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A photograph of three sailors in white uniforms standing on a paved area. The sailor on the left holds the United States flag, and the sailor on the right holds the Japanese flag. A third sailor is walking between them, facing left. The background consists of a dark stone wall and green trees.

# More Important than Ever

*Renewing the U.S.-Japan Alliance for the 21st Century*

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# More Important than Ever

## *Renewing the U.S.-Japan Alliance for the 21st Century*

Japan is the most capable U.S. ally in the most important part of the world. Moreover, American and Japanese interests are closely aligned on most of today's major challenges. Yet, the alliance faces major strains and risks. In contrast to prior eras, there are no significant voices against the alliance in either country, but there is still a need for each ally to demand more of the other going forward. Some in Washington question whether Japan's more proactive foreign and security policies are commensurate with the mounting challenges to economic growth in Japan and to security in Asia. The United States and Japan must work together to fortify the alliance against growing threats to peace and prosperity.

The strengths of our alliance are clear, and for that, the stewards of the relationship in both parties in both countries deserve due credit. Over the last five years, the allies have concluded new defense guidelines, established the alliance coordination mechanism, and jointly developed the SM-3 Block IIA ballistic missile interceptor. Japan has renovated its domestic security legislation, enabled the exercise of collective self-defense, improved its secrecy provisions, embraced a more proactive global engagement strategy, and taken on a more visible leadership role within the Indo-Pacific region, including by championing the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). Meanwhile, the United States has committed to rebalance to Asia and pursue a free and open Indo-Pacific. American and Japanese national leaders enjoy close personal ties, which serve as ballast for the relationship.

Nonetheless, the alliance's future is less clear today than at any other time in the 21st century. The U.S.-Japan alliance is beset by both internal and external challenges. President Donald Trump's transactional "America First" orientation, protectionist policies, and questioning of the value of forward U.S. military presence pose a serious risk to the alliance. There is no good political or economic reason for trade issues to threaten the alliance the way they did three decades ago, and yet they do. While the United States and Japan debate 20th-century tariffs, the 21st-century threats to regional security and prosperity—particularly from China and North Korea—are growing.

With challenges mounting in Asia, standing still is a recipe for falling behind. The allies must move forward together and accept a greater leadership role in Asia and around the world. After all, the United States needs a strong and confident Japan. And Japan needs an engaged and constructive United States. Our hope is that this report can help fortify the U.S.-Japan alliance by putting forward an ambitious but attainable agenda from now through 2030.

# Alliance Opportunities and Challenges

The U.S.-Japan alliance anchors not only American and Japanese strategy, but security and prosperity across Northeast Asia, the broader Indo-Pacific, and—together with the North Atlantic Treaty Organization—the international system as a whole. The alliance’s success has been due to its commitment to protect shared interests leveraging four enduring strengths:

- First, the allies played leading roles in constructing a peaceful and prosperous regional and international order. Emerging from the ashes of war, the United States and Japan together built a more beneficial and durable postwar order, which is now entering its eighth decade.
- Second, the allies share values relating to the protection of human rights, democracy, free markets, and the rule of law. These fundamental values have served as beacons at home and abroad, strengthening our domestic systems while attracting friends around the world.
- Third, the United States and Japan are two of the world’s largest and most innovative economies. The alliance pairs two of the three largest national economies, accounting for roughly 30 percent of global gross domestic product.
- Fourth, the allies retain substantial military power, particularly in Northeast Asia. Over the decades, the United States and Japan have developed robust capabilities and relationships to deter and defend against a range of threats to the allies’ shared interests.

These enduring strengths provide a solid foundation for expanded cooperation between the United States and Japan. Nevertheless, the alliance also faces several serious challenges that threaten to undermine each of the four strengths listed above.

- First, the international order that the United States and Japan helped create is in danger. Externally, authoritarian capitalism is spreading as an alternative governance model. Internally, U.S. leaders are questioning the value of alliances and the existing global order.
- Second, our leaders no longer speak in concert about our shared values. The Trump administration’s transactional approach to alliances and unconditional engagement of authoritarian leaders has undermined perceptions of U.S. support for shared values, including human rights, democracy, free markets and trade, and the rule of law.
- Third, the specter of protectionism is rising. China and others are relying on unfair economic practices to take advantage of American and Japanese innovation. Meanwhile, President Trump is exploiting populist sentiment to embrace harmful protectionist policies. The Trump administration is the most mercantilist U.S. administration in postwar history, but Japan could still go further in liberalizing its economy.
- Fourth, military competitors are narrowing the allies’ military edge. China, in particular, has engaged in rapid military modernization and embraced “gray zone” operations, which have reduced the gap between it and the United States, forcing the alliance to reassess its ability to deter and defeat aggression.

These are by no means unsurmountable challenges, but they require a more clearly articulated vision and better-coordinated policy responses by the United States and Japan. This is true in both the political and economic arenas, each of which presents challenges for proponents of the alliance.

### *Changing Political Realities*

U.S.-Japan relations have been unsettled by domestic politics in both countries. Although Prime Minister Abe's return to office steadied alliance management, the more recent transition in U.S. leadership has rattled many in Japan. President Trump's election suggested a testing period for Japan. The Trump administration has brought back old themes of alliance burden sharing and spotlighted U.S. trade deficits, which the president sees as a source of economic weakness. In addition, President Trump has made headlines by suggesting that U.S. allies in Asia should do more to defend themselves and by openly questioning the value of forward-deployed U.S. forces.

Despite these challenges, the bilateral relationship has maintained forward momentum. Prime Minister Abe reached out early to President-elect Trump, meeting him first at Trump Tower in New York and then subsequently during visits to Washington and Mar-a-Lago. The Abe-Trump relationship has allowed for frequent communication on security matters, and it eased some of the initial worries on trade. Negotiations with North Korea and discussions over the bilateral trade relationship have focused the alliance's attention for much of the last year-and-a-half.

Pyongyang's accelerated missile launches in 2017 provided an opportunity for President Trump to assure Japan that the United States was behind Japan "100 percent." Abe and Trump both supported the "maximum pressure" strategy, working hard to build international support for United Nations sanctions against North Korea. Meanwhile, Japan announced a major new investment in ballistic missile defense. On broader regional security issues, the Trump administration adopted and expanded on Tokyo's "free and open Indo-Pacific" concept.

Trade and other economic issues, however, have been more problematic. President Trump's withdrawal from the Trans-Pacific Partnership (TPP) was a blow to Japan. Bilateral talks on a free trade agreement, organized initially under Vice President Mike Pence and Deputy Prime Minister Taro Aso, have revealed acute differences in the allies' economic approaches. The Trump administration's imposition of steel and aluminum tariffs on national security grounds surprised the Abe cabinet and has put a strain on bilateral political ties. The September 2018 announcement of negotiations toward a "U.S.-Japan Trade Agreement" was a promising sign of a willingness on both sides to manage bilateral trade differences, but where these talks will go remains unclear as of this writing.

Finally, heated rhetoric about burden sharing is forcing renewed debates about allied defense spending. Japan contributes a significant amount to allied defense capabilities through both its own defense spending and its host nation support contributions. Previous estimates have suggested that the Japanese government pays roughly 75 percent of the cost of supporting U.S. forces in Japan. This year alone, the Japanese government budgeted ¥197 billion (\$1.7 billion) for cost sharing, ¥226 billion (\$2 billion) for the realignment of U.S. forces, and ¥266 billion (\$2.4 billion) in various types of community support, among

other alliance-related expenditures. These real and substantial contributions to the alliance should not be overlooked.

Nonetheless, it will be important for Japanese defense spending to increase and be reflected in the coming Mid-Term Defense Program and National Defense Program Guidelines. The growth of Chinese capabilities and ambitions, as well as North Korea's nuclear and missile threats, will require that Japan spend more than 1 percent of gross domestic product on defense.

Ultimately, though, it is the effectiveness of Japan's contribution to the alliance that matters, rather than raw budget numbers. Money poorly spent is no deterrent to adversaries nor reassurance to friends. If Japanese leaders grow more concerned about U.S. reliability, they will be forced to invest in duplicative capabilities, which will waste precious alliance resources. Amidst mounting challenges from China, North Korea, and Russia, the alliance cannot afford such inefficiency. In this context, it is critical that leaders in Tokyo and Washington articulate a shared set of objectives.

## *Changing Economic Realities*

Washington and Tokyo have not always seen eye-to-eye on economics. Yet, recent years have seen a dramatic convergence in economic interests, symbolized by the successful negotiation of a de facto U.S.-Japan free trade agreement: the TPP. Together, the United States and Japan represented roughly 80 percent of the total economic activity covered by that agreement, which advanced high-standards in key areas such as the digital economy and state-owned enterprises. Negotiation of TPP brought the United States and Japan closer than ever to realizing the ambition of Article II of the U.S.-Japan Security Treaty, an often-forgotten provision that calls for the allies to strengthen their free institutions, to eliminate conflict in their international economic policies, and to encourage economic collaboration. Article II provides both a framework and a mandate for enhanced U.S.-Japan economic cooperation. Its call for strengthening free institutions and enhancing economic cooperation is timely. It is all the more unfortunate, therefore, that the Trump administration has elected to opt-out from TPP. To build on their convergence of economic interests, the United States and Japan will have to seek alternative means of cooperation.

Part of the answer to both the challenge of China and to addressing the economic ills that propelled President Trump's electoral victory is the joint pursuit of a more robust and coordinated regional economic agenda. Recent experience has shown the power of U.S.-Japan economic cooperation. As regional competition continues to intensify, strengthening the economic dimensions of the alliance will be critical to securing American and Japanese strategic interests. This will require hard work on both sides of the Pacific. The Trump administration will need to recognize that, while the United States and Japan compete in commercial affairs, Japan is not an economic rival. Rather, it is a vital partner with shared values and interests, capable of playing an independent leadership role in Asia that advances our shared interests, and whose economic success brings both direct and indirect benefits for the United States.

American and Japanese trade and investment interests are largely congruent. Our economic diplomacy should reflect and amplify that common agenda. The U.S. withdrawal from the TPP sapped both Washington and Tokyo of the rule-making and market leverage needed to shape Chinese economic

choices. The politics of the TPP in Washington are not favorable for the immediate future, so one question is how the United States and Japan can regain momentum as Beijing continues championing an alternate set of rules for trade and investment.

Prime Minister Abe is taking one important step forward by casting Japan as a leader on regional economic agreements until the United States finds its own bearings on trade policy. The other members of the CPTPP are welcoming Japan's leadership while recognizing that the economic impact of the agreement will be much reduced without the United States. This is necessary because of the current political environment in the United States, but also appropriate because Japan is the only other country in the region with the economic heft to ensure that a rules-based, high-standard, liberal economic order is not only upheld but advanced. This means that Tokyo must move beyond supporting Washington's initiatives to become a truly equal partner and co-leader of the regional order, willing and able to advance proposals that propel our shared agenda forward—even where Washington is not supportive in the near term.

The United States and Japan also face a major challenge to an open regional architecture from China's predatory economic policies, including announced strategies to dominate high-technology industries and to create a "Digital Silk Road" based on Chinese investment across the entire region. Whether or not these pronouncements by Beijing are aspirational, the fact remains that the United States, Japan, and the European Union need a common strategy to preserve the relatively open rules-based investment environment across the globe.



# An Ambitious Agenda

How can the United States and Japan fortify the alliance against mounting internal and external challenges? The allies need to begin by identifying an ambitious set of specific and actionable initiatives and then set about implementing them with skill and urgency. In picking potential initiatives, the allies should focus on three imperatives: strategic effectiveness, political sustainability, and resource efficiency.

We must not forget that the alliance's overall purpose is to protect common interests. Reinforcing allied deterrence and warfighting effectiveness is paramount given the growing array of military capabilities and coercive actions being developed and practiced by China, North Korea, and Russia. Moreover, without domestic political support from both sides of the Pacific, neither the United States nor Japan will remain a reliable ally. Therefore, political sustainability must remain an imperative. Finally, budgets are limited in Washington and Tokyo, so the allies must also make the most efficient use of scarce resources.

There is much the United States and Japan can do in the years ahead to strengthen the alliance's effectiveness, sustainability, and efficiency. We suggest 10 specific initiatives, which fall into several categories. To strengthen bilateral economic ties, we recommend recommitting to an open trade and investment regime. To deepen operational coordination, we recommend operating from combined bases, establishing a combined joint task force, creating a Japanese joint operations command, and conducting combined contingency planning. To advance joint technology development, we recommend co-developing defense equipment and expanding high-technology cooperation. To expand cooperation with regional partners, we recommend reinvigorating trilateral security cooperation, launching a regional infrastructure fund, and forging a broader regional economic strategy. Each recommendation is outlined below.

## *Strengthen Bilateral Economic Ties*

### **1) Recommit to an Open Trade and Investment Regime**

Recognizing the constraints induced by U.S. repudiation of the TPP, Japan and the United States should identify initiatives that can advance Asian trade liberalization, set high expectations, and reaffirm critical norms. Japan should continue to support the CPTPP, with the eventual goal of full U.S. participation. In the meantime, Japanese and American negotiators should use the TPP agenda to achieve increased sectoral trade liberalization between our economies. The two governments should establish a “business-government dialogue” bringing together American and Japanese CEOs with senior government officials from both capitals to set a practical agenda to address remaining structural issues. The United States has free trade agreements with South Korea, Singapore, and Australia that can help inform these discussions and chart the future for U.S.-Japan trade liberalization.

## *Deepen Operational Coordination*

### **2) Operate from Combined Bases**

In the aftermath of World War II, U.S. and Japanese forces (and their constituent services) operated from separate bases in Japan. Only one base in Japan is both joint and combined—Misawa Air Base—hosting the U.S. Air Force, Army, and Navy as well as the Japan Air Self-Defense Force. Operating separate bases is a warfighting constraint and a political liability; it is a luxury that the alliance can no longer afford. Given the limited number of ports and airfields in Japan, using separate bases limits the flexibility of allied forces. Moreover, operating separate bases is inefficient, forcing duplication of facilities and capabilities, as well as undermining the joint and combined warfighting approach that we seek to foster. Perhaps most importantly, operating separate bases creates a political vulnerability for the alliance, since it generates a potential wedge issue.

For all these reasons, the alliance should move toward joint and combined use of allied bases. This would maximize the alliance's warfighting effectiveness, political sustainability, and resource efficiency. As a first step, the two governments should study the lessons from existing combined bases to learn how to overcome legal and operational challenges. Eventually, all U.S. forces in Japan should operate from Japanese-flagged bases. Access to civilian ports and airfields will also be necessary in contingencies. These steps would signal that the allies are working to minimize the burden on host populations while maximizing warfighting capabilities and addressing burden sharing concerns.

### **3) Establish a Combined Joint Task Force**

As the United States and Japan put more emphasis on combined operations, the alliance's existing command structures will need to be updated. In a major contingency, the current command relationships would be complex, to say the least. On the U.S. side, the commander of the Indo-Pacific Command would serve a variety of functions, including not only directing the warfight but also managing relations with Washington and liaising with allied forces. This is a major burden for a commander with responsibility for over half of the world's population and surface area. If the United States and Japan are to operate more effectively together in a crisis, they should create a combined joint task force for the western Pacific.

A combined joint task force could focus on possible contingencies with China over Taiwan, the South China Sea, and the East China Sea. Such a combined joint task force should include key U.S. allies, particularly Japan, so it would need to be developed in coordination with U.S. allies and partners. Standing up such a command in a crisis would be difficult, so a combined joint task force should include a standing staff and responsibility for routine training and exercises. The region requires multi-domain operations, so the combined joint task force commander should rotate among the services. Such an organization would give Japanese commanders a clearer set of counterparts in a contingency and help to eliminate service stovepipes.

#### **4) Create a Japanese Joint Operations Command**

Just as the United States needs to update its command and control arrangements, so too does Japan. Japan's existing command structures place too great a burden on the chief of staff of the Japan Self-Defense Forces. At present, the chief of staff effectively serves as both a combatant commander and chief of defense. Disaggregating these duties would increase the operational effectiveness of Japanese forces, particularly during a major contingency. Therefore, Japan should devolve some of the chief of staff's responsibilities to a subordinate commander.

Japan has a more focused force, so the U.S. combatant command structure is the wrong model for Japan to emulate. Instead, we believe Australia's more streamlined command structure would be a better fit. Australia has established a Joint Operations Command, led by a three-star commander who serves as chief of joint operations. This commander has responsibility for all military operations, as well as training and readiness of the force. Such a model would help Japanese commanders to manage the strains of high tempo day-to-day operational requirements with the need to ensure maintenance and readiness of the force to conduct future operations. Therefore, Japanese leaders should create their own joint operations command, modeled on Australia's structure, but modified to account for Japan's particular organizational, legal, historical, and cultural characteristics. American and Japanese leaders should work together to ensure that such a command is able to work closely with U.S. forces and their evolving command structures.

#### **5) Conduct Combined Contingency Planning**

If the United States and Japan are to respond quickly to acts of aggression, they will need to have pre-existing response plans and options. Combined operations will increasingly require combined planning. Although some combined planning already occurs, it is too ad hoc. China often relies on fait accompli tactics, which take advantage of slow decision-making cycles. Improving the speed of allied decision-making is therefore critical. Commanders will need to act rapidly, necessitating advanced coordination by political leaders for some types of operations. Moreover, such pre-planning should be conducted not only by U.S. and Japanese defense forces but also with various law enforcement authorities, including the Japan Coast Guard.

Combined planning has long been a feature of other U.S. alliances, both in Europe and Asia. For example, U.S. and South Korean forces have together developed counter-provocation plans to deter and respond to North Korean escalations. Prior planning and coordination have helped to limit North Korean adventurism. Moreover, by demonstrating that escalatory actions will lead to greater alliance coordination, combined planning can help to disincentivize aggression. Facing a growing challenge, particularly in the East China Sea, this additional deterrent will be critical. In addition, the allies should consider involving U.S. forces earlier in so-called "gray zone" incidents, which include aggression that occurs below the level of major conflict. This step would make clear that any acts of aggression will trigger deeper alliance cooperation, regardless of whether they cross the threshold of an armed attack under Article V of the U.S.-Japan Security Treaty. Therefore, the allies should engage in more structured combined planning, pursuant to relevant legal restrictions. To deepen cooperation, Japan should embed officers from the Self-Defense Forces within relevant U.S. units, including the planning staff of the Indo-Pacific Command.

## *Advance Joint Technology Development*

### **6) Co-Develop Defense Equipment**

The United States and Japan should continue to expand their joint research and development efforts, focusing on shared capability requirements. Recent joint co-development of systems, such as the SM-3 Block IIA ballistic missile interceptor, has demonstrated the alliance's ability to leverage the expertise of both countries to satisfy shared capability requirements. Continuing to expand joint research and development efforts would increase both the efficiency and effectiveness of allied defense spending. Facing a rapidly modernizing Chinese military, the allies must conduct joint threat assessments, continue to acquire more advanced systems, and develop novel operational concepts.

The United States and Japan can benefit from different areas of expertise across various domains. On the ground, the allies should look to jointly develop new advanced radars, more cost-effective missile defenses, and longer-range anti-ship missiles. In the air, the allies should continue efforts to develop new combat aircraft and long-endurance maritime domain awareness platforms. At sea, the allies should share designs for future surface combatants, cooperate on battery technology for undersea systems, and work together on new amphibious vehicles. In space, the allies should seek to improve space situational awareness capabilities and expand the resilience of their space architectures. These are just some of the areas in which the United States and Japan should look to cooperate. Joint efforts along these lines would demonstrate the continuing closeness of both the U.S. and Japanese governments, as well as their defense industrial bases.

### **7) Expand High-Technology Cooperation**

The United States and Japan should improve their coordination on a variety of high-technology issues, including intelligence sharing, cyber, space, and artificial intelligence. Allied leadership in these areas is critical to both nations' economic futures, as well as their continued security. The United States is pushing forward—both in government and in the private sector—in each of these areas. But there is a risk that Japan could be left behind in some of these areas if the allies do not work together to link their technology development efforts.

One opportunity for deeper cooperation in the long-term is the inclusion of Japan in the Five Eyes intelligence sharing network with the United States, the United Kingdom, Australia, Canada, and New Zealand. Japan already has strong relationships with these countries, but in the meantime, intelligence sharing on missile defense, anti-submarine warfare, and space-based imaging would mark an important step forward. Japan should move promptly to adopt the security protections required to make its inclusion in Five Eyes a realistic possibility. Another potential opportunity is in cybersecurity, which will be critical ahead of the 2020 Olympics in Tokyo. The U.S. government, and the U.S. private sector, should work more closely with Japanese agencies and companies to expand cooperation in this area. The same is true in other areas, such as space and artificial intelligence, which are growing areas of both economic and military competition that require greater alliance coordination and cooperation.



## *Expand Cooperation with Regional Partners*

### **8) Reinvigorate Trilateral Security Cooperation**

The United States and Japan share the goal that North Korea should abandon permanently and irreversibly all of its nuclear weapons, ballistic missiles, and other weapons of mass destruction. Despite the recent summit diplomacy with the United States and South Korea, North Korea's nuclear weapons and spectrum of ballistic missiles remain an extant threat to the security of all three allies. Regardless of the direction of future talks between the United States and North Korea, or between the two Koreas, proactive and regularized trilateral policy coordination among Washington, Tokyo, and Seoul at the most senior levels of government will ensure more effective diplomacy and protect the interests of all three allies. Pyongyang seeks to break these alliances, so we should endeavor to demonstrate that they remain strong politically and capable militarily.

To better prepare for contingencies, bilateral defense cooperation between Japan and South Korea should focus on improving information sharing and servicing of military equipment, which also strengthens each country's bilateral alliance with the United States. The three allies should expand trilateral exercises to counter North Korea's nuclear weapons, ballistic missiles, and proliferation threats. Most important, if the negotiations with North Korea go forward into uncharted territory, including a possible peace treaty, it will be critical that the United States, Japan, and South Korea maintain a united position and avoid sacrificing any core alliance equities. Exercises, troop presence, and missile defense should not be bargaining chips for unverifiable and incomplete denuclearization promises from the North because this, in the end, will not make the United States, Japan, or South Korea more secure.

### **9) Launch a Regional Infrastructure Fund**

Perhaps the greatest regional challenge for the United States and Japan is China's growing political and economic influence throughout the Indo-Pacific region. In particular, China's Belt and Road Initiative is providing Beijing with substantial leverage, particularly over smaller states in Southeast Asia, the Indian Ocean, and the Pacific Islands. The fact is that Asia needs much more investment in infrastructure, and business is by its nature competitive, but the competition must be open and rules-based. China's investment in regional infrastructure is often welcome, but the coercive political and economic leverage it is creating—and sometimes using—is not. The U.S.-Japan alliance must demonstrate that it can present an attractive alternative. American and Japanese support for open societies—functioning legislative bodies, good governance, and a free press—will help to ensure that states in the region are free to choose infrastructure investments in an open and non-coercive environment. In doing so, the United States and Japan should not seek to match the scope or scale of China's investments—variously advertised as \$1 trillion to \$8 trillion. After all, the allies' foreign direct investment in the region is substantial, but it is primarily driven by private companies and commercial logic, which is only partly true of China's approach.

For the greatest impact, the United States and Japan should choose to invest in the most attractive projects and partners in the region. Regional players want investment, but they also want to avoid debt traps, corruption, and coercion. Therefore, the allies' commitment to high-standard investments, employment of local labor, social and environmental safeguards, open procurement practices, and consistent return on

investment will remain attractive. The allies should promote these high standards by utilizing and investing in existing multilateral institutions—such as the World Bank, Asian Development Bank (ADB), and Asia Pacific Economic Cooperation (APEC)—where the United States and Japan retain disproportionate influence. One option for demonstrating this value would be to launch a regional fund for infrastructure and capacity building, which would allow the United States, Japan, and others to better coordinate and target their respective investments throughout the Indo-Pacific. Key partners in such an endeavor should include Australia, South Korea, India, and New Zealand, among others.

## **10) Forge a Broader Regional Economic Strategy**

The November 2016 election did not change the enduring economic interests of the United States or Japan, nor did it alter the powerful underlying trends that have driven commercial and financial convergence between Washington and Tokyo. The U.S. failure to sign onto the TPP has dealt a significant setback to U.S.-Japan joint economic statecraft, but it has neither eliminated the underlying logic of the agreement nor closed the door on further cooperation. Japan and the United States remain the dominant investors in Southeast Asia, where American private investment alone is roughly three times greater than that of China. Leveraging existing leadership in trade, investment, development, and financial services will be essential to protecting our shared regional interests. This is the type of long-term discussion that our economic and business leaders should be having, rather than focusing narrowly on short-term bilateral trade deficits. The United States and Japan agree on 95 percent of economic issues, but we spend 95 percent of our time discussing our differences.

Fulfilling Article II of the U.S.-Japan Security Treaty will require a refreshed and reimagined bilateral economic conversation that answers some foundational questions: What are the areas where the United States and Japan are pursuing effective cooperation, either in a functional sense (e.g., features of the new economy, such as internet governance), or within an institutional context (e.g., supporting the ADB and other market-based development mechanisms), or on a country-by-country basis (e.g., in Myanmar or Vietnam)? Where are mechanisms for cooperation underdeveloped or underperforming? Where are Washington and Tokyo misaligned? The U.S. withdrawal from the TPP necessitates that Washington and Tokyo more actively seek creative ways in which to wield their comparative economic advantages in the service of shared strategic interests. A critical assessment of our assets and a reimagined approach to coordination—including both the public and private sectors—will go a long way to securing the shared future that we and our regional partners want.

What will more effective cooperation mean in practice? First, it should avoid distractions that undermine shared priorities. Economic interests will sometimes diverge, but we can narrow those differences and mitigate risk without damaging our markets. In doing so, market access issues should not be mischaracterized as national security problems.

Second, Tokyo and Washington share a desire to support regional development through strong investment and financial regimes that utilize best practices. There are no substitutes for the foundational role of our private sector investments, bilateral aid, or investment institutions, particularly the ADB and APEC.

Third, both governments need to focus on the regional and global impediments to trade growth. These include the persistence of state enterprises and the market distortions they create, inadequate protections for the intellectual property that has propelled our two innovation economies, and the need for open and adaptive policies that allow new economy companies to grow and create value. Working bilaterally and through regional and global institutions, such as APEC and the G20, they should prioritize: 1) enhancing rules on digital commerce, 2) a shared approach to disciplines on state enterprises, 3) aggressive new standards for intellectual property protection, and 4) World Trade Organization-consistent market opening in sectors that have been problematic.

Fourth and finally, the United States and Japan need to coordinate on a strategy to preserve an open Indo-Pacific in the face of Chinese strategies to dominate telecommunications infrastructure and deny reciprocity on high technology investments. Initial moves by Japan to establish a U.S.-Japan-European Union trade ministerial on Chinese predatory technology policy is a good symbolic step, but the three powerhouses lack a common strategy and the United States and Japan are best positioned to begin that discussion. The United States and Japan can also work with EU partners, Australia, and other allies to enhance information-sharing on acquisitions of sensitive technologies by Chinese investors that pose national security concerns.

## *Conclusion*

The United States has no better ally than Japan, and today the alliance is more important than ever. Due to the allies' many strengths—which include shared values, robust democracies, innovative economies, geopolitical influence, and substantial military capabilities—the U.S.-Japan alliance is often labeled the cornerstone of regional peace and security. Yet, cracks are starting to show in the alliance. Renewing the U.S.-Japan alliance for the decades ahead will require tough decisions and sustained implementation. Preserving the peaceful and prosperous regional and international order environment that the allies seek will require that the United States and Japan work more closely with key regional partners, to include Australia, South Korea, India, the members of the Association of Southeast Asian Nations, and others. The agenda outlined here would build on the important work done to date to better prepare the alliance—and the world—for the remainder of the 21st century.







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