interested to know whether Mr. Trump is going to go to the G20 in Germany in June. But, the G7 in Italy, in May, may be a little more interesting, because it's closer to bilateral, at least, and you've got Brits, and Canadians, and other friendlies like that in the group. So, I would use the G7 as a place to advance some of these issues on that substantive agenda.

So, with that, I'll just leave you with a golfing metaphor again. The US and Japan are playing golf together. We're both pretty good but we're on a difficult course, there's inclement weather, and the US just hit the ball into the woods. Right? And we may be there for the next four years, as I said. But we need our partner to keep playing straight and true, and that's an uncomfortable role for Japan, but I think you have, you uniquely, really, certainly in the advanced world – I'd say in the world! – I mean, I can't think of another country that has the combination right now of political stability, economic capacity, policy capacity generally. What you're lacking is confidence and maybe some tools in the security area. I'll leave that to Mike and the rest of you. But basically I think it's a matter of confidence.

But we need you to play strong, so I'll leave you with a Japanese phrase that the Japanese side will understand, but it doesn't really translate into English, but it's useful in this context, “yuroshiku onigaishi mas.”

(Laughter.)

(Applause.)

DR. GREEN: Excellent, thank you. We have been drinking too heavily this week, so go light on the refreshments, but they're back there. So, please join us for an assembly after.

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