

# US–JAPAN GLOBAL COOPERATION IN AN AGE OF DISRUPTION

Proceedings from the US-Japan Global Dialogue, March 2022



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# Introduction

**H. R. MCMASTER**

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Of all my responsibilities as national security advisor, I was particularly grateful to work with allies and partners on the most pressing challenges to national and international security. Among the relationships with key allies, none was closer in connection with mutual respect, alignment of interests, and willingness to work together to overcome those challenges than our relationship with Japan. Shinzo Abe, Japan's longest-serving prime minister described the Japan–United States alliance as one that has given the world hope. He asked rhetorically, “What should we call this, if not a miracle of history? Enemies that had fought each other so fiercely have become friends bonded in spirit.”

From my first day as national security advisor, it was clear to me that the “miracle” of the Japan–US alliance was more important than ever, a result not only of the direct threat from North Korea but also of the pernicious threat from the People's Republic of China to the principles and values that have been foundational to international peace and stability in the Indo-Pacific region for more than seven decades. One of my first phone calls in this role was to Shotaro Yachi, national security advisor to the prime minister of Japan, a truly wise statesman who would become a trusted partner and dear friend over the next year. Yachi-san and I supported the ongoing work in our governments' lead agencies to develop and implement the Free and Open Indo-Pacific strategy. That strategy was a key step toward realizing the vision first laid out by former prime minister Shinzo Abe in August 2016. Today, over five years later, I believe that the Japan–US alliance has only grown more important.

As you prepare to engage with the excellent papers in this volume, I would like to share three reasons why the alliance is critical to coping with our shared and increasing threats to national and international security.

- **First, great-power competition is back.** While the world watches Russia's war in Ukraine, China's continued land grab in the South China Sea and its provocative behavior there and elsewhere, such as the Senkaku Islands, create dangerous flashpoints and a high risk of military confrontation. Today, concerns that China will forcibly take Taiwan are the highest in recent memory. The joint statement



that Vladimir Putin and Xi Jinping released just prior to the Beijing Olympics was directed at Japan, the United States, and the rest of the free world, and the main message was that our time was over. Their partnership would have “no limits” as they sought to rewrite the international rules in their favor. The statement was a declaration of authoritarian victory, an announcement of a new era of international relations in which power would shift further away from Japan and the United States and toward China and Russia.

- **Second, a nuclear-armed North Korea is not only a direct threat to South Korea, Japan, and the United States but a threat to the whole world.** The nonproliferation regime is at risk. North Korea has never possessed a weapon that it did not try to sell. Indeed, North Korea began helping the Assad regime develop a nuclear weapons program in 2002; five years later, Israel Defense Forces destroyed the almost complete nuclear reactor in Deir al-Zour, Syria. And if the world’s only communist hereditary dictatorship has the most destructive weapons on earth, others will pursue them either to deter actions against them or to act with impunity gained through nuclear blackmail.
- **Third, new arenas of competition in space, cyberspace, and disruptive dual-use technologies present emerging challenges to security that require joint solutions.** It is critical to the security of both the United States and Japan that the free world excel in the competition to develop artificial intelligence, quantum computing, hypersonic weapons, and biogenetics.

The papers in this volume highlight the need for coordinated Japan–US action in three main areas:

- **First: Strengthen defense.** Japan and the United States need to expand and integrate defense capabilities across the Indo-Pacific to ensure deterrence by denial against the People’s Liberation Army and North Korea. Assumptions that have underpinned the Japan and US defense budgets and strategies have turned out to be false—in particular, that our armed forces will only have to cope with one crisis at a time. In their papers, Rumi Aoyama and Shihoko Goto identify what more we can do to bolster the Japan–US alliance and improve our defense capabilities to compete effectively and deter conflict.
- **Second: Expand diplomatic engagement.** The war in Ukraine highlights the reality that competitions with Russia and China are global. The tepid support for

Ukraine among some Gulf states and India indicates that we have work to do to strengthen our relationships and restore confidence in our sustained support for friends in South Asia and the Middle East. Akihiko Tanaka and Kiyoteru Tsutsui argue that it is more important than ever to protect and enhance liberal values and multilateral coordination among democracies across the Indo-Pacific and beyond.

- **Third: Strengthen supply chains and invest in key technologies.** The rending of trade and commerce with Russia as well as the overreliance on Russian hydrocarbons exposed the reality that supply chains have become far too biased in favor of efficiency and must become more resilient. It is clear that the world has become dependent on China for far too many products as well as the upstream components and materials essential to those products. Daniel Okimoto identifies the key sectors for strengthening supply chains and increasing tech investment beyond the immediate priorities of semiconductors, renewable energy, and 5G communication equipment. Kazuto Suzuki and Tyler Goodspeed examine tangible steps to deepen Japan–US trade and economic cooperation that could be applied to the energy sector, supply chains, and the development and application of new technologies.

Professors Tanaka and Tsutsui also remind us that today’s challenges demand confidence in our individual nations and confidence in the values and principles that bind us together. The United States, Japan, and like-minded partners across the Indo-Pacific should be confident. Our democracies are uniquely positioned to sustain our relative strength. The democratic world does not have a shortage of power. But we can weaken ourselves through disunity and self-doubt. These papers are intended to instill greater confidence in how Japan and the United States can work together to improve our ability to preserve peace, promote prosperity, and advance our common principles as free, open, democratic nations.

### *About the Author*

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# 1. Bolstering Liberal Values in a Time of Crisis

**AKIHIKO TANAKA**

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The fate of Ukraine will have critical consequences for liberal values in the world. If the aggression by an authoritarian nuclear power against a democracy ends with submission of the democracy, similar attempts by other authoritarian powers will occur. The critical case in point in Asia is the fate of Taiwan, a stable and mature liberal democracy. The solidarity of liberal democracies in support of Ukraine is also solidarity in support of Taiwan. Negotiations for peace in Ukraine depend most critically on the judgment of the Ukrainian leadership and people, but a settlement other than a return to the *status quo ante bellum* and necessary compensation from Russia could have negative implications for security and liberal values elsewhere. Premature lifting of economic sanctions on Russia will also have negative consequences for security and liberal values elsewhere.

It is said that liberal values are in retreat worldwide. There is some truth to this observation. Systematic scoring of the degree of freedom and strength of liberal institutions of countries in the world by organizations such as Freedom House and V-DEM indicate that the number of free countries (Freedom House) and democracies (V-DEM) appears to have plateaued in the past decade. A “strongman” type of leadership has increasingly been praised in democracies, too. Many aspirants to this type of leadership have admired Vladimir Putin. In this sense, the fate of Putin has a strong bearing on the fate of liberal democracies. It is important to propagate the truth that when an autocrat, however competent he or she appears, is about to make a fatal mistake and bring a disaster upon the people of a country, few can stop the dictator within the autocracy. The world should be repeatedly told how Putin made a series of misjudgments. In this sense, too, premature lifting of sanctions on Russia will have negative consequences for liberal values elsewhere.

Liberal democracies, though not expanding their sphere at this moment, still have strong influence. The combined GDP of G7 countries constitutes more than 40 percent of global production, and the combined GDP of all democracies as measured by V-DEM is nearly 70 percent of global production. Economic sanctions on Russia will incur



costs to liberal democracies. But given their economic size, especially in comparison with Russia, an economy smaller than South Korea's, liberal democracies can outlive the ordeal produced by the tough circumstances produced by the economic sanctions. The unprecedented outflow of Ukrainian refugees increases the burden on the host countries, but with the combined capabilities of liberal democracies it is possible to provide these countries with the necessary aid. Countries such as Japan, though distant and traditionally reluctant to accept refugees, should make maximum efforts to accept displaced persons and extend assistance to host countries.

While confrontation with Russia is at the forefront at this moment, it is important to cultivate efforts to protect and enhance liberal values in the Indo-Pacific. The fact that the region remains the growth center of the world, as well as the theater of competition between China and liberal democracies, does not change. China would not change its autocratic political system even if Putin's attempt were to end up a complete failure. China may decide to extend not just economic assistance but also military assistance to Russia. But there should be unease within China about how to proceed. If China becomes more cooperative in isolating Russia, the United States and its allies should welcome such a move, if only for security reasons. As a recent report by former Chinese premier Zhu Rongji objecting to the continued rule of Xi Jinping indicates, if there emerges a call for a less repressive political order in China, liberal democracies need to fine-tune their attitude toward Beijing. Overall, however, we cannot expect much political change in China.

More important is the direction of India. India abstained from the United Nations General Assembly's resolution condemning Russia, probably because of its long-standing friendship with Russia as its supplier of military equipment. But it is extremely important for the United States and its allies to keep India within its alignment for liberal values. Diplomatic efforts such as Japanese prime minister Fumio Kishida's recent visit to India are important.

Myanmar is the most recent setback in democratic state building in Asia. The military has not shown signs of relaxing repressive rule. Efforts by the Association of Southeast Asian Nations (ASEAN) have not brought about results. Realistically, we may have to wait until somebody like former president Thein Sein emerges within the military who has the courage to liberalize its system once again. Until such a figure emerges, the international community has to continue to isolate the country while extending humanitarian assistance as needed.

On the technological front, it is important to keep the internet space as free as possible while minimizing “fake” news. China closed its internet space by means of its “Great Firewall.” In order to protect liberal values in Asia, liberal democracies should do their best to prevent China from expanding its Great Firewall to other countries. The United States was right in preventing Chinese manufacturers from dominating 5G infrastructure. The quality of social networking services is critical in preserving liberal values.

Liberal democracy develops most effectively through indigenous efforts, and indigenous efforts are most encouraged by examples elsewhere. An important vehicle to propagate liberal values is exemplary governance. Protection of liberal values therefore starts at home, within liberal democracies. Peaceful transfer of power after fair elections is critical. Basic rights should be effectively protected. An independent judiciary is critical. The more exemplary the practices of a functioning liberal democracy, the better the chance of protecting liberal values in many other places.

Russia is now displaying the worst character of autocracy. It shows that autocracy can bring about a catastrophic outcome. The United States experienced its worst crisis of democracy on January 6, 2021, but it was able to demonstrate that Madisonian democracy can prevent a crisis from becoming a catastrophe. If liberal democracies throughout the world can demonstrate that they can function effectively in the current crisis, they are best able to protect liberal values elsewhere.

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## 2. Three Steps toward Protecting Liberal Values in Asia and Beyond

**KIYOTERU TSUTSUI**

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With Russia's invasion of Ukraine, the authoritarian challenge has become a realized threat. In this battle between liberal democracies and authoritarian regimes, the Indo-Pacific region has been the eastern front line for decades. Japan has been at the forefront of this battle, having faced North Korea's nuclear threat and the brunt of China's expansionist ambitions. While the epicenter of the authoritarian challenge has been China, the region offers other authoritarian hot spots such as Myanmar and North Korea as well as democratic countries with illiberal tendencies such as Thailand, the Philippines, and India. Russia's attack on liberal democracies is focused on the Western front at the moment, but Russia could join forces with illiberal regimes in the East to further undermine liberal values in the world. In short, the authoritarian challenge abounds in the region, and the US–Japan alliance constitutes the backbone of the liberal defense against this growing threat. I argue that Japan should take three further steps to bolster its position as the torchbearer of liberal values in the region.

Ever since the end of World War II, Japan has rebuilt itself as a vibrant democracy and a steadfast ally of the US, an exemplary case of economic success built on democracy. As the lead goose in the old flying-geese paradigm, Japan has served as a model for economic development and has offered aid and investments that have facilitated the region's rapid economic growth. In the political domain, Japan kept a low profile even when its economy dominated the region, taking a courteous approach of not meddling in partner nations' domestic affairs. This enabled Japan to develop cozy relationships with many governments, earning the status of the most trusted nation in Southeast Asia, according to recent surveys. Historical problems with China and Korea notwithstanding, Japan is seen as a reliable partner by most countries in the region. On the other hand, Japan's engagement policy with repressive regimes such as apartheid South Africa, Marcos's Philippines, Suharto's Indonesia, South Korea under military dictatorships, and Myanmar's military regime drew many criticisms, giving rise to the image of Japan as an economic animal focused on financial benefits.



To overcome this image, and more importantly to counter China's growing authoritarian influence in the region, Japan has become more vocal in its support for liberal values in the past decade or so. Leveraging well-designed strategies by the Ministry of Foreign Affairs and his own strong footing in domestic politics, Prime Minister Shinzo Abe became a key player in G7 meetings and other major international forums. Abe's ascendance in world politics coincided with an isolationist shift in US foreign policy, accelerated by President Donald Trump. With President Trump not even showing up to important diplomatic forums such as Association of Southeast Asian Nations (ASEAN) meetings, there was a void that had to be filled by countries other than China if the region was to have a liberal future.

Japan under Abe seized this opportunity and countered China's growing influence with a number of frameworks such as Free and Open Indo-Pacific, Data Free Flow with Trust, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), and the Quadrilateral Security Dialogue (the Quad). Through these multilateral efforts as well as through bilateral agreements, Japan contributes to high-quality infrastructure without the debt trap, freedom of navigation that sustains international trade, disaster-mitigation technologies that save lives, cross-border data flow without arbitrary restrictions, civil society empowerment that is critical for democratic governance, and legal and judicial capacity building that bolsters the rule of law.

Upgrading these multilateral initiatives into an alliance of democracies in the region would go a long way toward preventing an authoritarian power projection. The Indo-Pacific region might be too diverse to expect a multinational body like the EU or NATO to emerge, but Japan should leverage its popularity in the region to consolidate and expand the regional frameworks. The US is already on board with many of these initiatives, with CPTPP being a notable exception, and US-Japan collaboration in leading these efforts would be the first line of defense against illiberal influence in the region.

To be a bona fide champion of liberal values, Japan also needs to be more assertive in promoting human rights in the region. However, if Japan drops its engagement policy and starts condemning human rights violations more loudly and repeatedly, there is a real danger of countries such as Myanmar throwing themselves into the arms of China and further exacerbating the authoritarian challenge. As a middle ground between a quiet engagement policy and aggressive critiquing of repressive

regimes, I propose that Japan publish an annual “free and open society” report that features factual information about human rights, democracy, and rule of law in a country-by-country format, perhaps focusing on the Indo-Pacific region. The report should also include information on labor practices and sustainability efforts that would guide corporations in their risk assessments. As economic security and business ethics become ever more important for businesses, Japanese companies have paid much greater attention to risk management in those areas but faced the challenges of collecting sufficient information for reliable risk assessment. This report should help them in this regard.

On human rights issues, the US State Department publishes an annual human rights report that has become an authoritative source of information among scholars, but it is still seen as a political document by adversaries. If Japan were to issue its own version with free and open society as the main focus, it would likely be more widely viewed as a fair and objective assessment of human rights situations. With this report, Japan can calmly point to human rights problems in other countries and continue its engagement policy to a large extent. It would also have a possible additional benefit of empowering citizens into political mobilization, as those in target countries can use the report as leverage in their activism to hold their government accountable. There would likely be US–Japan collaboration in producing this report, but the report should be seen as an independent document produced by Japan.

Finally, one expected reaction to Japan’s more assertive posture on human rights and democracy is criticisms against its own practices. This is a common interplay between liberal and illiberal regimes, as seen in the Cold War era with the US criticizing civil and political rights violations in the Soviet Union and the Soviet Union retaliating with criticisms of racism in the US. These exchanges impacted the outcomes of the civil rights movement in the US as well as the fall of the Soviet Union. The same discursive contest has been playing out between China and the US recently, with the US criticizing China for civil and political rights violations in Hong Kong, Xinjiang, and elsewhere, and China retaliating with criticisms of racism and vast economic inequality in the US. Similarly, Japan, as a more vocal promoter of liberal values, would face greater scrutiny on its domestic practices. It would be wise for Japanese leaders to address their domestic human rights problems that have often been pointed out in international human rights forums: women’s rights, refugee and immigrant acceptance, criminal justice system, human trafficking, LGBTQ rights, and others.



In sum, Japan should pursue a leadership role in promoting and protecting liberal values in the region and beyond in collaboration with the US by (1) upgrading various multilateral frameworks for liberal values that Japan helped establish in recent years; (2) publishing an annual country-by-country report on free and open societies that features factual information about human rights, democracy, and rule of law as well as labor practices and sustainability efforts; and (3) improving its domestic human rights practices.

These goals align well with Prime Minister Fumio Kishida's key diplomatic goals of protecting universal values and leading international society by contributing to the welfare of humanity. Recalling that PM Abe's diplomatic success was enabled by his strong grip on power domestically, PM Kishida would be wise to secure domestic political stability first. If he can lead the Liberal Democratic Party to a victory in the upper house election this summer, he will likely have a three-year period without any election mandate. That window would offer a golden opportunity for the prime minister to establish Japan as a key protector of liberal values in Asia and beyond.

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# 3. Improving Security Cooperation between the United States and Japan and with Other Partners

**RUMI AOYAMA**

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The United States and Japan are now in their best relationship since the end of the Cold War. The Japan–US alliance is currently serving as the cornerstone of peace and security in the Indo-Pacific region, with the two countries working closely together within a bilateral and multilateral framework to build a free and open region.

Growing security concerns about China and North Korea are a major driver for Japan to strengthen its security ties with the United States and other like-minded countries. Japan’s foreign strategy is unfolding precisely in accordance with the concept of a “Democratic Security Diamond (DSD)” concept proposed by former Japanese prime minister Shinzo Abe.<sup>1</sup> That explains why Japan is working closely with the US and cooperating with the Quadrilateral Security Dialogue (Quad) nations. After having reached a Reciprocal Access Agreement (RAA) with Australia, Japan will also negotiate the same agreement with the United Kingdom and France.

A series of defense reforms pursued by the Abe administration and the 2015 update on the Guidelines for US–Japan Defense Cooperation have enabled Japan to export arms and coordinate more closely with other countries on security. However, Japan’s security policy is largely constrained by its pacifist constitution, as efforts to reinforce its defense capabilities and cooperation further would herald a structural shift away from the Yoshida Doctrine. Factors such as the constitution, existing legal and institutional practices, and a pacifist mentality have slowed the pace of strengthening Japan’s defense capabilities and cooperation with other countries.

Japan’s ruling Liberal Democratic Party (LDP) advocates that Japan should increase its defense budget to 2 percent of GDP.<sup>2</sup> A study led by retired Self-Defense Force general Ryoichi Oriki last November suggested that Japan should increase its defense budget by 8 to 9 percent annually to address concerns about China’s military. Nevertheless, it will



be difficult to increase the budget significantly in the near future due to the mounting concerns about “uncontrolled expansion of defense spending.”<sup>3</sup>

The ongoing debate over the ability to attack foreign enemy bases is a complex issue, closely tied to the changing roles of Japan and the US in the alliance. For the past seventy years, the nature of the Japan–US alliance has been that Japan acts as the “shield” (defense) and the US acts as the “spear” (attack), which is fully consistent with Japan’s pacifist constitution. Despite a growing recognition that Japan needs to beef up its deterrence capabilities and better coordinate with the United States in emergencies, the concept of attacking enemy bases has caused unease and sparked criticism of violating the pacifist constitution.

Regarding the development of sophisticated defense weapons, there is a deep-rooted desire to develop fighter jets and cutting-edge weapons solely by Japanese companies. However, many Japanese companies have begun to withdraw from the field due to the social culture of Japanese companies not wanting their corporate image to be associated with the defense industry and the unprofitability of the defense industry. Under this circumstance, Japan is also groping for cooperation with the UK, France, Australia, and other countries.

In late 2020, the Japanese government announced a framework for the codevelopment of sixth-generation fighter jets, stating that Mitsubishi Heavy Industries Group would collaborate with Lockheed Martin on research and production. This decision shows the importance Japan attaches to the Japan–US alliance, and the success of the cooperation will depend on how much the cost ends up being, whether Japan has the right to modify the fighter jets, and whether this cooperation can bring out a revival of the Japanese defense industry.

Japan’s domestic laws and practices are also preventing Japan from further deepening cooperation with other like-minded countries. The fifth Armitage-Nye report, released in December 2020, calls for Japan to join the Five Eyes alliance (Australia, New Zealand, Canada, United Kingdom, United States). This proposal has received a positive response from some lawmakers and has been widely reported in the media. However, the security bureau and the Self-Defense Forces, which conduct intelligence activities in Japan, can only be engaged in what is explicitly stated in the law. The reality is that the range of these activities is extremely narrow.

Japan and the US are working closely together in areas such as equipment, technology, and intelligence. The development of the concept of Free and Open Indo-Pacific (FOIP) is critical for addressing China's assertive behavior in the East and South China Seas, but it has sparked some unease among Southeast Asian countries. Indonesia and Malaysia have voiced their concerns over the AUKUS (Australia, UK, US) pact. Singaporean prime minister Lee Hsien Loong has explicitly stated that "it is not possible for us to choose one or the other because we have very intense and extensive ties with both the US and with China."<sup>4</sup>

The Association of Southeast Asian Nations (ASEAN) is a key to the FOIP strategy. To address the concerns of the ASEAN side, Japan holds strong economic ties with Southeast Asian countries and is now promoting practical bilateral and multilateral defense cooperation, including capacity-building assistance, bilateral training and exercises, and cooperation in defense equipment and technology. This approach has been able to reinforce US policy toward ASEAN countries. In the meantime, Japan has also embraced the spirit of the ASEAN outlook on the Indo-Pacific and tried to avoid putting ASEAN countries in the position of choosing sides between the United States and China.

Dual dependence—on the US for security and on China for economics—has been the region's biggest challenge. While the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is not explicitly designed to exclude China, Japan was betting that without China as a member, the CPTPP could develop into a political vehicle for regional collaboration. As Japan's current prime minister Fumio Kishida once made clear in an interview, "the CPTPP is not a mere economic agreement, but an agreement with strategic value."<sup>5</sup> After China formally applied to join the CPTPP last September, there was a heated debate about whether Japan should pursue political and security functions under the CPTPP. From Japan's perspective, the economic sector is the weakest link in the cooperation among democratic nations and should be strengthened.

Japan is at a crossroads of structural change. The idea of strengthening Japan's deterrence capabilities is gaining support in the face of China's continued incursions into the disputed waters around the Senkaku/Diaoyu Islands. However, defense capacity building can be controversial and can only be done incrementally. Furthermore, the reality of dual dependence may be the biggest challenge to improving security relations between Japan and the United States in the region.



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## 4. Redefining Security in Shaping the Future of United States–Japan Cooperation

**SHIHOKO GOTO**

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While Russia's invasion of Ukraine continues to evolve rapidly, there is no doubt that the nature of war has altered drastically since the last major conflict in Europe. In a highly interdependent world, the role of economic power, technology, public opinion, and disinformation may well have as much impact on the nature of security as conventional military forces. An elevation of nonmilitary power in warfare may well bolster Japan's role as a regional stabilizer of the Indo-Pacific and lead to a deepening of Tokyo's relations with Washington.

But the world's response to Russia's actions may have also led to a seismic shift not only in how wars are fought (and potentially how they are won), but also in defining how stability is achieved and partnerships among like-minded countries are maintained. It also provides an opportunity to reassess the strengths and value of the partnership between Japan and the United States for a world in flux in terms of power, influence, and the values that determine them.

Indignation against Putin's aggressions against Ukraine has not just united the governments of the United States, Europe, Japan, and other like-minded countries, but has also spurred public moral support in defense of a country under attack from an authoritarian ruler. At the same time, the strategy of declaring a de facto economic war against Russia in an effort to bring Moscow to its knees is being closely watched for its effectiveness as a means to achieve peace while keeping casualties and damages to a minimum. In short, there is renewed focus on the nature of economic warfare, and with the United States and Japan representing the largest and third-largest global economies, there is greater need for the two countries to reassess how they can utilize their power and influence not only to coerce change, but to preempt actions that defy international rules and laws.



Such assessments should complement the debate on economic security currently in play on both sides of the Pacific. In Tokyo, critics have argued that the economic security bill, which is already in the legislative drafting process, remains vague and should have actually come after revision of the National Security Strategy that is expected by the end of this year. The situation is not unlike in Washington, where in February the White House unveiled its much-awaited Indo-Pacific strategy that was lacking in details, even before the broader National Security Strategy was released. Such moves do make clear that for Washington, even as tensions with Russia rise, the Indo-Pacific remains a priority for the United States amid the systemic challenge it faces with China. For Japan, meanwhile, its longer-term economic competitiveness cannot be possible without taking into account the rapidly evolving technology security landscape in particular.

The emergence of AUKUS, for instance, has highlighted some of the intrinsic obstacles facing Japan, not just militarily, but also for its future as an economic power. While the term “JAUKUS” had been bandied about fleetingly as some mulled the possibility of Japan joining Australia, Britain, and the United States, there had been no White House support or significant push from Tokyo for Japan to join the trilateral security pact and the nuclear-powered submarine network. The emergence of AUKUS has, however, reinvigorated debate within Japan about the country’s own intelligence networks and, above all, the security of its intelligence systems.

With AUKUS bringing together three of the five member countries of the Five Eyes intelligence alliance (Australia, New Zealand, Canada, United Kingdom, and United States), criticism about the group harking back to a distinctly Anglo-Saxon perspective, immersed in a deep-rooted partnership that shared similar political as well as cultural values that was developed during World War II, has not been negligible. At the same time, there has been rising vocal support from players including British prime minister Boris Johnson and former Australian prime minister Tony Abbott to support Japan’s efforts to become the Sixth Eye. In light of China’s growing military and cyber capabilities, the case for Japan to join the group has never been stronger. Having Japan join the Five Eyes would not be unlike how Japan was the first Asian country to join the Western powers as a Group of Five member in 1973.

It is not, however, its divergent historical legacy, cultural background, or language that now precludes Tokyo from being the Sixth Eye. Rather, it is the broader concern about Japan and its capabilities in the realm of intelligence gathering, sharing, and, above all,

protecting that have also been key drivers in the national economic security debate. One notable weakness for Japan remains the relationship between government agencies and the private sector, and the ability to ensure the security of sensitive information in the private sector. At the same time, it is the culture of trust that is at the heart of the relationship between long-established allies that keeps the Five Eyes together.

Looking ahead, it will be that deep-rooted trust in sharing and protecting information that will not only unite and potentially expand the Five Eyes and the network of intelligence sharing but will also foster economic cooperation and security in confronting China as well. A shared fear of Chinese aggression on the one hand and overreliance on the Chinese economy on the other will continue to bring Tokyo and Washington closer together. The disruptions caused by the global pandemic have certainly highlighted the need to diversify away from overdependence on Chinese supplies. But Beijing's escalated aggressions and Russia's invasion of Ukraine have made clear that authoritarian regimes are gaining ever-greater confidence to violate the rules that have hitherto governed the international order. The urgency to protect technology and information networks from them has only increased as a result, and an emergence of separate spheres of technology and networks may well be inevitable. Indeed, China's dual circulation strategy to allow greater self-reliance and weather global volatility may well be inevitable also, in which case Japan and the United States need to step up their own capabilities for creating spheres of economic resilience that can withstand having minimal dependence on authoritarian regimes. The need will be to widen the definition of economic security beyond immediate needs such as supply chain resilience for specific goods, and to consider the wider implications of ensuring economic defense and partnerships.

With economic warfare expected to become increasingly a mode of combat, and cyberattacks as well as disinformation campaigns becoming tools of war, the need for Japan and the United States to work more closely together to ensure economic security is more pressing than ever.

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## 5. Deepening Economic and Financial Cooperation between Japan and the United States

**KAZUTO SUZUKI**

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The end of the Cold War brought free trade and interdependence throughout the world, including for countries that do not share the same values and norms. Although the world witnessed the gross violation of international law and atrocities by Russia, the economic sanctions imposed upon Russia could not be full-fledged because the European allies are so dependent on Russia. Economic rationality overtook security rationality in the globalized world.

The balance between economic and security rationalities should be reconsidered and reoriented. For this purpose, the Japanese government launched an initiative to set up a new framework for economic security. The bill aims at strengthening the resilience of supply chains as well as protecting critical infrastructure, concealing patents for sensitive technologies, and strengthening the science and technological bases. The key concept of this bill is to establish “strategic autonomy,” which means reducing dependency on adversaries by onshoring and by strengthening ties with friends and allies.

In this regard, Japan is actively pursuing the possibility of deepening economic and financial cooperation with the United States. Japan and the US have already developed wide-ranging cooperation on research and technology development across diverse fields: the Cancer Moonshot, biotechnology, artificial intelligence, quantum information science and technology, civil space cooperation (including the Artemis program and asteroid exploration), and secure information and communications technology (ICT), to name a few. However, with a new sense of urgency, both countries announced the US–Japan Competitiveness and Resilience (CoRe) Partnership at the first Japan–US summit for President Biden in April 2021.

The CoRe partnership includes cooperation on sensitive supply chains, including semiconductors and other critical technologies such as biotechnology and quantum



technology, but the main focus of the partnership is on the advancement of OpenRAN (Open Radio Access Networks) to strengthen competitiveness in the digital field by investing in research, development, testing, and deployment of secure networks and advanced ICT including 5G and next-generation mobile networks (6G or “Beyond 5G”). The United States has committed \$2.5 billion to this effort, and Japan has committed \$2 billion for promoting secure connectivity and a vibrant digital economy while building the cybersecurity capacity of our partners to address shared threats.

Another framework that Japan and the United States are adopting to deepen the economic partnership is the launch of the ministerial-level “Economic 2+2” (Japan–US Economic Policy Consultative Committee). Like the “Strategic 2+2,” the Economic 2+2 consists of the ministers of foreign affairs, economy, trade and industry on the Japan side and the secretaries of state and commerce on the US side. Although it is not clear what the mandates are for the Economic 2+2, this will be the central strategic forum for Japan and the United States to discuss the implementation of the CoRe partnership.

In addition to the CoRe partnership and the Economic 2+2, the United States proposed a new framework called the Indo-Pacific Economic Framework (IPEF). The IPEF, again, was not yet clearly outlined when it was proposed at the East Asia Summit in October 2021, but in February 2022 the Biden administration published the Indo-Pacific Strategy, which included the concept of an IPEF. Nevertheless, the description of the IPEF remains quite vague. The document says the United States and its partners will “promote and facilitate high-standards trade, govern the digital economy, improve supply-chain resiliency and security, catalyze investment in transparent, high-standards infrastructure, and build digital connectivity—doubling down on our economic ties to the region while contributing to broadly shared Indo-Pacific opportunity.” Although it is clear that the IPEF focuses on these domains, it is not yet clear how to achieve these goals. For example, to “promote and facilitate high-standards trade” may mean to reduce tariff barriers and enhance market access, but such a trade framework will contradict the US policy of not returning to the Trans-Pacific Partnership (TPP).

In fact, one of the issues with regard to these frameworks to strengthen economic cooperation between Japan and the United States is the possible infringement on the principles of free trade. On the one hand, it is important to have strategic trade

partnerships with trusted partners to avoid reliance on hostile economies, but on the other hand, it may conflict with Japan’s effort to promote a “rule-based world order” including free-trade rules such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The proposed bill for economic security in Japan also struggled with this issue and was carefully written to avoid such contradictions by limiting the bill’s scope.

In the bill, the concept of supply chain resilience aims for the secure supply of “strategically important goods” that are critical for the survival of the nation and its economic activities. The bill allows the government to invest in developing industrial capabilities, diversifying the origins of supply, stockpiling, and research and development for alternative technologies. The point made in the bill is that it is private industry that provides the plans on how to improve resilience, but at the same time, if the government finds that private industry is not acting swiftly and positively to improve resilience, it can take its own actions to expand international collaboration with other governments and to instruct industry to reduce the use of critical goods and items from hostile economies. The Japanese government believes that this would be the way to avoid being at odds with free-trade rules since these plans are private initiatives focusing on certain critical goods, although it can be considered as “state aid,” which is not compatible with WTO rules.

So, the Japanese government is sandwiched between an international commitment to deepening the economic partnership with the United States and the principles of free trade. In such circumstances, perhaps the most important issue for both Japan and the United States is to promote discussion of WTO reform in order to facilitate such measures to improve supply chain resilience. Furthermore, it is important to consider the possibility of the US rejoining the CPTPP. There are pressures from Japanese industry to accelerate the process of Chinese accession to the CPTPP, and if this becomes the majority opinion in Japan it would be difficult to prevent Chinese membership, which may eventually interfere with the Japan–US economic alliance.

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## 6. United States–Japan Economic Cooperation in a Network Economy

**TYLER GOODSPEED**

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While international trade negotiations in recent decades have often tended to focus on broad-shallow integration among trade partners with disparate economies and heterogeneous and often incongruous values, there are large efficiency gains to be realized through narrow-deep integration between similar economies with similar value systems. This is particularly true in a global economy increasingly characterized by networks, in which trust is an essential element for facilitating increased economic activity. As advanced economies with broadly similar values and geostrategic interests, the United States and Japan are well positioned to advance narrow-deep integration of trade not only in goods, but also in services, capital, labor, and ideas, and to enhance global standards through prudent use of mutual regulation and substituted compliance. Finally, both the United States and Japan can complement existing trends in the reshoring of global supply chains and production capacities by improving cost recovery for new investment in domestic plant and equipment, a critical aspect of corporate tax policy in which both countries currently lag their Organisation for Economic Co-operation and Development (OECD) peers.

### **The Economics of Networks**

The global economy in 2022 is one that is increasingly characterized by the existence of large network effects, which Katz and Shapiro and Farrell and Saloner define as positive consumption externalities, whereby the utility users derive from consuming a good or service is increasing in the number of other users of that good or service.<sup>1</sup> Examples include not only obvious networks such as social media, operating systems, and telecommunications, wherein the greater the number of users, the greater the utility to each participant in the network of participating in that network, but also institutions such as the Society for Worldwide Interbank Financial Telecommunication (SWIFT) and World Intellectual Property Organization (WIPO), which facilitate secure and trusted interbank transactions and establish common standards for the protection of intellectual property rights.



Trust is an essential element of network economies, as it facilitates arm's-length transactions between parties who may not know each other. This includes not only trust that contract parties will fulfill their obligations under that contract, but also trust in recourse to legal remedies in the event contractual obligations are breached. Multinational networks may therefore struggle to facilitate exchange of goods and services when network participants do not share the same values and standards. In particular, the participation in global economic networks of nonmarket economies with limited enforcement capabilities for international standards of consumer and intellectual property protection can result in a suboptimal level of economic activity and exchange. In contrast, when different economies share similar values, standards, and property rights, it is easier and less costly to transact across market jurisdictions, and the more members sharing those values, standards, and rights, the greater the economic gains for each participant.

### **Depth versus Breadth in a Network Economy**

Though the potential gains to participating in a network may be increasing in the number of participants, so are heterogeneity and congestion costs resulting from increased differences among network participants.<sup>2</sup> Large networks consisting of disparate members with highly heterogeneous values, goals, and standards can increase the frictions and transaction costs associated with achieving economic gains through international coordination. This is a prominent reason why, for example, the duration of successive negotiation rounds of the General Agreement on Tariffs and Trade/World Trade Organization (GATT/WTO) has been increasing with the number of participants, while the productivity—as measured by average tariff cut per year of negotiation—of the current Doha round is expected to decline.<sup>3</sup>

In addition to or in lieu of broader but shallower international economic integration, the United States and Japan could achieve substantial economic gains through narrower but deeper integration with each other bilaterally, and/or narrowly multilaterally with a small number of other countries sharing similar economies, values, and regulatory frameworks.<sup>4</sup> Narrow-deep integration can either be through the development of narrow collectives like the European Union (EU), which endeavor to lower heterogeneity and congestion costs by adopting common rules among members with similar goals, or by creating bilateral agreements between similar countries that can later be expanded to include additional like-minded partners. Examples of the latter include the 1988 Canada–United States Free Trade Agreement (CUSFTA), which later expanded to become the North American Free Trade Agreement (NAFTA)

and later the United States–Mexico–Canada Agreement (USMCA); and the 1948 trilateral Benelux Customs Union, which later expanded to become the European Coal and Steel Community (ECSC) and later the European Economic Community (EEC).

Advantages of the narrow-deep bilateral or trilateral approach are not only that it permits deeper integration, but also that it allows for regulatory harmonization without the need for the development of new, common standards. Rather, harmonization can be achieved through mutual recognition and substituted compliance on issues including but not limited to securities regulation, labor standards, and consumer protection. As trusted partners with similar economic situations and shared geostrategic interests, the United States and Japan could benefit from streamlining of the processes by which US and Japanese citizens can work, study, and research in each other's jurisdictions; mutual recognition of regulatory compliance in select financial services; joint prosecution of intellectual property theft and coordination on remedies; and establishment of industry standards for device, software, and network security. With the United States and Japan accounting for 30 percent of global output, even bilateral agreements between the two could on their own generate large positive network externalities with gravitational pull. Agreements on a bilateral US–Japan basis could then be expanded to include other like-minded countries with similar standards, including but not limited to Australia, New Zealand, the United Kingdom, and Canada.

Though broader multilateralism can complement deeper bilateralism, the risk of beginning with multilateral approaches is not only that the broad-shallow approach may limit the potential depth of integration, but also that it may admit into the network participants whose values and economic practices may pose threats to network efficiency. This includes nonmarket or mixed economies, such as those of Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) signatory Vietnam or applicant People's Republic of China (PRC), whose industrial policies and exchange rate and capital-account practices can introduce substantial market distortions that impact the efficient allocation of factors of production among network participants.

### **Ensuring Resilience of Critical Supply Chains**

The COVID-19 pandemic revealed that globally distributed supply chains pose a risk that foreign production of critical products may become unavailable in the event of an emergency. This risk of unavailability imposes a negative externality on foreign



imports in the form of substantially higher prices that must be paid in the event that some tranche of foreign supply becomes unavailable. However, only part of this cost increase is an externality, because forward-looking domestic purchasers will internalize at least part of the expected cost increase in the event of such adverse shocks, and will insure accordingly. It is only the cost increases that they are able to pass on to uninformed and uninsured consumers that constitute a market externality. Insofar as the magnitude of this negative externality is larger than the price premium of domestic production, then domestic production constitutes cost-effective insurance against unavailability.

Survey data indicates that even before the pandemic, firms were beginning to reconsider their global supply chain configurations and to partially insure themselves through reshoring some supply chain capacity. A January 2020 survey of three thousand firms (comprising \$67 trillion in market capitalization) by Bank of America found that more than 80 percent of firms in twelve sectors with global supply chains expected to shift “at least a portion of their supply chains” from current locations, concluding that “the trend is clear: global supply chains are on course to be uprooted and brought home, or transplanted to strategic allies.” In a July 2020 update, Bank of America reported that three-quarters of these firms were expanding their reshoring plans.<sup>5</sup>

Similarly, a March 2020 UBS survey of chief financial officers in the United States, North Asia, and the PRC suggests that 20 to 30 percent of the production capacity of their firms will relocate from the PRC, while a June 2020 UBS survey revealed that 76 percent of US firms with manufacturing in the PRC reported that they have moved or are planning to move at least some of their manufacturing capacity out of the PRC, with the United States, Canada, Japan, and Mexico as the leading candidates for relocation.<sup>6</sup> Among North Asian firms excluding the PRC, 85 percent of chief financial officers reported that they have moved or are planning to move production capacity constituting 30 percent of their PRC production from the PRC to home markets in Japan, Taiwan, and South Korea. For firms shifting production from the PRC to locations other than home markets, Vietnam, Thailand, and India were the most commonly cited destinations.

The policy challenge is that governments are notoriously ineffective in the task of identifying which will be the critical supplies and production capabilities of the future, and in calculating the magnitude of potential negative externalities that may justify intervention in the form of subsidies to domestic production. Rather than attempting



to predict which capacities will be critical in the future, US and Japanese policy could support reshoring trends already underway by lowering the cost of investing in domestic production more generally.

Both the United States and Japan tax corporate income at higher-than-average rates among OECD peer countries.<sup>7</sup> Though the 2017 Tax Cuts and Jobs Act lowered the effective corporate tax rate in the United States from the highest in the OECD to a level only slightly above the non-US OECD average, Japan still maintains one of the highest effective tax rates on corporate income among advanced economies. Both countries rank very poorly in their allowances for businesses to deduct the cost of investment in new structures—including buildings, factories, mines, and drilling.<sup>8</sup> Full cost recovery for new equipment investment in the United States, introduced under the 2017 tax law, is scheduled to begin phasing out at the end of 2022. By lowering the cost of domestic capital formation, in particular by allowing expanded cost recovery for new domestic investment in equipment and structures, US and Japanese policy makers could further incentivize the reshoring of US and Japanese supply chains. Academic research demonstrates that firms’ choices of location are particularly sensitive to changes in effective average corporate income tax rates.<sup>9</sup>

## Conclusion

Flexible, bilateral economic partnerships that establish high-quality global standards through mutual recognition and harmonization of existing regulatory standards between like-minded partners can enhance efficiency in an increasingly network-based economy, while also protecting national security and interests. This approach contrasts with shallower economic integration with a broader set of countries that may not share US and Japanese values, and whose economic practices may undermine trust and introduce distortions into the network. As private firms begin to reconsider their global supply chain configurations, the United States and Japan can reinforce the insurance benefits of reshoring trends already underway by increasing cost recovery in their corporate tax codes for new investment in domestic plant and equipment.

## NOTES

Many of the ideas discussed in this paper reflect those analyzed at length in chapters 9 and 11 of the 2021 Annual Report of the Council of Economic Advisers, of which I served as acting chair.

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# 7. Digital Technology and National Security: A Platform for United States–Japan Collaboration

**DANIEL I. OKIMOTO**

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## **Global Security in an Era of Power Transition**

The global security system, designed by farsighted American statesmen in the aftermath of the Second World War, is experiencing some significant seismic stress.<sup>1</sup> The bedrock of American power has been shaken. China has emerged as a threat to dislodge the United States as global hegemon. Authoritarianism is on the march around the globe while democracy is in retreat.<sup>2</sup> An alarming number of nations are falling into the yawning abyss of “failed” or “dysfunctional” states because they are unable to provide their citizens with the basic provisions of safety, health, education, employment, public infrastructure, and the rule of law.

Since 1980, measures of economic inequality in capitalist democracies, most notably the United States, have risen to heights that threaten the foundations of social, cultural, and political stability both within and between nation-states.<sup>3</sup> Conflicts, cleavages, grievances, and outbreaks of violence are metastasizing around the globe. More than eighty-five million refugees have fled from regions where they felt their safety to be at elevated risk. It won't be long before the flood of refugees surpasses the one hundred million mark.

Scholars of international relations describe the years of hegemonic decline as periods of global “power transition,” the most conflict-ridden and volatile interludes of historic change.<sup>4</sup> Large-scale wars, such as the two world wars in the first half of the twentieth century, have erupted during such intervals of global power transition. So have domestic uprisings, civil strife, and surges in support of authoritarian regimes.

Russia's invasion into Ukraine is a major development, signaling and triggering some slippage of tectonic plates. Consider the following seismic tremors:



- A slowdown and some degree of reversal of globalization trends
- Disruption and some dispersal of global supply chains
- A shift in the guiding principles of global supply chains from commercial efficiency to politico-security resilience and a modicum of self-sufficiency
- Deepening economic cleavages between China and the West, and between Russia and the United States and European Union
- A return of inflation and stagnation after four gilded decades of inflation-free economic growth
- Sharp price rises in fossil fuels
- Serious, short-term setbacks, complications, and delays in dealing with the global crisis of climate change
- Heavy reliance on quantitative easing by central banks (despite the steady depletion of monetary tools)
- Moral hazard of relying on central banks to backstop rising risks in private-equity markets
- A coming correction in financial markets; a possible recession or, even worse, a global depression
- Expansion and uncertainties involved in the use of cryptocurrencies: both benefits (e.g., reducing costs of intermediation) and hazards (e.g., cybertheft and cybercrimes)
- Long-term erosion of the dollar-denominated system of global currency
- Greater intrusiveness of political calculations in spheres of economic activities
- Bifurcation of the global internet into Chinese and American spheres
- Reduced global output and slower productivity growth rates

## America's Security Alliances

In a world in which territorial boundaries are under siege (Ukraine), and rival powers are seeking to expand their spheres of influence (Russia), long-standing postwar alliances, such as NATO and the Japan-America Security Alliance (JASA), have risen in importance in terms of deterrent value and strategic positioning.

Heading into the second quarter of the twenty-first century, the United States, even as a declining hegemon, possesses some critical strategic advantages over its main military rivals, China and Russia, in the viability and enduring strength of America's postwar network of defense alliances, particularly NATO in Europe and JASA in the Asia-Pacific.

China and Russia have no comparable architecture of security networks. Neither has had much historical experience in organizing or participating in military alliances. The United States, by contrast, has had nearly three-quarters of a century of operating a far-flung global network of defense alliances, featuring forward deployments, operational contingencies, and around-the-clock monitoring and information sharing.

It is true that China and Russia have each other; but it would be a stretch to call the Sino-Russian military relationship an "alliance" in the same historical and formal sense as NATO and JASA. Not only do China and Russia face long-standing conflicts of interests across multiple fronts, such as in Eurasia, but the once-ballyhooed Sino-Soviet Treaty of Friendship, Alliance, and Mutual Assistance, signed in 1950, has failed abjectly to prevent, or even paper over, deep fissures of distrust and animosity, surfacing in the Sino-Soviet split during the early 1960s that came to a violent crescendo in border clashes between Chinese and Soviet troops along the Ussuri River in 1969.

## Galvanizing NATO Unity

In the face of Russia's unprovoked invasion of Ukraine, NATO has responded by forging a unified front. Prior to Ukraine, NATO had seemed stuck in a muddle of loose cohesion and no-major-crisis lethargy.

The Ukraine war has awakened a sudden sense of crisis and common purpose. NATO and other allied countries are working together to impose costly financial, economic, and energy sanctions on Russia. Germany has gone so far as to block the Nord Stream 2



pipeline, though it has not yet turned its back on the purchase of Russian oil and natural gas.

Russia has been taken aback by the alacrity and unity of NATO's response. If this unity of purpose can be continued—indeed, extended into the nonmilitary domains of energy, finance, and commerce—Putin's attempt to annex Ukraine by brute force will have backfired. He will have revived, unwittingly, NATO's unity and resolve.

### **Japan-America Security Alliance**

Adverse trends in Asia, especially Xi Jinping's vow to bump America from its perch of global leadership, have stirred deep-seated feelings of national vulnerability in Japan. To deal with the burgeoning threat posed by China, Japan finds itself in a position of having to choose among ameliorating relations with China, ratcheting up its security alliance with the United States, or upgrading its own defense capabilities. Japan seems to be moving on all three fronts, particularly the second and third.

JASA was established seventy years ago (1952) to provide a powerful shield for a vulnerable nation, Japan, which was struggling to recover from the destruction of basic infrastructure during the Second World War. From its inception during the early phase of the Cold War, JASA has been an asymmetric partnership, featuring the United States as the patron/protector and Japan as the dependent client/ally. In exchange for extending a military shield over Japan, the United States received the right to maintain military bases in strategically critical locations throughout Japan's island archipelago.

More consequentially, JASA has given Japan, the main loser in the Pacific War, the benefit of having a long runway to rebuild its devastated economy and to establish its postwar identity as a nonthreatening economic power. Japan's economic resurgence, and that of Western Europe, has had the effect of swinging the balance of Cold War power decisively in America's favor. The superior output and efficiency of democratic capitalism, as manifested by the miraculous recovery of Japan and Western Europe, have lifted the United States to nonviolent victory over the Soviet Union in the Cold War struggle for global dominance.

### **More Symmetry Needed**

Given the steady erosion in US power since the end of the Cold War (1989), JASA will need to shift toward an alliance of greater symmetry, a more evenly balanced

distribution of capabilities and contributions. Fortunately, owing to the progressively interwoven fabric of technology and security, both Japan and NATO find themselves in a position to upgrade their capabilities and contributions.

### **Convergence of Technology and Security**

Technology and security have always been closely connected. A continental infrastructure for the mass production of steel, for example, once gave the United States a critical military edge over Japan in the Second World War.

The technology/security bond has become even tighter since the emergence of computers and the advent of the global internet. Indeed, digital technology is interweaving civilian, state-of-the-art technology with military capability and national security ever more inextricably.

Military power is coming to rely, more and more, on technological advances in the commercial sector. Indeed, breakthroughs in private-sector technology—such as artificial intelligence (AI) and machine learning (ML)—have become essential seedbeds for military technology. The direct and indirect spillover effects of R&D progress in commercially driven technologies have become driving forces behind the development of new weaponry and military systems. What are the most relevant commercial technologies? Here are a few:

- AI and machine learning (including algorithms)
- Cloud infrastructure and storage
- Cybersecurity
- Quantum computing
- 5G and 6G telecommunications
- Microelectronics, particularly semiconductor equipment and devices
- Decentralized energy storage; large and small batteries
- Renewable, clean energy



- New modalities of agriculture and food production
- Gene synthesis
- Stem cell research

To achieve and maintain military power, commercially competitive, innovative companies, both a handful of global giants and a honeycomb of buzzing start-ups, have become indispensable assets. A half dozen “tech titans”—including Google, Microsoft, Apple, Amazon, and Meta—provide the global platforms to facilitate product multiplication and sectoral diversification. Video games placed on global platforms, for example, are apt to function as catalysts for the explosive creation of whole new galaxies, such as the metaverse.

### **Digital Technology: A Paradigm Shift**

Digital technology marks a historical shift in the nature, dynamics, and innovative requirements of national security.

At its core, digital innovation arises out of an ecosystem of freely flowing information, a cluster of world-class universities, the collection of massive amounts of data, commercial risk taking, experimentation, high tolerance for failure, diverse inputs and approaches, and recursive patterns of learning by doing.

Private-sector innovation is no longer as heavily dependent on an abundance of capital investments, mass manufacturing, and assembly. Commercial innovation has become less capital intensive, more decentralized, more cross-disciplinary, and more dependent on decentralized ecosystems of innovation.

Digital innovation revolves around the dynamic interplay between the influx of massive amounts of data and the evolving tools of big data analysis based upon AI and machine learning. Unlimited data and AI/ML have displaced fossil fuels as the kinetic energy driving technological innovation and the infrastructure of national security.

### **Russian and Chinese Disadvantages**

Decentralized networks of innovative ecosystems, founded on the free circulation of high-grade information and diverse ideas, favor the American, European, and Japanese commercial systems over those of Russia and China.



The United States is home to eleven of the world's top fifteen universities (with three British and one Swiss university rounding out the top fifteen). China accounts for only two out of the top twenty-five.<sup>5</sup> Moreover, the United States famously features the Silicon Valley paradigm of decentralized ecosystems located near world-class universities, making America, since the 1960s, the mecca of global innovation and transformative entrepreneurship.

Five years ago, there was a fear that China might remove a critical cornerstone of the American ecosystem by acquiring semiconductor companies and investing heavily in the capital-intensive microelectronics sector; but that danger seems to have passed, owing to the rising Sino-American rivalry and guardrails erected by the US government.

Russia's and China's innovation ecosystems possess an abundance of high-caliber human talent; scientists in China have won five Nobel Prizes and in Russia sixteen since 1960; in Japan, the number of Nobel Prize winners over the same time span is twenty-five, larger than the total for China and Russia combined. In the United States, the total is well over two hundred. Both China and Russia possess exceptional manpower and scientific research capabilities. Their main limitation is the centralized command-and-control nature of their politico-economic systems.

In the Digital Age, there is an inverse relationship at play between centralization/coercion (input) and innovation/entrepreneurship (output). Why? Because centralization and coercion impede the free flow of information, which is the lifeblood of creativity and innovation.

For a time, the Chinese paradigm appeared to pose an existential threat to the West, because the authoritarian Chinese state possesses the authority to define long-term national goals, lay out national strategies, assign priorities, and implement concrete programs to achieve national goals by allocating vast amounts of financial and human capital. China doesn't brook domestic opposition, dissent, or alternative programs and goals. There is very little leeway for the politics of pluralism, negotiation, and compromise.

The Chinese state is also able to support and subsidize its tech titans (e.g., Alibaba) while protecting China's vast domestic market from foreign entities (e.g., Google, Microsoft, and Facebook). This distinctive combination of "subsidization/support plus



protection” seemed to suggest that China’s tech titans would eventually overwhelm foreign competitors, who were forced to engage in commercial battle without the advantages of either subsidization/support or domestic protection. China’s centralized, coercive system also has allowed the state to access unlimited troves of data while adopting surveillance technologies to bolster the scope and effectiveness of their central control.

### **Centrality of China’s Communist Party**

China’s meteoric ascension under Deng Xiaoping’s nonthreatening dictum of hastening economic development while hiding its growing national power (1978–2013) gives rise to the puzzling question: Why has Xi Jinping abandoned Deng’s national strategy, one that had been working so decisively to China’s advantage? Why cast aside the veil of China’s burgeoning national power? Why shift so abruptly to nationalism, bellicose rhetoric, territorial expansion, cybersecurity attacks, extravagant use of capital to acquire innovative assets, and the unbridled theft of intellectual property?

The answer, it appears, is the powerful, path-shifting impact that the collapse of the Soviet Union has had on Xi Jinping’s *weltanschauung*. Having witnessed the fall of the Soviet Union under Mikhail Gorbachev, and vowing to ensure that China would never succumb to a similar fate, Xi Jinping has taken decisive steps to consolidate his own power base and that of the Chinese Communist Party (CCP) against all external and internal threats.

No threat has been overlooked, not even that of Jack Ma, China’s most celebrated entrepreneur, who dared to publicly criticize the state’s regulation of China’s financial sector. President Xi’s swift crackdown on China’s rock-star entrepreneur has sent shock waves around the world.

Is Xi willing to bring the hammer down on China’s most innovative leaders and high-flying companies on which the continued growth of China’s digital advancement depends? Will Xi’s resolve to ground the flight of innovators—because they have risen to new heights that now threaten the dominance of the CCP—mean that he’s willing to clip the wings of the entrepreneurs and startups on which China’s digital power depends?

If the answer is yes, then the outlook for China’s digital economy isn’t as promising as it appeared to be as recently as a year ago (before Jack Ma’s sudden removal from

visibility and power). Moreover, China is engaged in a zero-COVID campaign that is turning out to be a Sisyphean ordeal, as new, more contagious variants of COVID-19 continue to surge ashore, forcing large-scale lockdowns (such as in Shanghai) that disrupt China's economic activities and create chaos for global supply chains.

In short, both China and Russia are caught in a frenzy of national mobilization: China on defense against the COVID virus, Russia on offense against Ukraine. Both are national crises. Both are proving to be painfully costly to the two authoritarian powers as well as to the global economy. Indeed, as the pandemic in China and the Ukrainian war drag on, and as the United States and the West continue to ramp up the economic sanctions against Russia, inflationary pressures will continue to rise while global output continues to decline.

Over time, global equity markets will feel the squeeze. It's conceivable that the convergence of events—the war in Ukraine, imposition of increasingly stringent economic sanctions on Russia, a tsunami-like crest of the COVID contagion in China, lockdowns in Shanghai and other Chinese urban centers, and ongoing disruptions to global supply chains—will trigger a financial meltdown, maybe even a deep depression.

### **China's Economic and Demographic Challenges**

Since 1980, China has followed a comparatively fast and steady road to economic development—no monumental slowdowns, delays, or detours, not even the Great Recession that shook the rest of the world from 2007 to 2010.

Yet, China's resilience and strength should not be exaggerated. It is important to recognize that China is facing two daunting economic challenges that will not be readily overcome. One is making the difficult transition from an economy driven by the infusion of capital investments to one founded on the pull of consumer demand. This transition requires significant shifts across many economic fronts—from banking and investments to consumer spending and state policies, particularly in health care, welfare, and social security. It has taken Japan and South Korea decades to bring this difficult economic transition to fruition.

The powerful undertow of demographic forces toward rapid aging and relentless population shrinkage will pose even more intractable problems; as China ages, its labor force shrinks, productivity rates fall, aggregate output slows, and the welfare burden



becomes ponderous.<sup>6</sup> Today, those sixty years old and older represent 17.4 percent of China's population, but by 2050 that figure will double to 34.5 percent. China will grow old before it becomes comfortably rich. It will not have had the time or resources to weave a comprehensive and sturdy safety net. By 2050 China may be the world's biggest economy, but it may not be the most innovative, productive, or dynamic.

Will China's trajectory of future growth be as fast, as smooth, or as upwardly linear as in the past four decades? Has China entered an era of slower, less predictable maturation? And how do you factor in the range of possible miscalculations, policy blunders, and viral corruption arising out of China's system of restrictive information flow and the excessive concentration of power—inherent flaws in the nature of authoritarian systems?

In sum, China's authoritarian system may allow the state greater leeway to take certain centralized actions, such as spelling out strategic goals and mobilizing resources to achieve those goals, but at the same time, the intrinsic problems associated with authoritarianism—such as the moral hazards of corruption—plus the constraints of economic maturation make future projections much less rosy than those of the past four decades.

### **The United States and Japan: A Complementarity of Technological Capabilities**

If capitalist democracies offer certain long-run, structural advantages over authoritarian states (even acknowledging the severity of problems caused by economic inequality and societal conflicts), what are the prospects for US–Japan collaboration in technology and national security?

The rewards of bilateral collaboration are immense. Bear in mind that the United States is the world's biggest economy (\$23 trillion) while Japan is the third largest (\$5.4 trillion). Together, the two economies account for nearly \$30 trillion of annual output. That is about a third of global GDP.

Moreover, the two giant economies bring complementary strengths to the table. Japan's strong suit lies in hardware—such as semiconductors, microelectronics, manufacturing, chemical compounds, medicine and health, new modalities of agriculture, food, renewable energy, retail services, finance, transportation, Internet of Things (IOT), and digital entertainment (such as video games and anime).

The United States is unsurpassed in the reach of its global platforms, software systems and applications, AI and machine learning, smart computers, augmented reality (AR) and virtual reality (VR), the metaverse, financial technology, e-commerce, digital entertainment (movies, music, streaming), agriculture, food, gene synthesis, telemedicine, and climate change modulation.

Imagine the pathbreaking speed and scope of innovation if the two technology giants find ways of collaborating to the fullest. Think about the bonanza of building, for example, the most sophisticated and secure infrastructure for cloud computing, capable of generating, analyzing, storing, and protecting nearly infinite amounts of data. Consider the advances that could be made if the two economies truly joined forces in such areas as these:

- Cybersecurity
- Quantum technology (computing and telecommunications)
- AI and machine learning for education, training, and advanced research
- IoT, sensors, smart homes, smart buildings, smart cities
- Digital transportation: electric vehicles and infrastructure, traffic control
- Battery technology and devices
- Blockchain and financial technology
- Online government and public services
- Advanced materials
- Advanced and industrial manufacturing
- Nanotechnology
- Photonics
- Augmented and virtual technology



- Telemedicine: digital diagnosis, treatment, and online consultation
- Gene synthesis and stem cell research and development
- Drug discovery and pharmaceuticals
- Digital diagnosis and health treatments
- Robots, labor automation
- Cloud infrastructure and data storage
- Global supply chain organization and management
- E-commerce and online transactions
- Indoor agriculture
- Renewable energy
- Net-zero carbon emissions
- Ocean and space exploration

Looked at from the perspective of China and Russia, the lead that the US and Japan could open would be exceedingly hard to close. Catching up could take a decade or longer.

China's Achilles' heel can be pinpointed: semiconductors. China might be on a par with, or even slightly ahead of, the United States in some other fields of digital technology, such as AI, quantum technology, digital surveillance, and some sectors of financial technology. But China lags badly behind in the critical field of microelectronics, lacking the physical infrastructure, process know-how, and hands-on experience of the United States and Japan. Some experts estimate the lag time to be perhaps as long as a decade. Significant advances in technology and national security could be jointly achieved by the United States and Japan during that interval of lead time. What the United States and Japan should formulate is a ten-year plan of technological and national collaboration, outlining feasible goals, organizing several specific projects, and coming up with joint funding.

It should be pointed out, however, that in terms of the national diffusion of digital technology, Japan, the world's third-biggest economy, ranks a lowly twenty-seventh, behind the United Arab Emirates, Austria, Ireland, Belgium, and Malaysia.<sup>7</sup> Yet, in terms of science and math skills, Japanese high school graduates rank among the world's top six. The essential educational infrastructure is unmistakably in place for Japan to vault from twenty-seventh to somewhere among the top five nations in the world. Such leapfrogging can take place most efficiently and speedily if the United States provides mentorship, support, and collaboration. Digital education and training could be strengthened and expanded at Japanese high schools, colleges, and graduate schools. Workers in both the private and public sectors can be lifted into Japan's digital labor force. An expanded, better-equipped labor force will not only elevate Japan's productivity, efficiency, and technological power to new levels, but also, as a consequence, enable Japan to lift the level and quality of technological contributions to US–Japan collaboration in matters of national security.

The focus of bilateral cooperation should be on bringing together leading corporations in the private sectors. Such collaboration will not be natural or easy, given the reality of commercial competition; but with clarity of focus and commonality of purpose, US–Japan collaboration is eminently achievable—potentially, a historic game changer.

## NOTES

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# Conclusion

**MICHAEL R. AUSLIN**

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From the vantage point of spring 2022, the next decade looks to be one of disruption. Eurasia is buffeted by war in Ukraine and Chinese pressure in the waters of Eastern Asia, while North Korea continues its nuclear development and Iran seeks to break out as a nuclear power. The global economy sputters as inflation returns and growth remains bogged down by remnants of the COVID pandemic that began in Wuhan, China, in 2019. The long-predicted and slowly boiling crises around the globe seem to be coalescing and, in some cases, as in Ukraine, finally boiling over.

After years of talk about American decline, the great fear is that the post-1945 system of international organization and law, generally described as the “rules-based international order” is no longer capable of dealing with these challenges or defending itself. How big the void will become, and what might fill it, is the key question of the next decade. At the center of that question sits China, whose relations with the United States, Japan, and other leading nations has entered a new phase, marked by adversarial competition, distrust, and geopolitical jockeying.

In normal times, alliances are often acknowledged but overlooked, perhaps seen as a helpful but not essential part of a country’s foreign policy. In times of crisis, however, alliances not only serve to reassure the joined partners but also are brought into play as active elements in security and foreign policy. It is in such an environment that the US–Japan Alliance now finds itself. The next decade will likely see the alliance play a role even greater than the one it occupied during the Cold War, when Japanese and American forces worked together to deny the Soviet Union freedom of access to the Northern Pacific Ocean.

Especially during times of disruption, alliances are viewed primarily from a security perspective, which is particularly the case in the US–Japan case. First signed in 1960, the Washington-Tokyo alliance has ensured the forward deployment of tens of thousands of US military forces in Asia and made credible the US commitments to other allies in Asia, including South Korea. As China expands its claims in Asia and its presence in contested waters, nations around the region are looking to both the US Navy



and the Japan Maritime Self-Defense Force to help ensure freedom of navigation and cooperation against Chinese intimidation and expansion.

Such expectations present serious challenges to the alliance, which is committed to the concept of a “free and open Indo-Pacific,” in the words of former Japanese prime minister Shinzo Abe. China’s critical trade relationships with America and Japan, as well as countries throughout Asia, force all capitals into a delicate balancing act, fearful of destabilizing economic ties yet equally worried about losing strategic space in the waters of the region. Washington has been careful not to force a confrontation with China over its claims in the South China Sea, while Tokyo has maintained its control over the Senkaku Islands without clashing directly with Chinese vessels.

The next decade may find it harder to walk such a fine line, especially over the issue of Taiwan, which Tokyo has elevated to a primary position in its foreign policy. Beijing’s determination to continue expanding its influence over the region will require not only further vigilance but also creative partnerships to ensure that stability is maintained. Washington and Tokyo’s growing closeness with Australia and India, along with their ties to Great Britain, augment their alliance. Inviting Japan to join the recently announced Australia–United Kingdom–United States (AUKUS) partnership would be a further step toward improving security coordination among the region’s key liberal nations. The announcement that Tokyo would consider raising its share of defense spending to 2 percent of GDP, breaking the traditional 1 percent ceiling, is another indicator of how Tokyo will be looking to play a bigger role in regional security.

Often overlooked in discussions of the alliance, however, is the nonmilitary aspect of the US–Japan relationship. During the 1980s and 1990s, the specter of economic competition between Japan and the United States prevented a focus on how the two countries could work together, while in the past two decades Washington was overfocused on trying to create a strategic partnership with Beijing. America’s emphasis on China often resulted in a failure to ensure that its own interests, as well as those of its allies, were protected from the long run of Chinese economic, political, or military development.

In this new environment, the nonmilitary aspects of the US–Japan partnership have as much a role to play as cooperation on security matters. As the papers in this volume have shown, whether on high tech, free trade, or liberal values, America and Japan

can work together on a plethora of initiatives. Since the late-2019 COVID outbreak, the need for some level of strategic decoupling from the Chinese economy has become clear, and Japan is the best-suited ally for the United States in looking to develop alternative supply chains and promote next-generation technology, including in artificial intelligence and telecommunications. A tighter economic alliance between the world's first- and third-largest economies, promoting free trade as Tokyo has done with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, can help drive economic liberalization and consider ways to counter Beijing's One Belt One Road Initiative.

Similarly, the battle between liberalism and illiberalism will continue to heat up over the next decade. As Asia's leading democratic nation, Japan has a critical role to play along with the United States in promoting liberal values. China's model of a coercive techno-surveillance state, its crushing of Hong Kong's democracy, and its support for autocratic regimes around the globe put it clearly at odds with the vision of liberal states such as Japan and America. Encouraging self-determination and liberalization can be a core priority for US–Japan cooperation.

There are other ways in which Tokyo and Washington can explore deepening their partnership while promoting stability and prosperity. The papers in this volume, and the discussions of the Hoover Institution US–Japan Global Dialogue, are first steps at thinking through the policy challenges and opportunities of the new era of disruption, and how the durable US–Japan Alliance can respond.

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For over six decades, the US–Japan Alliance has played a key role in maintaining stability in East Asia. Now, with the rise of China, the North Korean nuclear threat, instability in Europe, and competition in the high-tech sector, the alliance will play an increasingly important role. Washington and Tokyo can collaborate on next-generation technology, encourage democratic systems, and play an even larger, if more challenging, security role.