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Transcript

Japan in 2015: A Look at the Year Ahead

James L. Schoff, Carnegie Endowment for
International Peace

Matthew P. Goodman, Japan-America Society

John Mallot, Japan-America Society

Sakie Fukushima, G&S Global Advisors

Shihoko Goto, Wilson Center

Keiko Iizuka, Yomiuri Shimbun

Richard Katz, Oriental Economist Report

Emma Chanlett-Avery, Congressional Research
Service

Brian Harding, Center for American Progress

Robin H. Sakoda, Armitage International

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Introductions and Keynote

James L. Schoff

Good morning, ladies and gentlemen. I want to get a chance to welcome you all here to the Carnegie Endowment for International Peace. My name is Jim Schoff. I'm a senior associate here in the Asian Program at Carnegie and in-charge of our Japan's study program. We are honored today to be hosting for the second time a symposium organized by the Japan-America Society of Washington, D.C., an annual event. I think they've really established a reputation to create a high quality and very comprehensive event. This is a particularly good time to really think about the coming year in both the domestic and international perspectives related to Japan.

Although we are hosting here at Carnegie, this is really the Japan-America Society of Washington, D.C.'s event. They did all the hard work in terms of organizing the speakers and the panelists. For that, I'd really like to thank Ambassador John Malott, the president of Japan-America Society of Washington, D.C., and Marc Hitzig, the executive director there, and the staff there, as well as our staff for taking care of the associated details today. In addition, we should also thank the Sasakawa Peace Foundation, as well as the National Association of Japan-America Societies that has also provided critical support for today.

I'm just going to make a very brief, in addition to my welcoming remarks, a similar point that I made last year. But I can't think of a better point to make in this context. Carnegie's Japan Program is a relative newcomer here in Washington. We started in September of 2012. So I really appreciate the opportunity to partner with an organization that has such a long history in Washington. They've been active here since 1957 and it's a true veteran of the alliance. It actually helped me get my first job here in Washington, D.C. through the resume referral service back in the late 1980s. But I also worked with the organization when I was at the U.S.-Japan Foundation. This was my first grant that I worked with. It was through the National Association and Japan-America Society of Washington, D.C.

So I appreciate the opportunity to keep this strong bilateral relationship going, and I'll have a chance to talk more about substantive issues as I moderate the domestic panel. But for now, I just wanted to welcome everyone here to Carnegie. It's now my pleasure to pass the mic over to Matt Goodman, the chairman of Japan-America Society of Washington, the Board of Trustees there, as well as the William E. Simon chair in political economy at CSIS.

Matthew Goodman

Thank you, Jim. Thanks to the Carnegie Endowment for hosting this event. I'm delighted to see such a good crowd to hear about Japan in 2015. You couldn't always fill a room on those issues with Japan some years ago, but it's great to see that there's so much interest now in Japan.

The Japan-America Society of Washington, as Jim said, has been around since 1957. We're primarily an educational and cultural organization. I'm sure you're all members. If you're not, please join up and take advantage of our great menu of programs, including sake testing and kimono tying and various other great activities. But we have been doing this policy forum for the

last couple of years and think it's an important part of what we have to offer because our broader mission is to support understanding of Japan in the greater Washington area and strengthen U.S.-Japan relations more broadly.

If you don't understand what's going on from a policy framework in and around Japan, then it's hard to have that full appreciation to strengthen those relations. So we think this is an important part of what we do and we're delighted that you agree by your presence here. So thank you for coming and please do participate in all of our activities.

We've got a great street festival in April too which I know you're going to all pray for good weather for as we always do. But thank you for coming, and again, like Jim, I will be on the panel later, so I'll give you my substantive thoughts at that point. But for now let me introduce my colleague John Malott, who is president of the society, to introduce our first speaker. Thanks.

John Malott

Thank you, Matt. Good morning everyone. It's my pleasure to introduce our keynote speaker who has flown all the way from Tokyo to be with us, Sakie Fukushima, who is one-half of the famous U.S.-Japan power couple that also includes her husband, Glen, who is here with her in the front row. I'm looking forward to this morning's topic on womenomics. My wife used to say if you think how far Japan has gotten with just the men, think what would happen if they unleash the women. So I always thought was very, very perceptive.

I think the thing that's very interesting about Sakie is there are a lot of people in Washington who like to write and talk about things but Sakie actually has lived the topic that she's going to be talking about because she was at Korn Ferry in Tokyo, rose to be chairman. She also is the first woman ever to serve on the Board of Directors of major Japanese corporations which started with Sony, and Benesse, and Ajinomoto, Mitsubishi. It goes on and on. And she is also the vice chairman of the *Nihon Keizai Doyukai*. So she has lived there. She is right in the middle of it, and I'm really looking forward to what she has to say, so Sakie, please.

Sakie Fukushima

Thank you very much for your kind introduction. First, I have to ask you to excuse me because I caught a cold on my flight coming here, so I'm still having this cough drop. But I'm pleased to be here today at the 2015 symposium of the Japan-America Society of Washington, D.C.

I'm pleased to be here today at the 2015 symposium of the Japan-America Society of Washington, D.C. to speak on the subject, "Womenomics in Japan: How Much Progress Have We Made?" The subject is important, timely, and complex. I would like to thank the society, as well as the Sasakawa Peace Foundation, the National Association of Japan-America Society, and the Carnegie Endowment for International Peace for inviting me from Tokyo to share my views with you. It seems that in every international conference on Japan, the issue of women is raised. And in every recent international conference on women, Japan is raised. I welcome this development. But as I mentioned, the issue is complex. And I would like to share with you today some of the most recent developments from the standpoint of someone intimately involved over the past 25 years in the subject of human capital in Japan.

Some of you may recall the IMF report entitled, "Can Women Save Japan?" issued over two years ago in October 2012. It estimated an additional four percent increase in GDP per capita in

2030 if Japan were to increase female labor participation to the level of the G-7 countries excluding Italy and Japan. After describing the current state of women's participation in the Japanese economy, I would like to come back to this question: Can women save Japan?

Japan's Growth Strategy

In December 2012, only two months after the IMF issued this report, Shinzo Abe became the prime minister of Japan and the promotion of women has become a key element of Japan's growth strategy, the so-called third arrow of Abenomics. Have we made any progress over the past two years? If so, how much progress? As I will discuss more fully in my presentation, the short answer is yes. I'm trying to be a bit optimistic. I'm trying to see that the glass is half full rather than half empty. We are starting to make some progress, but we still have a long way to go.

For the past 25 years, I have continued to advocate the need to develop more Japanese nationals who are global and who can effectively manage diversity and the need to increase the diversity of human capital in Japan. Therefore, there is a need to expand the discussion beyond the women to the issue of diversity of human capital in Japan more generally. But given the time constraint, I will focus my comments today mainly on women.

Over the past few years, as Japan has struggled to regain global economic competitiveness, various sectors in Japan – government, business, media, education, and so on – have finally started to take the issue of diversity, including women, more seriously. Therefore, in today's presentation, let me begin by first describing my background to let you know where I'm coming from. I would also like to explain my fundamental view regarding the concept of diversity. Second, I will describe the trend in the global human capital market and the issues facing Japan. Third, I will review the challenges Japanese companies face in the Japanese human capital market. Fourth, as one of the possible solutions to these challenges, I would like to explain the efforts on the subject by both the public and private sectors in Japan. Finally, I will conclude by giving you my response to the initial question, can women save Japan?

Background

During my junior year at Seisen University in Japan, I attended the 22nd Annual Japan-America Student Conference in 1970 at Stanford University where I met the person who became my husband – he's sitting here, Glen – who was a member of the U.S. student delegation. After finishing my graduate study at the International Christian University in Japan, I moved with my husband to Cambridge, Massachusetts where my husband enrolled in graduate studies at Harvard and I became a Japanese language instructor there. I obtained my masters' degree in education from Harvard and was recruited to join a Boston-based management consulting firm, Blackstone International, which was my first encounter with the business world.

Because I enjoyed business, I enjoyed the consulting world with Bain & Company, I decided to go and apply for Stanford Business School where I received my MBA. Upon graduating, I returned to the consulting world with Bain & Company, first in Boston and later in Tokyo. Four years later, in 1991, I was recruited by a former colleague at Bain to join Korn Ferry International, a leading American executive search firm. After three years I was promoted to partner. I became the largest business producer in Asia. I was elected in 1995 as the second woman to join the firm's Board of Directors and ended up serving on the board for 12 years guiding the firm from a partnership to becoming a corporation.

In 2000, I was appointed president of the Japan operations and stayed in this position until May 2009 when I became chairman. In August of 2010, I retired from the firm and established my own firm, G&S Global Advisors, to work more broadly in human resources consulting rather than merely executive search. Since 2002 I have served on the Board of Directors of Kao for four years, Sony for seven years including the last two years as the chairman of the Compensation Committee, and the Benesse for five years. In all these companies, I was the first woman to serve on their boards.

Currently, I serve on the board of Bridgestone, Ajinomoto, J. Front Retailing and Mitsubishi Corporation, and as a member of the advisory board of the Development Bank of Japan. Also, since 2011, I serve as one of the 12 vice chairs of *Keizai Doyukai* and Japan Association of Corporate Executives. At this point, I'm the only woman. In the past, I also served on the board of e-Access and Parco, but for only one year each because their shareholders' composition and consequently board membership changed drastically after one year.

Concept of Diversity

Now I would like to discuss the concept of diversity and its relevance to Japan. In Japan, the word "diversity" was initially used to refer only to gender diversity but now includes other elements. After a long career as a human capital professional, I have come to the conclusion that such elements as gender, nationality, race, religion and others are merely among the many attributes of an individual. For example, this person may be by gender a woman; by nationality, American; by race, Asian; by religion, Catholic; by age, 70 years old, and currently living in Japan. There are so many elements of diversity in this one person named Mrs. Lee. Therefore, we should not priorly reach conclusions about the individual based on such categories as woman, American, and so on. We need to realize that each individual is unique in his or her own way. Therefore, I'm not in principle in support of considering a woman as a category.

However, given the current low level of participation by a woman in leadership positions in Japan, I'm in favor of policies to support the promotion of women until an adequate level of representation is achieved. Let me explain to you two notable trends in the global human capital market over the last two decades. One trend is the diversification of types of people who are active in the business world. We have more women business leaders, for example, more business leaders from emerging countries and so on.

One of the factors that brought about this trend is of course, the shift in economic power from the OECD countries to emerging countries. The graph shows the number of companies based on their nationalities among the Fortune 200 companies in 2004 and 2013. You can see the shift clearly and this trend is likely to continue. This graph shows the predicted share of each country out of global GDP in 2011, 2030, and 2060. The share of OECD countries will clearly decline while the share of non-OECD countries will increase.

Another trend in the global human capital market is standardization. One example is a change in leadership model. Asia's economic emergence has led to change in the corporate leadership model although the Western leadership model was considered desirable by multinationals in the past. Comparing international and economic intelligence unit study of 300 executives working in the Asia-Pacific region in 2006 indicated the preference for hybrid leadership model somewhere between the Asian and the Western ideal types.

In summary, the survey shows that the Asian leadership model is weak on empowering employees' strategic vision and persuasive communication while the Western model is weak on

human relationships, loyalty, and execution through consensus building. Based on this survey and other observations, let me compare several key characteristics of Asian business leaders versus Western business leaders. Western leaders tend to be strong in strategy formulation while Asian leaders tend to be strong in the more tactical areas of execution such as *genba*. Other contrasts to that. Western leaders tend to emphasize the financial aspect of the business while Asian leaders tend to emphasize human relationship. Western leaders value logic while Asian leaders value emotion. And Western leaders stress entrepreneurship while Asian leaders stress organizational interest.

Standardized Leadership Model

Drawing from both models should allow us to create a management style that is truly effective in a global environment. Since the survey was conducted almost 10 years ago, hybrid leaders have started to emerge by now. So the second trend in the human capital market is the standardization of leadership model. In the global human capital market, we need a hybrid leader who can manage both of these trends – diversification and standardization. What about Japan? As many of you know, one of the strengths that made Japan post-war economic success possible was the high quality standardized human capital that was loyal to the organization and worked as corporate warriors, *kigyoushensi*. This word sounds so old-fashioned and obsolete now. While it was the driving force of the economic growth, it also had its shortcomings such as the fear not to stick out or to be different by taking risks.

Japan's Challenges

This table shows that Japan is clearly weak in entrepreneurship. These statistics were compiled by the Global Entrepreneurship Monitor which gauges entrepreneurship index across 54 countries by conducting a survey of 180,000 people. This table shows the entrepreneur index in terms such as perceived opportunities and entrepreneurship as a good career choice and so on. Japan scores in all categories of the index except for fear of failure and media attention. There are two major challenges facing Japan's human capital market. First is a lack of human global human capital, namely the mismatch between the supply of and demand for global human talent.

Global executives and CEOs are in very high demand as change agents. But their supply in Japan is severely limited. According to the survey conducted in Japan by Sangyo Institute of Management in 2011, more than 80 percent of the companies surveyed admit that they have a shortage of global human capital. However, I'm pleased to report to you that during the last couple of years, not a day passes in Japan without seeing the word global human capital or global executives. I feel gratified that Japan now recognizes the need for global executives, although they may be at least 10 to 15 years behind neighboring Asian countries in terms of the developing global human capital.

The second major challenge facing Japan is a lack of diversity in human capital in terms of gender, nationality, age, and so on. It is discouraging to have such a low percentage of women represented in senior positions in the world's third largest economy. Corporate Women Directors International, or CWDI, reported in 2010 that women comprise only 1.4 percent of the members of the Board of Directors of the top 100 Japanese companies. And Japan ranked 104 out of 143 countries in the gender gap survey compiled in 2014 by the World Economic Forum. Solving these two problems, the lack of global human talent and the lack of women in leadership positions, will likely to enhance Japan's global competitiveness.

Solutions

Now the solutions. Let me first put the issue of women in Japan in context. Second, I will describe the current government initiatives to solve these issues. Third, I will share with you the efforts in the private sector to advocate women by focusing on the actions taken by the *Kezai Doyukai*. This is one of the three most prominent business organizations in Japan and generally viewed as the most progressive. Let me first mention issues often cited as obstacles to promotion of women in Japan. Some of you may be familiar with them, but let me just go over them to set the context.

First, the low level of female labor participation in Japan – 63 percent in 2011 compared to around 3 percent in most other G-7 countries. Given the demographic change Japan is now undergoing, we will not have a sufficient labor force in the near future. Japan's population in 2005 was 127 million, but this is projected to decrease by almost 10 million to 118 million by 2030. This will not be such a problem if the age composition were in the shape of a pyramid. But the reality is that in the year 2030, we will have 10 percent more people over the age of 75 and 3 percent fewer people who are under the age of 14. This is likely to have profound effect on Japan's dynamism, productivity, and competitiveness. We cannot afford not to utilize or underutilize labor force - women.

Second, the so-called M-shaped curve. About 60 percent of Japanese women who work leave their jobs after giving birth because it is so difficult to manage both a household and career in the current work environment. As a result, there is a huge absence of women workers in their 30s. This is partly due to a lack of infrastructure such as day care centers to support working mothers. The government has set a goal of establishing child care facilities for an additional 200,000 children by March 2015, but this may not meet the urgent demand.

Third, the most fundamental problem in Japan is the traditional division of labor between men and women. For the majority of married couples, men were primarily responsible for earning money by working outside the home while women were responsible for managing the household and raising children, although many housewives now work, have part-time jobs out of economic necessity. This practice allowed men to devote literally 24 hours seven days a week to their work. This is clearly impossible for working mothers to compete with even assuming they wanted to.

Participation in Society with full Equality

I have been advocating that we should aim for the true *danjou kyodo sankaku* or men and women are participating in society based on full equality; that is, men should also have the right to engage in activities for which women used to be primarily responsible such as childrearing. According to a survey conducted in 2003, over 50 percent of the fathers expressed active interest in engaging in childrearing. When I give talks to young Japanese, I always ask the men in the audience how many of them want to be actively responsible for childrearing. About 80 percent of them raise their hands. They should have the right to be responsible for childrearing.

So I'm now proposing the concept of joint childrearing to allow both men and women to manage work and life effectively. We need to solve a fundamental problem, the Japanese business practice of overworking or late working hours. In the past, the longer your working hours, the more your company appreciated and rewarded you regardless of the outcome of your work. Therefore, when your boss was working, it was difficult for you to go home. This working style has finally been identified as responsible for inefficiencies that has lowered the productivity with the white-collared workers in Japan.

Japan's labor productivity ranked 21st among the 34 OECD countries in 2011, at the same time, the working style is preventing working mothers from advancing their careers. Both the private and public sectors are now trying to change this habit by introducing various systems and mechanisms. Itochu, for example, shifted its overtime work from evening to early morning by banning employees to work in the office after 8:00PM and paying the same overtime in the morning and providing free breakfast if you work between 5:00AM and 9:00AM. This has been cited and emulated as an innovation that is giving more flexibility to workers and resulted in higher productivity for the company. They achieve the highest performance this year as a result.

Public Sector Initiatives

Now let me evaluate the current public sector initiatives. When the Abe administration first announced its new initiative to promote women, it was greeted with some skepticism. However, many of us were pleasantly surprised by his speedy implementation of several of the policies. I was particularly pleased to see the Abe government clearly stated *kai yori hajimeyou* or change start from within the government leading to a marked increase in the appointment of female cabinet ministers.

Since the enactment of the Equal Employment Opportunity Law in 1986, almost 30 years ago, various policies had been implemented in Japan's legal provisions such as maternity leaves, which is among the best in the world. However, as I mentioned before, as of 2014 Japan still ranks 104th out of 143 countries – the lowest by far of the industrialized countries.

In the gender gap survey compiled by the World Economic Forum, the low ranking was in part because Japan so ranked low – 126 in female representation in politics. Therefore, I was encouraged that the Japanese government growth strategy explicitly stated that the government should be the first to change. Another reason I welcome this start from within approach is that the public sector can set the example before it urges the private sector to promote women – something that has worked in other countries. But it is also true that even before this government initiative, certain segments of the private sector had already started to take actions to achieve the target set by the government in 2011 that women should occupy 30 percent of management positions by 2020.

For example, in May 2012, several months before the Abe government assumed office, *Kezai Doyukai* issued a declaration committing its members who are the top management of major Japanese companies to make efforts to achieve the government target by promoting women within their own companies. I was also encouraged by the fact that the Fiscal Year 2015 government budget announced this month allocated ¥0.5 trillion - approximately \$4.3 billion – a significant increase from ¥0.3 trillion or \$2.6 billion to child care support to realize a society in which all women can shine.

In addition, over the last three years I have been invited to numerous meetings with government ministries, including the Ministry of Health, Labor and Welfare; the Ministry of Economy, Trade and Industry; and the Ministry of Education, Culture, Sport, Science and Technology, on how to promote women including with Minister Masako Mori who is in-charge of this issue. She organized a meeting for several of us to report our current activities face-to-face to Prime Minister Abe, and he appears committed to promoting women in both the private and public sector.

It was unfortunate that the new legislation for the promotion of women submitted to the Diet last year was withdrawn due to the snap election called for December 14. However, I understand

that it will be proposed again to the next Diet session. Given all of these activities and initiatives, I can say with some confidence that the Japanese government is finally getting serious about promoting women in the workplace. I don't have time to explain in details all the government initiatives, so I have just discussed a few of them. You can find additional information at relevant Japanese government websites.

Private Sector Initiatives

How about in the private sector? It has certainly lacked diversity. This table shows the Fortune 200 top global companies by nationality. In 2004, there were 27 Japanese companies on the list. CWDI initially reported that there was a grand total of only three women on the boards of these 27 corporate companies. This was seen even then as an astonishingly low number. But it turned out upon further investigation that one of these three was actually a man. CWDI had mistakenly assumed that the person was a woman because his first name, Chiaki, could, like Dana or Leslie, be used by a man or a woman. So there were in fact only two of us, me at Sony and Ms. Ginko Sato at Hitachi, meaning that only 0.7 percent of the board members of Japan's top 27 global companies were women.

I'm happy to report to you that slowly but surely the situation is improving. For instance, CWDI reported last year that of the 25 Japanese companies in Fortune Global top 200 companies, 10 now have women board members comprising 3.1 percent of the total number of Board of Directors of these companies. This is admittedly still low, but an improvement from 0.7 percent just 10 years ago.

Finally, for the last four to five years, both the private and the public sector have come to realize that the utilization and promotion of women is a necessity, not a choice. Second, *Kezai Doyukai* in 2011 created a human resources committee of which I'm the chairperson. I was the chairperson. Its mission is to strengthen Japan's global competitiveness through increasing diversity, thereby, stimulating innovation so that Japanese companies can compete more effectively in global market. We focused on two areas of diversity: 1) promoting women to decision-making boards, above *buchou* level; and 2) promoting and utilizing highly-skilled foreign nationals and foreign students. Between April 2011 and March 2014, we published six reports, including a declaration by top management of the importance of: 1) promoting women; 2) promoting highly-skilled foreign professionals. The declaration for promoting women states as follows: Business will start to achieve their target of female managers' rate of 30 percent or more by 2020 set forth by the Japanese government. At the same time, business will also aim to appoint female executives. With this target in mind, each company will adopt its own target figures according to its circumstances. The current figure and target figure set by each company will be released in annual and CSR report.

Kezai Doyukai will immediately examine the establishment of a Next Generation Managerial Development Program for cultivating female managers and executives. Executives belonging to *Kezai Doyukai* will strengthen their awareness of diversity on decision-making board as a managerial strategy. Seeking numerical target was the most sensitive issue, and I expected strong opposition from the leadership of *Kezai Doyukai*. However, it turned out that not only was there no objection but, instead, there was a strong endorsement of this declaration. It was almost as if it was politically incorrect to oppose the idea. We presented the time schedule for all parties involved like CEOs in companies, and female individual, male individual, government, society, and *Doyukai*. In particular, *Kezai Doyukai* itself will be responsible in shifting *shigoto menzou*, policies to exempt women from work; to *shigoto keizoku*, support the women to continue working and building careers.

To ensure that the top management who are *Kezai Doyukai* members will implement the declaration, we took three follow-up actions. First, internally we conducted a survey of the relevant companies to share information to understand where they stand compared to each other and demand of them of the commitment they made. We have been conducting this survey annually and just published the third survey results last December. If you are interested, you can go to *Doyukai's* website to download it.

The second action was to create a CEO training seminar for 40 percent men and 60 percent women sponsored by *Kezai Doyukai*. By now, two nine-months seminars have been completed. Currently, twenty-four women and men above *buchou* level and some corporate officers are attending the third program – a one every three weeks' seminar - to provide training for them to become future CEOs of their companies. I attended the final session of this seminar and was pleased that several male attendees who had never encountered senior female executives at their own companies told me that they changed their views of women as professionals because they were so impressed with the abilities of the female attendees at the seminar.

The third activity is both internal and external. I invited several influential speakers from the outside to discuss the current status of women in other countries. Among them was Susie Roos, wife of the then U.S. Ambassador to Japan and an employment discrimination attorney. Another was Carlos Ghosn, president of Nissan, who had a panel discussion with Yasuchika Hasegawa, Chairman of Takeda Pharmaceutical and Chairperson of *Kezai Doyukai*. In addition, I helped to arrange for Chairperson Hasegawa and IMF Managing Director Christine Lagarde to appear on a special one-hour program on NHK TV *Close-up Gendai* to discuss the *Kezai Doyukai's* declaration and the need for Japan to promote women.

In order to find out how much progress we have made, let me share with you some of the results of the *Kezai Doyukai's* survey - some encouraging, some not. The graph shows the percentage of women above *kacchou* manager level. The majority of the Japanese companies still mainly have their own executives on their board of directors, this is different from most publicly traded American companies where the majority of the board members are external and the independent. Being elected to be a member of the Board of Directors is considered a career achievement in Japanese companies. So this may be one factor that makes this system slow to change.

The bottom line of the graph is the total percentage of women who are on the Board of Directors. This is currently 2.7 percent, a mere increase, 2.1 percent from 2012. The median line of the graph shows the percentage of *kacchou* level managers. It increased from 4.9 percent to 6.1 percent. The top line is the percentage of women among external board members. As you can see, a majority of the companies are bringing in women as external board members. The percentage of women external board members has almost doubled in three years, from 4.7 percent to 9.1 percent. Given the government initiative to encourage Japanese companies to have at least one woman as a board member, I expect the percentage of woman board members will grow but mainly as external board members. There are unfortunately not yet enough internal women candidates to fill that role.

In response to a question about numerical targets, in 2012 close to 60 percent of the companies did not plan to institute numerical targets. In 2014, however, the situation reversed and 66 percent of the companies either instituted or plan to institute numerical targets. Of the 15 of the companies that had numerical targets in 2012, close to 60 percent announced it publicly. In 2014, it went down to 52 percent, but I expect it to increase given the government encouragement to disclose. According to another survey conducted by *Kezai Doyukai* regarding

new hires from colleges, in the nonmanufacturing sector, over 50 percent of the companies hired more than 40 percent women. I heard from at least four executives who are in charge of hiring new graduates that if the hiring decisions were made solely on the results of college grades, interviews and exams, 70 percent of the new hires will be women.

The first graph shows that the top management considered diversity in decision-making boards as a matter of managerial strategy. The companies that plan to include the issue as an element of the managerial strategy increased from 67 percent in 2012 to 85 percent in 2014. Also in 2012, 60 percent of companies had a unit dedicated to promote women in their organizations, but this increased in 2014 to 70 percent. The survey also asked whether men are taking childrearing leave because *chuu danjou kodo sankaku* and men's active role in childrearing and in household chores are critical for the success of a woman in the workplace. In 2014, the figure more than doubled from 3.5 percent to 7.5 percent.

Also, regarding whether the companies are setting up numerical targets for men's childrearing leave, the percentage of companies that have set up numerical targets has increased from 5.2 percent to 8.1 percent in 2013 and went down to 5.6 in 2014 due to a difference in the composition of the respondents. However, including the companies that plan to set targets, it has increased from 31 percent to 59 percent. It is encouraging that the chairman of Nippon Life Insurance, Mr. Okamoto, a vice chair of the *Kezai Doyukai* led the campaign at his company to get 100 percent of the male employees whose wives had a child to take a one week childrearing leave. They achieved 100 percent of the target in the last fiscal year showing that commitment at the top can dramatically change employee behavior.

Can Women Save Japan?

Finally, I would like to give my response to the initial question I posed, can women save Japan? My response is a resounding yes for the following reasons. First, women have extremely high potential. As I mentioned to you, recruiting managers in Japanese companies tell me that if the hiring decisions of new college graduates were made solely on the results of college grades, interviews and exams, 70 percent of the new hires would be women. It is factors not related to their ability and potential that are preventing them from being hired. Second, many women are well-qualified to be global leaders. Why do I think so? Because many of them satisfied the requirements that are considered important to be a global leader.

This matrix, which I created, shows the requirements for a hybrid global leader. Given the time constraints, I will not discuss the details. But many women tend to score high in several important traits such as tenacity, integrity, and creativity which is important for entrepreneurship. As an example, the Development Bank of Japan began an award program four years ago to identify, encourage, and reward women entrepreneurs. As the chair of the Selection Committee, I have been very impressed with the quality and number of applicants to this program. The first year, we had over 600 applicants from all over Japan, and some of the awardees are proving to be highly successful businesspersons.

In my work as human capital consultant, over the past 25 years I have met and evaluated more than a thousand Japanese executives both men and women. My firm conclusion is that a person's ability to produce business result is more individual-specific than gender-specific. As you know well, competency is not gender-specific. In Japan women are among the highest-scoring graduates of the major universities, so they naturally satisfy many of the requirements in the personal attributes, category of this matrix on this slide. A study conducted in 2008 by the U.S. Pew Research Center of 2,250 respondents on who is the better political leader, men and

women, it showed that in seven of eight leadership traits mentioned in the survey women were rated better than or equal to men. In particular, women scored high on such traits as compassion and outgoing - important for building human relationships, one of the leadership characteristics of Asian leaders.

Third, we have numerous studies conducted by Toyo Keizai, Catalyst, and McKinsey that indicate the positive correlation between the utilization of women and the company's business performance.

Fourth, since many Japanese companies tends to be *yoko narabi* - that is, follow each other's examples - as soon as one company becomes successful in promoting women, other companies will likely to follow. Actually, this trend has already started to happen. Recently, I had the opportunity to review the activities for promotion of diversity by 60 Japanese companies and was pleased to learn that so many companies are seriously tackling this issue. The level of progress varies depending on the industry sector, but some companies have already achieved the 30 percent target. Some have been making progress steadily while others advance quickly, and there is strong CEO leader leading the effort. Several companies have already started to implement policies to create a working environment in which both men and women are able to increase productivity by working efficiently and flexibly. So my response to the initial question is yes, women can save Japan.

Conclusion

Finally, I would like to emphasize one last point. This has to do with the condition necessary to succeed in the promotion of women. As I mentioned before, in order for women to realize their full potential, we need to realize through *danjou kodo sankaku*, men and women participating in society based on full equality. This is the key to the success of these efforts. The state started to advocate this concept two years ago when I attended meetings with Minister Masako Mori who was in charge of trying to stem Japan's demographic decline. Although the issues and policies were laid out in great detail, I expressed my concern that all the proposals were still based on the old notion that childrearing is a woman's job. But now, both the public and private sectors are trying to change the traditional work environment by creating new, smart, and innovative ways for men and women to work depending on their individual life stage and circumstances. Pursuing this new idea of work-life management rather than the old notion work-life balance, should promote the realization of a true *danjou kodo sankaku*. Thank you very much for your attention.

Matthew Goodman

Thank you very much, Sakie, for getting the day off to a wonderful start. Thank you also especially for persevering in *yoko ganbarimashita* with your cold and your sore throat. At this point, I'd like to turn the stage over to James Schoff for the first panel. Jim will introduce the panel members.

Morning Panel Discussion

Domestic Political, Economic, and Social Development: A Look Ahead

James Schoff

First, I would also like to express my thanks to Sakie for that wonderful keynote speech. It was incredibly informative, but showed a tremendous insight based on your personal experience. It's given me a little bit of energy here. Thank you, everyone, for joining us again. Obviously, the distinction between domestic and foreign policy issues often gets rather muddled sometimes especially when we talk about politics or when we talk about economics. So between our two panels today, we may end up covering a little bit of similar ground and cross over into each other's territory. But we will focus our panel primarily on Japan in 2015 from a domestic perspective. To do that, I'm very pleased to welcome three talented panelists to help us explore the topic.

First, let me introduce a longtime friend of mine, Keiko Iizuka, who is the Washington Bureau Chief for the *Yomiuri Shimbun* here in the center. Thank you for joining us. She was previously a visiting fellow at the Brookings Institution and was *Yomiuri* senior political correspondent and London correspondent. She had the political beat in Japan, so she will help us with an initial focus on politics in Japan.

And then after Keiko, I'm going to turn to Richard Katz on what is probably the central domestic issue at hand in the coming year which is the economy. Rick is a veteran journalist and analyst who's been diligently researching, analyzing, and writing about the Japanese economy for about 30 years. I've always appreciated the work that he's done ever since I became involved with Japan. He's editor-in-chief at the *Oriental Economist Report* and a special correspondent for the weekly *Toyo Keizai*. His two books on Japan's economy have been published both in English and in Japanese, including *Japanese Phoenix: The Long Road to Economic Revival*, which was published in 2003. So probably, he's going to talk about fixing Abenomics today.

Then also to my right we're very pleased to welcome Shihoko Goto, the senior associate from Northeast Asia at the Woodrow Wilson Center here in Washington. She works on Japan, Korea, Taiwan. She also has a journalism background. So we have journalists galore up here. She was a correspondent for Dow Jones news service and United Press International based both in Tokyo and in Washington. And she remains a contributing editor to *The Globalists* online magazine. Shihoko is going to discuss the perception gap between how Japan sees itself and how it is viewed by its key partners, and the resulting challenges for Japan's leadership in that regard.

We have a full plate to discuss. And then we'll involve the audience at the end. Keiko, if you're ready, let me give you the floor to take on the political dimension. Thank you.

Keiko Iizuka

Yes. Thank you so much for the kind introduction, and thank you for having me here. Happy New Year, belated. I'm sorry I missed Ms. Fukushima's address, but I will try to try to catch up. With my background, I think I would like to focus on Japanese domestic politics. There are two things that I would like to primarily point out with regard to the Japan's political landscape this year and beyond. First thing is the stability of the Abe administration, and the second part I will focus on the issues and perhaps the difficulties the administration will face or is now facing.

Stability of the Abe Administration

In the first part, the stability of the Abe administration, I would like to explain by analyzing the last general election in December with some numerical figures. I would like to say that it has gained, as you know, considerable political capital. It won public mandate with a landslide election victory. What I would like to show is that they have won 294 seats, both the LDP and Coalition Komeito. Sorry, it's 290. This was virtually a landslide. This has quite a significant meaning because since the end of World War II there were only five general elections in which the LDP-led administration won with over 290 seats in Lower House. The first was in 1960 under the Ikeda administration. That was a very, very long time ago. Then after that, it was 1986. That was under Nakasone. The second was 2005 under the Koizumi administration, and after that in 2012, and the last one. So that makes only five elections. Perhaps if you look back in 2009, that was not won by the LDP but it was won by the DPJ administration with Hatoyama. That was 308 seats, which was enormous victory.

The reason why I'm bringing up these five or six figures is that none of them, except for Abe, had the next national election - meaning the Upper House election - won. I mean they have had a huge defeat, meaning that Nakasone at the Upper House election afterwards it was 36 seats. Abe, after the Upper House election fought by Abe, had 37 seats, which was a huge defeat. Hatoyama had only 44. The DPJ won only 44 seats, which was a huge defeat. And just looking back, Abe, in 2012 they won 294 seats. And then at the Upper House election the next year, the LDP won 65 seats - the LDP and the Komeito - which was a huge victory. Then at the election last month, they won with 290 seats. They literally had a trifecta, which no administration had achieved.

I understand that that was part of the tactical strategy, that Abe won the last election. But every leader like Koizumi or Nakasone tried to win the next national election, but no one could have done it. I will just explain why it is so significant. Under such kind of elections, the first grader - meaning the member of Congress or the lawmakers with the experience of winning one time - came back considerably. I mean with almost all the people, the first grader congressmen returned or came back to the Diet which has a very significant meaning. No one has done it. Under Koizumi, the freshmen, there were 83 freshmen. And then next Lower House election, only 10 came back. Under the DPJ victory, there were 143 freshmen. And the next election, only 11 came back. In the 2012, Abe election, there were 119 freshmen. And then last month 105 came back, returned. That was a significant thing for the LDP that the second grader have a considerable political basis.

For the DPJ or other opposition parties, they have very little freshmen - I mean very few freshmen - and then second grader lawmakers. All these figures show that Abe will have quite a stable political base. But still policy-wise and politically, of course Abe will have lots of issues and problems ahead. I would like to point out very briefly, and that's my second point, in my opinion there are primarily three major agenda. The first is of course economy, which will be discussed extensively by Richard-san so I won't go into detail. But it's certain that Abe must deliver a strong economy by carrying out various reform policies with Abenomics.

Challenges Facing Abe

In order to follow through that consumption tax hike to 10 percent, a healthy environment must be created by April 2017. I will not go into detail, but the economy is the biggest and foremost and the largest issue and problem and difficulties for Abe. Second issue or difficulty is regional or local people, I mean the rural area prefectures and areas. Spreading the benefits of Abenomics is going to be perhaps difficult. The stark contrast with the national general elections

that I just explained, the Abe LDP is having a hard time with major prefecture gubernatorial elections.

Okinawa in last November and Saga just last week, in both elections LDP-endorsed candidates lost to opposition contestants. In Okinawa, of course relocation of the U.S. Marine Corps, Futenma Air Station, was the major issue. And in Saga, I think this is more serious. Okinawa is serious as well, but structurally in Saga this is more serious because it has implication to other prefectures in rural area in Japan. LDP-endorsed candidate, the reason why their candidate lost was that Saga was an agriculture prefecture. I mean agriculture is their primary industry and the voters were frustrated at the Abe administration stunts. Abe tries to promote reform of agriculture cooperatives and negotiations for the TPP, Trans-Pacific Partnership Free Trade framework. I think that the Saga's case was symbolic in that it not only showed that the benefits of Abenomics have not spread enough to the rural region. But also it signified a symbolic dilemma which Abe cabinet faces. That is, in order to promote Abenomics and spread them to regional areas, it will have to push forward reforms that are painful for local regional people. There are going to be some difficult agenda such as welfare and labor or system reforms, which will be also painful for rural area prefectures.

In that sense, this April unified local elections will serve as a big test for Abe. There are gubernatorial elections in 10 prefectures on April 12 and prefectural assembly members' elections in 41 prefectures on April 26. It's reported that Abe might visit Washington in May. We will just look at how his face will be after these two major local elections. And out of ten gubernatorial elections, the Mie in the mid of Japan has developed into one of the most closely watched election. Mie is the home turf of Katsuya Okada, the newly second-time elected DPJ. He was just elected this Sunday. So the LDP is going to make effort to win this election.

And third difficult agenda, of course, is improving ties with China and South Korea. It coincides with the 70th anniversary of the end of the World War II. Abe plans to release an Abe statement this August, which is to commemorate 70 years since the end of the World War. Depending on its content, it could invite backlash. The government is planning to take the utmost care in crafting statement, and it's understood and reported. Abe has expressed that he is going to keep the Murayama statement that was released in 1995 which expressed deep remorse and heartfelt apology for its colonial rule and the military invasions during the war. And on the 60th anniversary in 2005 the Koizumi Statement was issued, and it adhered to the Murayama statement. Abe had said his message will basically follow these statements, but will also place focus in the future. So I think depending on how he describes in his statement, it might backfire.

If Abe is going to take advantage of the opportunity to improve the relationship with two countries, that will be a great thing. But I personally myself think that that will be a little bit ambitious. Maybe I might touch about this later. And policy-wise, there are I think two more important agenda which are the security legislation involving collective self-defense and the negotiation of TPP. But for the interest of time, I will stop here. The reason for that is the first three issues are the most difficult ones for Abe.

James Schoff

Thank you very much. Thank you for sharing your insights with us. I'll ask a couple of questions after we go through the whole panel, before we open it up, because there are some themes I want to pick up on. But let's shift to the economy because that is number one on the challenge agenda. Rick, I turn to you.

Richard Krantz

So Abenomics, Abe's got a great team for making names and PR. I only wish the substance were as good. But Abenomics is a good name and it has got these three arrows, his famous three arrows. Again, this is great advertising. The three arrows as originally designed with the idea that you need monetary stimulus, you need fiscal stimulus, and you need structural reform. Now, in my view, if in fact Abe were doing all three arrows and if he were doing them properly, then Japan would have very, very bright prospects. The problem is he's only really got one arrow, which is monetary stimulus.

The second arrow which really was fiscal stimulus, they changed the name to bold but flexible. If you know what that means, please tell me. This man uses the word bold more than any other prime minister in the history of the world. But the second arrow is actually now a dart and flying in the right direction. If I can mix my metaphors here, he's got a heavier foot on the fiscal brake which is tax hikes than on the fiscal accelerator. And it's the wrong thing. The thing about Abenomics is you not only have to do the right thing, but you have to do the right things in the right order. Doing the right things in the wrong order can lead to disaster. That's what I think is the problem here. He should be going for recovery first, and then worrying about the debt load. If you worry about the debt load when economy is still weak is a recipe for recession. In fact, they went into recession because of the tax hike.

The third arrow is lots of really, really nice sounding goals with absolutely no strategy to achieve them. Moreover, this is actually something I want to ask Keiko about. It's very curious. If there were any time when any prime minister would have the political clout to take a risk for reform, it is Abe at this point. How many Diet members owe him their seats? He can say to them, "You owe me. I want TPP. I want nuclear power back on. I want this. I want that. I want the other thing. You owe me. And if you don't like it, get out of the party." Where are you going to go? But he doesn't do it. He seems very risk averse. I cannot think of a single, major domestic interest group, which he has actually challenged for the sake of economic reform. My theory is because his heart does not beat to the rhythm of reform or rejuvenations. His heart beats to the rhythm of what his grandfather did or did not do 70 years ago. And this serious issue of collective security which I think is a responsible policy but again these are the issues that move him.

Importance of the Three Arrows

In my view, all three arrows are absolutely necessary. None by itself is a vision. They don't work without the other two and that's the problem. The other problem is I know the people on the team that created Abenomics, has been tutoring [sounds like] Abe since 2009. And basically all they really care about is the first arrow. Well, some of them care about the second arrow. And the third arrow, kind of icing above the cake. It's nice but not really needed. So what you get is this theory about the first arrow. Now the theory about the first arrow, it's really a confidence game in two senses of the word. One is a con game, but secondly the theory behind Abenomics is that Japan is suffering from an economic malaise because it's suffering from a psychological malaise, and deflation both reflects that and reinforces that.

So if you can overcome deflation, you can get people confident again. They're going to go and hire people, raise their wages, and the consumers will spend, and it will all be morning in Japan again. Instead of a self-fulfilling prophecy, if you get people to believe times will be better, they will act as if and that will happen. The theory is just plain wrong. One of the problems is that they keep making promises that they cannot fulfill. So in fact they actually have self-denying prophecy is because they prove to be destroying their own credibility. So Abe promised he was

going to produce 2.0 percent real growth per year on average which is the same thing the last six prime ministers including Abe 1.0 promised. And if you do this, it's a five-year moving average, we know we're close except for one five-year period under Koizumi. So it just hasn't happened.

The Bank of Japan said, "We're going to get you 2.0 percent inflation in two years by doubling the money." It's kind of a 2-2-2 program. Again this whole idea of, if we just throw lots of money at the problem, we can create inflation. And as long as people believe, the consumer will go and spend before the prices go up and companies are going to raise wages and all the stuff is going to happen. Now in fact, the only reason prices appear to go up for a little while was because the yen was weakening which means you're paying for higher import prices. But that means in fact what you're really doing is you're paying higher prices for oil, for smartphones, or whatever. I've looked at this story closely and if you look at the last 10,000 years of human history, I have not found one single case where any nation has grown faster because it's paying more than the Arab oil sheiks for their oil. I just can't find it. But that's what Japan is trying to do.

So that Kurota is like a car mechanic. You bring your car and he says cars need gasoline to run. And I'm going to give your car lots of gasoline. You've got a 15-gallon tank. I'm going to give you 30 gallons. And you say, "But Mr. Kurota, the engine's broken." "Okay, I'll give you 45 gallons." "Yeah, yeah, but the engine's still broken." "Okay, I'm going to give you 100 gallons." And if it doesn't work Kurota says, "You know the problem, the problem is you don't have acceleration expectations. If you really believe the car will run, it will run," so inflation expectations. It's a weird theory, yet Japan is operating on that ground.

Problems with Deflation

Abe has guaranteed that the deflation was set on a virtuous cycle and companies were going to raise wages. So this is something he wrote in January 2014 that there's going to be a wage surprise. All of these companies are going to raise wages because they saw prices are going up. And that was going to be so much of a big wage increase it would offset - more than offset - the negative impact of the sales tax hike of this I am certain. At any time, Abe says, "Of this, I am certain," you know it's not going to happen. Just like when he says, "I'll make a bold move on this." You know he's not going to do anything.

I'll stop being so wishy-washy in a second, but right now I'm trying to be diplomatic about it, because that's what Jim said I had to do. So here he was certain that wages are going to go up. Of course, what's really happened is that wages have gone down precipitously. They've been going down for the past decade. They've gone down even faster under Abe. Of the real yen is actually if you will adjust for price increases in Japan or for other places, the real yen is actually the weakest it's been since the 1970s. Now, we're talking about a half a century ago; it's almost a half a century ago, 40 years ago. Yet you have Japanese companies unable to compete. Can we put that chart in? The real volume of exports in terms of the number of cars, tons of steels, et cetera, have not increased since the yen has been weakening for two years.

So the benefit of a weak yen is that it should increase your exports, but that has not occurred. The cost of a weak yen is you're paying more to other people. You're transferring purchasing power from Japan to Arab oil sheiks and Apple and Samsung and farmers in the U.S. or wherever or in China. That's why real wages are going down because you're transferring money out of the pockets of Japanese consumers into the pockets of, not only the foreign suppliers but also into the pockets of these big, giant Japanese companies like Sony - but Sony, they're not doing so well. Toyota, at least they're erasing their losses, Toyota and these big exporters. So

these companies are making money and the people who hold shares in these companies are making money. But the ordinary people of Japan are getting shafted.

Limited Access to Abenomics

As a result, now the poll show, whereas two years ago, 80 percent of the people said I do not feel any benefit from Abenomics. But I expected there will be a benefit because I see the stock market going up, blah-blah-blah-blah. Now the polls show that in fact, the plurality of people now expect Abenomics not to produce results, not to create a better Japan. I have to disagree with Keiko in a second. I think the problem is not that the fruits of Abenomics have not been spread to the rural areas. I think they've not been spread to anybody except for a few giant companies. I think it's in the urban sector as well. And if Japan had an opposition party, maybe the electoral results would have turned out differently but the DPJ is unfortunately the DPJ.

So the first arrow has just been a complete disaster and the BOJ has already put up not quite the white flag of surrender but kind of a gray flag. So they have promised to produce 2.0 percent inflation by the next fiscal year that begins in April of this year and will end in March of next year. Now they've just downgraded it to say it's only going to be 1.0 percent. And private economists think it will be even lower than that but we're actually going to have several months of deflation again in Japan.

So the first arrow has done what I expected it to do which is to say, if the other two arrows were going on then everything Kurota is doing would have been good. It would have helped. But in the absence of the other two arrows, it's a flop. The second arrow again is the tax hike. Now the Ministry of Finance and the BOJ sold Abe a bill of goods. They said, "You know what? The economy is doing so strong and if we don't move quickly on this debt, we're going to turn out to be Greece." So you can raise the taxes and you're not going to be another Hashimoto of pushing the economy into recession and we promise you. Their promises are as good as Abe's.

Anyway, so he promised. So he did this tax hike even though a couple of advisers said to him - the people who actually created Abenomics, people like Honda, Hamada, et cetera - said don't do it. Don't do it. Don't believe him. But he believed him. He did the tax hike. What we see now is that consumer spending is actually worse, at least so far, in reacting to the tax hike than it was after the 1997 tax hike. Now I don't know if anybody is expecting that it's continued to be worse and that next year will look as bad as '98 looked in Japan. On the other hand, now respective two consecutive quarters of negative growth and that's what you got. So we'll see how it goes.

Contrasting Japan with Crisis Countries in Europe

But clearly, this is a problem and Abe was correct to delay the tax hike. What I personally would have done instead of saying we're going to do it in 18 months for sure, come hell or high water, I would have said, when we actually see sustained inflation or when we see actual hikes in real wages, when we have a benchmark shows a real recovery and that's sustainable. Then we're going to do the tax hike. Now the excuse for the tax hike is to avoid a Greek tragedy. But Japan ain't Greece. And the MOF people know this even though they tell Abe the opposite.

If you look at all the crisis countries of Europe, now this is a really snazzy chart. This is why I'm a chartaholic. This is really cool. So the horizontal line is the net government debt as a percentage of GDP. And the vertical line is your net international assets as a percentage of GDP or I could have used current account deficit, basically how much do you owe the foreigners.

What you'll see is that every single crisis country is in the lower right-hand square - Greece and Portugal and Ireland, whatever. Not only did they have an internal debt problem, but they had an external debt problem. So the foreigners withdrew their money. The interest rates went skyward. They couldn't afford to buy the oil and the spare parts, and the economy just tanked.

There are lots of countries that have a domestic debt just as big as the crisis countries, but they also have a surplus on the international side and they're not in crisis. Is anybody worried about the Belgian crisis? Is anybody worried about the Dutch crisis or the German crisis? Forget about the U.S., because we print our own money. So Japan is in the upper right-hand corner. Yeah, lots of internal debt but it owns lots of assets internationally. It is not vulnerable to capital flight. Japan has got years and years and years, not forever, but years and years. Remember we were told for 20 years now, unless they do a scenario right now, they're going to have an imminent crisis. But in fact Japan has got the time to say, "No. First we get recovery and then we do austerity." To do austerity first means no recovery.

Now, the third arrow, that really should be about how do you get people to produce more? The number of working hours in Japan is going down. In any economy, growth is the sum of two things - how many hours are people working -- no, it's if they're working 1.0 percent more hours total of all people all of them combined. And how much do they produce in each hour, so that GDP per hour. So let's say they're working 1.0 percent more hours and 1.5 percent additional productivity, so 1.0 percent plus 2.0 percent gives you 2.5 percent GDP growth. Well in Japan, the hours have been going down since 1990. So the only source of growth in Japan is efficiency. It's productivity, getting each worker to produce more per hour.

Productivity comes from creative destruction, which is to say when you have mediocre firms, these mediocre firms or these bad firms are replaced by better firms, either in the same industry or in different industries. But if the destruction is too destructive, it's politically intolerable and the problem is Japan does not have a safety net - a government supplied genuine safety net. Your safety net is your current job at your current company, which means there is an awful lot of political pressure to sustain your current company even if its sustenance is dragging down the firm. They also have labor laws, which say you can't lay people off until the companies at death's door.

Now if they have a situation where companies are not willing to hire laid off people, then that's perfectly understandable. But this is a labor system that Japan has. It did not always exist this way. It was a labor system created after World War I and after World War II to solve specific problems all those times. It was created by people, and it can be changed by people. And Japan is very good at creating a *nemawashi*. It takes a while getting people together and getting some companies to stick their nose out and do things and other companies follow. Japan can do that. We've seen reform in Japan. We've seen this succeed. But Abe has not been doing it.

New Jobs in Japan

Now so this is the problem. So what have we seen? We say that Abe says he's created new jobs. But the only jobs that have increased under Abe have been these low-paying jobs of the so-called "irregular work." You have people who have a no layoff, basically no layoff contract indefinite contract. They get paid a certain amount of money per hour. And they have this twice a year bonuses that can provide a third of their income. They have more protection for unemployment compensation, all sorts of fringe benefits. The low-paid workers get paid. even if they're doing exactly the same job, they get paid a third of an hour, a 30 percent less per hour. They don't get these fringe benefits. So these are the only jobs that have occurred.

Now you look at men in their 30's and those who've got regular jobs, 75 percent of them are married. If you look at the men in their 30's without regular jobs, only 25 percent of them are married. Do you want to deal with your demographic crisis? Have regular work or end this distinction. Somebody here in the audience, I'm not going to mention any names, Clyde Prestowitz. But someone here told me that in Holland there's a law which says basically its equal pay for equal work. You don't have this distinction between the regular and the irregular. You could do that in Japan. But instead, what Abe is talking about as labor reform is giving companies the right to lay off more people without doing anything to say, well, how do those people then get rehired?

But if you look at countries like Sweden, et cetera, they have complex security. They spend about 0.5 percent or 2 percent of GDP on this so-called "Active Labor Programs" to help people transition from job-to-job, company-to-company. In Japan, you could do that. But it's, "Oh, we can't afford to spend that money. That's wasting money." Paving over every seacoast and every river, that's not wasting money, but this would be wasting money. As far as womenomics - women's participation - again the jobs for women have been growing but in these irregular, low-paid jobs. And I think it's very nice that they'll be more women executives and that will help change a lot of things, but also we need better employment opportunities for those women who will not be executives in real careers, not just these low-paid, dead-end jobs.

TPP Effects

TPP, let's me say a big couple of quick points. America would benefit from TPP so much less than Japan if Japan will open its food markets. Japan would be the beneficiary. Ordinary Japanese people spend 14 percent of their household budget on food. Americans spend 7 percent. Brits spend about 9 percent. So who would benefit from opening up the Japanese market to more food imports? It's the Japanese people. These sacred sectors, forget about rice because rice is special. But if you look at beef and you look at dairy and you look at pork, we're talking about 100,000 households out of a nation of 46 million. Forty-six million people are being sacrificed for the sake of 100,000 households. Does this make any sense?

People couldn't even have enough butter to buy this December to make their Christmas cakes in Japan. And stores that had butter proudly posted, "We got butter." You would think someone will stand up and say this is why we got to open our market because we don't have enough cows producing enough milk to make enough butter. In fact, if you're on the main island of Honshu, you don't even let the milk come from Hokkaido where the farmers are more efficient. Hopefully, TPP will allow Hokkaido to export to Honshu if it passes. Well the discussion in Japan is not what the butter shortage means; we need to open our markets. It's why we need to give the dairy farmers more subsidies. There's something wrong here. All right, I could go on and on and on and on. But one more chart then I'm done. One more chart.

New Companies

Electronics, now Sony to me is a very, very sad story. Sony is like what is more admirable. Well, lots of things are admirable about Japan. But one of the most admirable things about Japan has been Sony. Look at the number of products that Sony has created. This is a superb, superb firm. But it is very hard for any firm to be superb for decade after decade, after decade after decade. Sometimes you just become merely good. And being merely good isn't good enough in a fast changing market. Where is the Sony Tablet? Where is the Sony smartphone? How come Sony is not hiring the kind of people that are producing products, whatever?

Sony's problem isn't the weak yen. Sony's problem is that it's really hard to be on top of the world for decade after decade after decade. So when IBM fell down, you had Intel and Windows and Microsoft replacing it. Now you got Google and then you had Netscape. You get this whole situation in the U.S. where, as the top company becomes merely good, it gets replaced by a new company. So in the U.S. if you look at the top 21 electronics hardware manufacturers, eight of them did not even exist in 1970. And just 12 years ago, 6 of these 21 were too small even to be in a Fortune 500. In Japan by contrast, there has been not a single new entrant into the ranks of the top electronics hardware manufacturers since 1946 when it's Sony and Casio. So as Sony and Panasonic fall down, who's there to replace them?

That's the problem and MITI their solution is more mergers. Take three sick companies, you put them together, and that's supposed to produce a healthy company? This is 1960's thinking. All right so Japan has seen reform, we saw them clean up the NPL problems. We saw a reform in telecom. We saw a reform in large-scale retail store law. Somebody had to do alliances between people in Japan who wanted change and Americans who wanted change in Japan from a *nai gaiyatsu* thing. So we know Japan can reform and I believe Japan will reform but that needs a leader with a vision and who's willing to take political risks to make the reform work. Shinzo Abe, in my opinion, is not that man. Thank you.

James Schoff

Thank you, Rick. I think you manage to speak from the heart and use charts. Shihoko, let me turn to you, please.

Shihoko Goto

I have no charts. But I want to also thank John and Marc and the Japan America Society and the Carnegie Endowment and Jim for giving this platform this day to really focus on the challenges ahead for Japan. I think when this conference was first established three years ago, there was a lot of expectations for Japan coming from Shinzo Abe and downwards. Japan is back and at that forefront, it was Abenomics. There is still a lot of expectations for Japan but it's not necessarily from its economic expectations. And three years ago, I think there was a lot of expectations about Japan being the anchor and ensuring regional peace at a time when the Senkaku issue was really flaring up as well.

Foreign Perception of Japan

These are challenges still but the perception that Japan is trying to project of itself and the perception that the outside world has of Japan is rapidly evolving, and may I even say deteriorating as well. This 2015 will be a watershed year for Japan in public diplomacy. It has of course the economic challenges. It has many, many challenges ahead but I think this trying to position Japan's image of itself and trying to take on the role that it wants to, will be one of the critical juncture points of this year, setting the stage for how Japan can be in the years and decades ahead.

So I have two ideas. One is about how Japan is seeing its own role in the world and how it's going about pursuing that road. We've talked about Abe's economic policies and as Richard stated they are actually kind of conservative. A lot of Abenomics has to do with marketing and public relations, and monetary policy, granted, is very formidable too and the Bank of Japan has been quite creative. But the other two arrows, one is length and the other is fiscal stimulus. It's

something that has been the same in the past. It's really more back to the future rather than a visionary step.

So Abe still remains fairly conservative in his stance across the board. His idea would be to keep the status quo. What I mean by that is to ensure that Japan remains the key player in the Asia Pacific region. That it remains the most reliable partner for the United States and in the region, and that it can also provide leadership on issues of global concerns that go beyond its own borders and beyond the region and across the world.

And there are certainly concrete examples of that. The Ebola Funds of 150 million has been widely touted by the Foreign Ministry and welcomed by the international community. And there's also hope that constitutional reinterpretation will also allow some more active humanitarian aid on the part of the Japanese self-defense force to get engaged in the region as well. The Japanese government has also contributed \$1.5 billion to the Green Climate Fund, which is the initiative for climate change. That contribution is second only to the United States. And as we know unfortunately from the headlines in recent days, Japan has given 200 million in non-military aid to fight ISIS.

And it has continued to carve out its role in global leadership, quite frankly, by leading with cash and taking on the pocketbook diplomacy approach. I think the latest incident with the hostages by ISIS will give Japan an opportunity to really think hard and think through what the implications of financial aid maybe. That there will and can be a price to pay and Japan should be willing and able and active in taking on these risks when it does engage in international cooperative efforts that isn't simply about collective self-defense in the military sphere.

So that confidence of Japan to continue to be a key player, if not the leader, in the Asia region moving forward and in the world, in the wider world, is based in part in confidence about the U.S.-Japan Alliance. And here unlike the DPJ, Wall Street talked about the nationalistic approach of the Abe government. It actually is conservative with a small c and so far it does not challenge that alliance-partnership. But because of that, because there is so much emphasis to be placed on the alliance, Japan's perception - how it is perceived - by not only its neighboring countries but also by the United States and by its European Allies is much more important than perhaps the Japanese government is willing to acknowledge or do something about at this stage.

Now the United States and Japan are key partners. We like to say that the two countries share values including democracy, free markets, respecting the rule of law. But recent actions by the Japanese government have made many question whether these values are actually being shared or whether these values are actually changing or if there's a shift in that tide. And I'm thinking, for instance, of Abe's visits to Yasukuni in December 2012 which some would argue led to one of the rockiest moments in U.S.-Japan relation since the worst days of the trade wars that Glenn [phonetic] would know very much about. But if that's not comparable, certainly, it marked an incredible low points in Abe's relations with the United States.

U.S.-Japan Alliance

Why is that of concern? Why should that be of concern to the United States? For the United States, the Japan alliance is crucial for ensuring stability in the region. It is a means to an end. It is not the end-all goal. And so as we see the rise of China and the growing confidence and exertion of Korea and the economic balance of power that is tilting less favorably towards Japan, it becomes more -- the value of that bilateral line is not as clear for the United States as it remains for Japan.

So when we do see this friction over history between Japan and Korea and between Japan and China, that puts a spanner in the relations between the United States and Korea, and the United States and Japan as well. And that is something that needs to be recognized. The thought to take home I believe is that the Abe government should not assume that the U.S. alliance that Japan has is forevermore a special relationship with Washington. The alliance is essentially an asymmetrical one. Given the many commitments that the United States has beyond Asia, its commitment to the alliance as it exists today cannot be assured. It's clear that Tokyo and Washington do not share the same stance on policy regarding China, and nor does Tokyo share the same views that Washington has regarding Korea either.

Relationships - the U.S.-Japan alliance is crucial. It is critical for the security of Japan. But at the same time, it needs constant tending. That constant tending which is based on trust, which is based on shared values, those values come back home to the ability for Japan actually to be able to come to terms with its own past. As Iisaka-san said, we are expecting Abe to come to Washington in May. I'm sure the foreign ministry will very much want to have Abe deliver a speech to a joint session of Congress at that time.

Conclusion

There are many hurdles to that. It's highly unlikely that it would happen, and that unlikelihood really stems in great part from the opposition from Korea and China. And that needs to be borne in mind. The Japanese government at the moment, its priority should not be to disengage from Asia and to go into a selective site self-isolationism. It really needs to focus on reintegrating itself into Asia and think about issues that bind them that go beyond economic interest. At the moment, there is a decoupling of social-political realities and economic ties to some extent. But already we are seeing that the tensions are actually impacting investment as well. So if this continues, this is not good for Japan's economic as well as security interests.

Japan's challenge for 2015 will be to sow the seeds for it to be a key player in the Pacific region and to be a provider of leadership in the Pacific Century. It needs to be able to reconcile with its past as a result, and it needs to be able to develop new alliances and partnerships to make that go for it. Thank you.

James Schoff

Thank you very much, Shihoko. I appreciate that. We've covered a lot. There's a lot that we also need to think about in the context of the coming year. I have a couple questions I'd like to ask, but I'd also like the audience to think of questions they'd like to pose to the panel.

Impact of Hostage Crisis in Syria on Japan

First off, picking up on this topic of the hostage crisis in Syria, the terrible tragedy that is unfolding right now and that is obviously a very big issue right now. I'd like to ask the panel your thoughts about the potential impact for this event in the coming year, whether or not this is something that is going to reverberate throughout the year or will simply remain as one of the major events of 2015 but not necessarily carrying on and impacting events going forward. And I'm thinking in terms of the security legislation debate that we will have in the spring/summer perhaps and whether or not this will cause more people to think, well, this is all the reason why we need to stay out of entangling ourselves in these types of activities or could have an opposite

impact of we need to be on the right side or join with others in this struggle. So I don't know if Keiko or Shihoko, whether or not you have any thoughts about this event going forward.

Keiko Iizuka

I think you, Shihoko, touched on that. Okay. Yes, thank you for that great question. It's most timely. I think just at this moment the Japanese government is perhaps agonizing when or how to get an access to the ISIS. And if they do, if they did, whether or not to pay the ransom. And perhaps the policy of the U.S. of course is not to pay or not to negotiate with the ISIS or terrorists. So I'm sure that the Japanese government is consulting with how to settle or how to have some kind of settlement if they do have a chance to have an access to the organization. And of course they must be considering how to do it in a French way, French style, in which they pay ransom.

But apart from that, back to Jim's question if Japan should stay out of all the international conflicts. I would say that Japan is in a big trend. Whether or not it's Abe or not, it will stay in order to contribute or cooperate with the international issues or agenda to make an improvement.

In the case of ISIS, I think Japan has deliberately stayed out of the military operations, I think. And I remember that back in 2004, or maybe '05, Japan has had a similar incident when a Japanese, well, sort of a student or just a young guy who was trapped, taken hostage, and demanded that Japanese Self-Defense Forces should retreat from Samarra in Iraq where they were contributing just to that reconstruction operation. It was the Koizumi administration, I remember that. And Koizumi did not negotiate with them although they tried to. I think they have had access with the organization, the group. And in the end the young man was killed.

I'm not sure what will happen tomorrow in Japan. It will be the 72 hours deadline. But I think that it will have perhaps an impact on the debate or discussion within the Japanese public whether or not that Japan should more get involved in this international conflict or activities. But the basic trend is that it's not going to change. I mean this incident will not change it.

James Schoff

Yeah. Well, thank you very much. And I do think it's important that the government continue to emphasize the humanitarian nature of the assistance that they're providing and to continue to emphasize that with its people so that they understand, and then the region as well, which is what they're trying to do. We'll be picking up a little bit on what Shihoko was talking about in the context of U.S.-Japan relations and some of the potential tensions there.

I guess I might highlight that we also have a number of milestones coming up, a scheduled agreement on new revised defense guidelines in the alliance that we should see in and around the Two-plus-Two Meeting that will be held probably right before the summit meeting between President Obama and Prime Minister Abe. That, I think, will have a very positive effect on the alliance.

And then the security legislation that will help operationalize that will follow shortly thereafter in Japan which, I think, will also consolidate cooperation to some extent. We should also keep our eye on post-nation support. Negotiations will begin again in the latter part of this year because the agreement that the two countries signed will be ready for renewal by early next year.

So we'll see that debate. And in the context of what's going on, kind of the energized anti-base movement in Futenma, there'll be some choppy waters to navigate there. But overall, I guess I'm a little bit more on the optimistic side of how the alliance will carry on to this year. But a lot depends on some of the developments that Shihoko was talking about and others.

Two other quick questions I'd like to ask. This is a very short one. I made a prediction last year at a similar event somewhere else up in Boston that Japan would have by the end of 2014 eight nuclear reactors up and running. I was completely wrong. By the end of 2015, how many nuclear reactors in Japan do you anticipate operating? Would anyone like to make a projection?

Male Voice

Four to six.

Shihoko Goto

And I think we have to bear in mind like oil prices, if they continue to slide down, business [sounds like] would probably go down as well.

James Schoff

Right. Lots of other economic factors as well. Well, I have some other questions I'd like to ask. But let me turn it over to the audience. If there's anybody who would like to ask question of our panel, simply raise your hand and we will -- I have a question in the back. There's a microphone that will come to you. Let us know who you are and ask your question.

Mireya Solís

Thank you, Jim. Mireya Solís from Brookings. So just a question for Rick. I completely agree with the observation that we have not yet proved that the Abe government has tackled head-on any of the vested interest. But there have been interesting discussions around especially regarding agricultural reform. My question to you, Rick, is what is your prognosis? Because in the past few months, to be quite frank, there have been moments when I get very excited. I see the headlines. I see that Japan is going to eliminate some of the programs, *gentan* for example. Then you get to know the substance of a policy and you see that it's very superficial. In fact, this substance will continue to be disbursed.

Another moment when I had high hope was when the Regulatory Reform Council announced that they were really going to go after JA in a substantial way so that the central control that JA has into over the local cooperatives would diminish. They would take away the anti-monopoly exception and so forth. And I know that with election, this discussion came to a halt but it's going to be restarted very soon. So with you on the ground, how far do you think this can really go? Because I think it will be important also to Abenomics, to TPP and others the very important issues we're discussing today. Thank you.

Japan Election Results

Richard Katz

This is an area where I would again like to be very optimistic, but I can't. If you look at the lower house election, actually the interesting thing about it is the LDP did as well in most urban districts as it did in the rural districts which is really quite a very, very important phenomenon. But in the upcoming Upper House elections in 2016, there are 29 single-seat mostly rural prefectures which have been tipping the balance. And so if you're thinking about the Upper House, an obvious desire to get a big enough majority to do constitutional amendments, that's very critical for him.

I also think there's a big difference between trying to reform JA-Zenchu and farm reform. JA-Zenchu is sort of the political organization on top of this entire cooperative, right? Now Suga, the chief cabinet secretary, his father was a strawberry farmer who really got screwed by JA. Suga does not like JA-Zenchu.

So what I'm really talking about is a contending center of power and Abe, in my view, is trying to center more and more power within the prime minister's office vis-à-vis the LDP as a party, vis-à-vis the Diet, and vis-à-vis some of these supporting organizations. The reform measures they've been talking about are not actually reformed agriculture per se. I agree with your analysis that when you look under what's called agriculture reform, it's *tatemaie*. It's just changing the names of things, but it's the same thing.

So what they're really trying to do, what I think they are serious about is weakening the power not of Japan agriculture as a whole but of this top political body. But that's very different. And as I mentioned, if you actually look at any of the things that could be done, they're not doing a one very quick thing. In Korea, Korea gives its farmers just as many bribes - I'm sorry - just as many subsidies as does the LDP. But Korea gets something in return, which is that farmers have to become more efficient. So you get larger dairy farms. You get them to consolidate. You get a guy with six heads of cattle. Now he's got a hundred because they consolidated. They're finally having fewer farming villages, fewer farmers. But the ones that do exist will in fact be able to be competing.

With Abe, there's none of that going on. And again, this is a time when I think he's got the clout to do so. He is not doing it. And my forecast is that in 20 years there will be seven actual farmers in Japan, and there will be 337,000 employees in Japan agriculture who revolve in banking, wholesaling and all sorts of activities.

James Schoff

Thank you, Rick. And thank you for the question. I have a question in here.

Scott Hildebrandt

Scott Hildebrandt. Keiko, could you comment on the effects of the DPJ's election and the debates over how the party should relate to Ishin and whether or not Ishin is going to cozy up to Abe, which seems to be what's happening.

Effects of the DPJ's Election

Keiko Iizuka

Yes, very quickly. I think that the LDP, the ruling party, really hoped that Okada will win basically during the election period. And Okada did so LDP is very happy now, meaning that the DPJ would not change that much which is quite a serious situation. I think that the DPJ, this Okada DPJ would not be interested in integrating or realigning the opposition camp which would mean that LDP would lead.

And I was quite impressed with the event that took place right after the election in December in which it was discovered by media that Suga - the chief cabinet secretary that Richard just mentioned - he was in touch with Ishin and the leader of Ishin, Hashimoto, and there was a referendum. There was going to be a referendum in Osaka with regard to decentralization of power. And then the LDP and the Komeito were really against, had been really against about this referendum because Hashimoto is too much playing with political elections and referendums all the time.

But right after the general election, all of a sudden Komeito changed their stance and then agreed that the referendum will be held at some time this year. That was a very big shift from their stance, and it was revealed that Suga played a big role with Ishin and Komeito and LDP. The LDP, which is Suga's party of course, it was too formidable and big for them to change their position. It was quite a tricky thing and it was related to election. Because Ishin withdrew in some districts some candidates where Komeito really wanted to win, and then it was very undercover action. But now Komeito is positive about the referendum and so some cooperation with Ishin had emerged.

I'm quite interested in this event because this shows that the prime minister's office is really interested in forging a network with Ishin, and then perhaps after the 2016 Upper House election, Ishin will be a big partner in trying to revise the constitution which will be a quite ambitious hope. I personally don't think that it would be realized.

But still this act of Suga, I think you cannot miss. I think you should pay attention to this. So I'm thinking that the DPJ will stay the same perhaps. Maybe they might break up maybe to two pieces, two groups, but that would not have a too big impact as of now or maybe this year. Maybe next year. But the Ishin, what they will do we should watch and pay attention to it in relation with how they forge a relationship with the prime minister or the LDP. So that's my view.

James Schoff

Thank you very much. So now we even have a foreshadowing, a topic for next year's event, 2016. We will end the morning session here.

Afternoon Panel Discussion

Japan, Asia, and the US-Japan Relationship in 2015

James Schoff

I'd like to ask everyone, please be seated so we can stay on schedule, and we will start the panel discussion on international affairs. Anyhow, I'm very happy now to turn the panel on international affairs over to our Chairman Matt Goodman. He will introduce the panel.

Matthew Goodman

Thank you. Do you hear me there in the back? Thanks, John. I neglected two things in my introductory remarks at the beginning. I didn't say that this is one of ten policy roundtables that is being sponsored by Sasakawa Peace Foundation through the National Association of Japan-America Societies, so I was very grateful to both Sasakawa Peace Foundation and NAJAS for their support. So thank you for that. The other thing I didn't do is acknowledge my predecessor and still our chairman emeritus, Rust Deming. He's here. And Bill Brewer, there he is. Bill Brewer is here too. So I've got a lot of guidance and support from them.

So we're now going to look around Japan, and what's going on in the rest of Asia and what it means for Japan, what Japan means for it or for those issues, and look at the U.S.-Japan alliance and the implications of all of the above for this critical alliance. We are really privileged to have three terrific people here on the panel with me.

Emma Chanlett-Avery I think is known to a lot of people as a specialist in everything on Asia at the Congressional Research Service, Foreign Affairs, and Defense trade. She worked at the State Department previously and is going to give us a broad overview of all those issues I mentioned. Then next to her is Sak Sakoda. Sorry, Robin Sakoda, but everybody knows him as Sak, who's partner at Armitage International, also formerly State Department, also DOD and the U.S. Army. And at the end of table, at your far left, is Brian Harding who is director for East and Southeast Asia for the National Security and International Policy Team at the Center for American Progress, also a senior analyst at Eurasia Group, and a former Defense Department official as well. So I'm going to just put the quarter in and let these folks do the rest. So Emma, please get started.

Emma Chanlett-Avery

Thank you very much, Matt, and thanks to everyone whom I just thanked earlier for inviting me here to share my views, which incidentally are my own views and not those of CRS or of the U.S. Congress. If I accidentally give an opinion, please forgive me. Particularly because you've asked us to be in sort of the prediction business here of what's going to happen in Asia, I have to be careful on that front. In terms of looking at the broad picture in Asia, I think that we're likely to see continued demonstrations of China's growing regional and global clout. I think we're probably likely to see more threats and possibly provocations from North Korea. I think we'll see continued U.S. engagement with the region often using ASEAN as a platform. And in the backdrop, of course the TPP negotiations in the year ahead, territorial and sovereignty disputes throughout the region, as well as global events, events happening sometimes not in the region

playing a larger role in the regional dynamics in places like the Middle East as we've seen play out in the last couple of days here.

I'm going to be fairly brief and talk about three areas. Some of this is, I fear, retreading a little bit of what's already been talked about in panels, but hopefully from a slightly different angle. I'll talk about the sensitivity of the upcoming year because of the anniversary of the end of World War II. I'll talk about regional diplomacy particularly with Abe's reelection in mind, as well as just briefly on some of the defense reforms but leave the real experts here to talk about the specifics of that. In the true CRS spirit, I'll try to say on the one hand, on the other hand, on the ways that these things can go because I do see it as a pretty pivotal year.

Anniversary of the end of World War II

On the anniversary of the conclusion of World War II, I think there's a chance for this to be a real moment of a celebration and reconciliation. But there's also a chance that it can be a destabilizing to regional relations. There's going to be very heavy attention of course in Asia, particularly to how Abe and his government handle commemorations. Obviously, the divisions in Asia from the early part of the 20th century still loom very large in current events today.

Obviously, there's another anniversary, the 50th anniversary of normalization between Japan and South Korea where, unfortunately, we see relations in not a particularly strong state right now. Beijing and Seoul, obviously we all know this if you're in this room, has some skepticism of how this government and Abe in particular views history. There's some sense he wants to revert back to militarism, and have still some resentment from Japanese aggression in the World War II era. But I also think that with Abe's reelection, I mean he's going to be in power now for probably several more years, he enjoys a very strong political position now. Perhaps, there's a sense from these capitals that he's in place, we're going to need to deal with him. So maybe there'll be some more constructive relations moving forward.

Abe indicated in his year-beginning press conference that he would issue a new statement, as we heard earlier, commemorating the end of the war, although he would also uphold the 1995 Murayama Statement. Of course, immediately, there is speculation set off that this is going to stop short of a forthright apology. On the other hand, people point to Abe's Canberra speech where it has been cited as perhaps some model that can be used for the way that he spoke about the suffering in Australia and elsewhere and acknowledged Japan's role on that.

Effects on U.S.-Japan Relationship

I think that for the U.S.-Japan relationship, this anniversary year holds some risks mostly because of the fear that regional relations could be disrupted somewhat. But beyond that, there are some difficult memories obviously between the U.S. and Japan. When we think about how the U.S. got into the war and how the war ended, these can be difficult topics to deal with. But they also can be very productive to actually acknowledge some of these events and perhaps have events that commemorate them and talk about them. I mean it could show a real maturity in the relationship if we're able to get to that point.

Of course, for optimists, like the [indiscernible] we would have working at the State Department, there's a lot. In Defense, you're always optimistic. There is really so much to celebrate. When you look at the breadth and the depth of the relationship between the United States and Japan, I mean we cooperate on nearly all global issues, from nonproliferation to climate talks,

humanitarian efforts. It is truly remarkable to think that we were adversaries 70 years ago. I think the same can be said for all these other Asian countries obviously. I mean China and South Korea, they've very much risen from the ashes and become powerhouses really, diplomatically and economically. So there's a hope that this year can really be used as a time of reflection of how far so many in the region have come.

So I think there are at least three paths that this anniversary year could come to, potentially a watershed moment for some historical reconciliation. It could instigate worse relations than we've seen in the past few years between these Northeast Asian neighbors, *or* it could just be a year where you manage it. We've seen other really significant anniversaries pass, too, where you got through it. So good luck to all of the managers that aren't just observers like me, that need to get through this somehow.

Regional Diplomacy Effects

Now I want to turn to sort of Abe's regional diplomacy particularly outside of South Korea and China and the benefits and possibly the risk there too. His reelection obviously cemented his leadership there, and I expect him to continue this very robust diplomacy. He's really quite a globe trotter at this point. He's been very bullish on developing relations with Southeast Asia in his first term and continued some really significant outreach to India, to Australia, as well as to Russia. I think on the whole, these partnerships reinforced the strength of the U.S.-Japan alliance and relationship. It expanded our web of capable allies. It's sort of two-thumbs-up in terms of the Asia re-balance strategy because it really helps us to expand those links.

On the possible exception, I think here is Russia, which is going to be a difficult line for Abe to walk here. If Japan moves to significantly expand its energy trade with Moscow or relax the sanctions that they put in place in the wake of the conflict in the Ukraine, I think that not necessarily cleavages - I have marked that out of my sheet - but tension could develop in the relationship. Because I think, we have some different diplomatic aims here if the United States is still looking to isolate and pressure Moscow a bit more. I understand from an analytic perspective that Japan is looking for a regional heavyweight to sort of balance China's growing power there. They also obviously need energy supplies quite desperately, and here they have them in the Russian Far East practically in their backyard. You can see from Moscow or Putin's perspective as well that they would like to have a bit of a counterweight and a balance to China as well. Both capitals it seems could benefit from resolving this territorial dispute in the Kuril Islands or the Northern territories.

However, they seem to have been unable to reach a deal. There doesn't seem to be a lot of flexibility from Moscow. This is one of the areas where it seems a deal is possible. You can see where there is room for compromise. It would shore up territorial vulnerabilities for both countries, yet they can't quite get there. So I'm a little skeptical that they will be able to. And I just think also that there's enough fundamental differences on how Moscow and Tokyo look at the world. A key part of the U.S.-Japan relationship has been upholding international norms and international rules, and those are areas that Moscow under Putin at least felt okay to flout somewhat. But I think it would be very interesting to see how this plays out because it does seem like Abe has left open some room for there to be more of a deal between Russia and Japan.

Defense Reforms

Briefly, on Abe's defense reforms and the question about whether they will accelerate in 2015 or falter a bit. It is a pivotal year for these reforms. Collective self-defense, obviously, proactive

passivism is also going to face some test. The mutual defense guidelines, I guess we're now extending to middle of the year or something like that. I will also mention that I think the success of implementation for collective self-defense does depend in part on the regional understanding and the state of regional relations how that is going to play out.

I had forgotten until today about the Host Nations Support agreement coming up. Those are always contentious so that, indeed, will be an important dialogue between Japan and the United States. I think that it is a little early to speculate on anything having to do with this hostage crisis that is going on right now. It is certainly dramatic and difficult for everyone to watch this. But I think that it could be sort of a test of Abe's resolve and his plan for proactive passivism, as well as for the Japanese public. I don't think that there's an answer there yet. I think that there is a change in how a lot of the Japanese public views these events. But we'll see what kind of stomach the country as a whole has for Japan being involved in very active and very engaged ways in events that to some may seem very, very far away from them. So this episode, however it plays out, it's possible that it's sort of emblematic of some of the challenges that this doctrine is going to face ahead. And I'll stop there.

Matthew Goodman

Many thanks, Emma. That was a great overview. I have a bunch of follow-up questions. Sak, please go ahead.

Robin Sakoda

Thank you. I first want to recognize three mentors that are sitting up front here, Tom Roston and Bill. Earlier, I was in the hall and talked to them. I said I'm not sure why I'm sitting here in this panel and you guys are sitting in the audience. One of them replied, I won't tell you his name but his initials are Rust Deming, said it's to ridicule you.

Robin Sakoda

Okay. Joe and Emma, I agree gave a great overview of a lot of the things that the alliance faces. I wanted to add to that a little bit, my view of from where we are coming in the alliance, some of the work that has to be done, the issues that remain before us in 2015 and beyond. I don't want to speak of it in terms of where do we want to end up on December 2015? I think we need to talk a little bit about how do we get to where we think we need to be at the end of 2015?

And then I thought I'd talk a little bit about an eye-watering topic called defense guidelines because it was brought up several times. And I had a little bit to do with the previous one, but my view on what are the things that I think both sides should be thinking about in order to get to where we need to be at the end of this year.

Recognizing Japan as a Global Power

So with that, the number one point is to recognize that Japan is a global power. I bring that up with Japanese friends and they kind of shrink from that and they kind of want to argue with, no, we're not. We're really small. We're an island country. I think it's important to recognize that because it goes to a lot of things. One of them is what Emma raised about how Japan will react as we move forward with this terrorist hostage situation. A lot of how Japan handles that and the U.S. and everyone else will shape what kind of environment that we're going to be dealing

with globally as we move forward. Japan's character, if it shrinks from the situation which they have not given any indication that they will. In fact, all of the things that the prime minister and chief cabinet secretary have said were very positive, I think, in the right things. But Japan is a global power, and I think that's something that Japan needs to be mindful of in how it wants to be a part of shaping the globe.

There are a lot of things that happened in 2014 and a little bit before 2013 that really tease up the alliance relationship for the work that has to be done this year. Japan establishing the national security strategy, the National Security Council, its determination on how it's going to change its arms export control policies and also the announcement of the cabinet decision, an announcement on its change, its reinterpretation of Article IX as it addresses collective self-defense, something that I think is incredibly hard for an American or anybody else to really understand. But it relates to the guidelines, and I want to tee up my remarks about the guidelines by mentioning that.

And then in a broader context globally, it's important to recognize that Japan-China tensions continue as we move forward this year. Emma and Joe mentioned the 70th anniversary and I'll speak a little bit about that later as well. Extremists are continuing to gain ground in the Middle East. We have the experience of West Africa suffering from Ebola and how the globe reacted to support recovery from that and continues to do that. Relations between Russia and the West are probably as bad as they've ever been since the Cold War. Japan has slipped into a recession again in the third quarter of last year. More recently, China has reported its slowest growth in the last 24 years. I think those are all of the things that shape the things that both the U.S. and Japan need to be thinking about at how it moves forward with this year.

With regard to the 70th anniversary, I think we need to set the tone, set the environment, with coordinating and saying the right things - the substance - as we move forward in the year. It should recognize things in the past. But it also, not just the past and that milestone of seven years ago but what has happened over the last 70 years, how Japan has changed, how our relationship has changed, what we expect to see in the future with that. If we don't set that tone, if we don't get that substance right, then others will take that substance and shape their own negative tone. And so as we deal with the 70th, it's not just the end of World War II but it's also the 70th anniversary of Hiroshima and Nagasaki, which brings a different aspect to the issue. And so those things need to be well thought out and coordinated between our two capitals.

Defense Guidelines

We learned a lot since when I worked on the guidelines on defense and how we're to cooperate. 311 is the one that really stands out as a time of lessons learned in how we should work and how we need to work better. How we coordinate was one of the huge lessons learned, and I believe that's really being vigorously worked on in the guidelines process. How we liaison is another area at the operational level. That is something that we learned. If we're to face a regional shooting crisis, we can't do it like we did in 311.

And so what does this all mean to when it comes to the guidelines? I'm mindful before I get into this that the guidelines of 1997 are about 99 percent about how to do contingency operations. Contingency operations are operations or contingency plans are plans that consider the force that you have at hand and how would you respond to a certain incident or a situation that comes up. That's great. That was important. That's one of the huge, I think, achievements of the guidelines.

But with the changes that came out in Japan in 2013 and 2014 about how Japan has changed in its arms export control policies, how it's changing collective self-defense, and how it will implement it into operations. That will have a significant effect on how we do business in coordination. What I mean by that is contingency planning is only one aspect of how we do planning in the bilateral relationship. There's also defense planning. Defense planning is the business of how do you plan for the force that you're going to need in the future.

We've done that a couple of times in the U.S.-Japan relationship. One is FSX and I kind of look at that as the negative example. That wasn't defense planning writ large, but it was an aspect of looking into the future, identifying what our operational requirement and capability needs will be, and then working together to achieve that capability.

Another example is missile defense. I look at missile defense as the positive example for how we can look into the future, identify what are the things that we will need when it comes to operational requirements and capabilities, and then going to work at achieving those things. The theme during missile defense discussions was that we want to have at the end of this effort co-development, co-production, and co-employment of the system. That's not a part of the guidelines. Especially with Japan changing its arms export control principles or policy, it should be.

It should be something that is not ad hoc, but I think it's something that will make the Subcommittee for Defense Consultation, SDC, take on more as we move forward past the guidelines. That should be institutionalized. We should do this not ad hoc, but we should both look into the future and say this is what we need to do. That I have not seen as a part of what both sides are thinking about when it comes to implementing Japan's new arms export controls. And so should be, I think, included.

But something that has manifested itself as implementation of a new policy is when Abe-san went to meet with Abbott, and their decision to move forward with a cooperative arrangement on submarines. Japan's initiative with the Philippines and Vietnam with patrol boats, those I thought were great initiatives that implement the new arms export control policy as a part of Japan's defense diplomacy. So that was great. We should do something with a bilateral cooperative effort.

And the third area is I know that this is also a part of trying to expand Japan's defense industry. I think that will be a much tougher area for Japan to do. It enters the arms market and will compete with all of the other arms exporters, producers like the U.S., the U.K., and all others. But I understand that's a part of what Japan wants to do. I think we should all welcome the competition.

Bilateral Contingency planning

Let me make one final point. As I do this, let me reflect on something that President Eisenhower said. As he was president he said plans are nothing. Planning is everything. As you reflect on that, well, what it means is staff can come together and they can do a lot of work and analysis and developing courses of action and evaluating courses of action, write up a plan, and they finished it up on paper and they put in on a shelf. It sits there and it waits for the right situation and then we'll take it off the shelf and we'll act. That's not really what happens. You take it off the shelf, and then you take a look at the real situation, and then you have to make adjustment to the plan.

So plans on the shelf are nothing. Planning, that whole process that I just explained about going through the process of making estimates, developing courses of action, evaluating courses of action, getting all of these down on paper, that's the value. To be able to do that process is the great value of planning. That's what the guidelines allows us to do together.

We can do bilateral contingency planning because the guidelines expands the scope of what we can do. Similarly, we ought to be doing something like that when it comes to defense planning. Not writ large, because no country turns over their defense planning and shares it with another country. But what we should do is we should pick the things that are going to be the most challenging, the most expensive, and the most difficult things to do because we're two of the most technologically advanced countries, two of the largest economies in the world, and we're allies. And so with that, that's something that I think we need to make sure gets included in the year and if not this year, certainly soon thereafter.

Brian Harding

Thanks. So I was asked to describe a little about what 2015 in Southeast Asia is going to look like and some implications for Japan and for the U.S.-Japan alliance. I think I actually expected to dwell a little more on the sorry state of Japan-China relations and Japan-South Korea relations. But I think that has been some of the subtext here already, and certainly as Japan looks out to the region and has very difficult bilateral relationships with its immediate neighbors. I mean Southeast Asia, much like for the United States, is a veritable land of opportunity.

Economics in Southeast Asia

Just quickly into economically, politically, and security and what to look for in Southeast Asia in 2015. First of all, on the economic outlook, I think we should always remember that for the ten - - just like we were talking this morning that Prime Minister Abe's top priority is ultimately the economy, so goes pretty much everywhere in the world and certainly in Southeast Asia. The ten presidents and prime ministers, if you ask them what their top priority, it's definitely the economy. And the economies are all growing. Southeast Asia is doing pretty well growing at different rates. Low in Thailand, high in Myanmar, in between elsewhere. I think you're going to see continued steady growth this year.

But if you would ask these leaders of these countries, what are their concerns about the economy, it's actually the big story is the relative economic slowdown in China and what it means for demand in the Chinese market for Southeast Asian exports, and also depressed commodity of prices which are really going to hurt Thailand, Malaysia, Indonesia, in terms of their economic outlook for the year. Of course, low global oil and gas prices are also a major variable there. Very good for Indonesia. Very good for the Philippines. It hurts Malaysia.

These are the key things that sort of outside the lens of what we usually talk about here in the Washington think tank community and international relations. But if you were to go to Southeast Asia and ask the leaders of the countries what's on their minds, it's the economy. It's the Chinese economic slowdown.

Politics in Southeast Asia

That aside, politically, looking at the region per year, you have Malaysia has the chair of ASEAN. ASEAN has rotating chairmanship. Last year was Myanmar. This year is Malaysia. Next year will

be Laos. It's also a very big year for ASEAN. 2015 is the deadline for creating an ASEAN community. There's an ASEAN economic community, ASEAN socio-cultural community, and the political security community. The real centerpiece is the ASEAN economic community. I think there's some concerns among analysts and economists of whether due to the vagueness of many of the benchmarks, whether it will actually deliver, and I'm sure Matt can talk about what is the real gains the ASEAN economic community will bring. If you talk to any Malaysian diplomat, they will say there is no question by December 31st that ASEAN will be a community. But this is the beginning of a process, not necessarily the end.

Security in Southeast Asia

In terms of security in the region, the region is just generally at peace with the major security challenge remaining in the South China Sea. I think for 2015, we shouldn't expect any major flare ups. I think it would be managed reasonably. I think you have China looking to present a slightly friendlier face to the region, understanding what has happened to the reputation in the past couple of years. You have Malaysia who's a claimant but is certainly far to the territory in the South China Sea, although it has a far different perspective than Vietnam and the Philippines. It has confidence in what it sees as a truly special relationship with China. It's also a crucial economic relationship if you look at trade balances. You know, Malaysia is the ASEAN country that really benefits from its trading relationship with China. So I think you'll see Malaysia guiding the process.

We shouldn't look for major breakthroughs in the China-ASEAN code of conduct. I think as Malaysia looks at its chairmanship, forging a solution to the South China Sea disputes is not its top priority. It's the ASEAN community and the ASEAN economic community in particular.

All sorts of other things happening at various countries in the region. We'll be having an election in the Myanmar in the fourth quarter of the year. We'll see a great start to the Jokoian [phonetic] administration in Jakarta. We'll see if reforms can continue over the course of this year. Thailand, potential political developments but we're probably looking at 2016 for a new civilian-ish government. By the end of the year, the Philippine elections season for the 2016 elections is going to be really going in full force.

Now, it's just in terms of just quickly on Japan and the implications for the U.S.-Japan alliance. When thinking about Southeast Asian and ASEAN, it's always important to remember that ASEAN would like as many outside powers involved in the regions affairs as possible. They want the United States deeply involved, Japan, China, India, Australia. They see this overlapping relationships as stabilizing. There is an untold need for foreign investment, infrastructure investments, and what have you. So ASEAN is always not looking not to be dominated by a single power. They're looking for everybody to be involved and that creates unending opportunities for us.

Japan's Economic and Security Interests

Of course, Japan has huge interests both economically and security in the sense of sea lines of communication. Japan has always been a huge player for decades. It's been a huge player in Southeast Asia, but quietly. I think what's changed since Prime Minister Abe and his energetic diplomacy into the region, he visited the ten ASEAN capitals in his first year. He hosted the ASEAN Summit. There's just been a major emphasis of Japanese foreign policy which has been very much welcomed by Southeast Asian nations.

But I think among elites, there was a little concern of before Abe, it was six prime ministers in six years. Is this really going to continue? I think Japan being felt strategically and with the promise of, you know, it looks like four more years of an Abe administration, I think it brings to bear even more credibility to Japan's outreach to the region.

I think there's any number of ways the United States and Japan can work together in a complimentary and coordinated fashion. I think the most interesting new place is in the security assistance world using defense capacity-building as a tool of diplomacy. Certainly, the Japanese work with the Philippines and Vietnam on patrol boats are incredibly welcome.

I think you really just need to look at the major documents and communiqués that have come out of major U.S.-Japan meetings over the past couple of years to see the rising profile of Southeast Asia in the alliance. With stable leadership in Tokyo and I think a continuing focus on Southeast Asian and Asia generally here in Washington, we're going to see Southeast Asia still high on the list of alliance objectives and discussion for the foreseeable future.

Just starting from the beginning, Asia's incredibly complicated. So in the 70th anniversary, it brings all sort of challenges in Northeast Asia, but I think there's opportunities in Southeast Asia. Both more Japan and more U.S. engagement is welcome, and the more we can work together in that space the better.

Economic Predictions for Asia Region

Matthew Goodman

Before I go back to my role as moderator, let me just, if I can, offer a few of my own thoughts about the economic outlook for the region, which is always dangerous. In economic forecasting, as you know, you're always taught to pick a number or a date, but not both. So let's just say sometime in the future, maybe some of these things are going to be important. Seriously, I think the three things that I think about in 2015 in the economic landscape in Asia are, first of all, the slower growth in the region in particular in China but also Japan because, remember, Japan is the second largest economy in the world and larger than, by the way, still by about three dollars. I think larger than all the other 10 TPP countries combined. So China and Japan's economic prospects are going to have a big impact on regional economic prospects and broader issues as well in terms of what can be done in the political and security sphere.

And with respect to China, while it's clear the Chinese are going to maintain a roughly seven percent target for this year, they're also clearly signaling that they think the risk are on the downside, that the growth could be substantially lower than that. And Li Keqiang, just yesterday in Davos, was talking about this new normal, and that includes the notion that there's going to be slower, they say, higher quality growth because of reform. We'll see. But that's going to have a huge impact including on commodities and other things like Brian mentioned. So that's one thing to watch and what the implications of that are.

Energy Market Effects

The second thing is obviously energy, the energy markets. I'm not an energy expert so I'm definitely not going to forecast what's going to happen in the energy markets. But for what it's worth, anybody a year ago who would have predicted that energy, that oil prices are going to drop 55 percent would have I think been a genius. Nobody really expected that. So who knows

what's going to happen? But certainly, even the implications of what has happened in the last few months in the energy markets, the oil markets in particular, is going to have a big impact on the region economically for good and bad. I mean, it's obviously good for oil importers in the narrow sense, but it feeds deflation which is a problem for some countries like Japan, so it's a good and bad thing. Economists are always looking for bad things, as well as good things. And, of course, it's going to have some geopolitical implications. Someone mentioned Russia before, and Russia's behavior is going to be shaped I think by this in ways that are hard to predict right now but could have an impact on this region. So that's a big thing to watch in 2015 in the direction of energy prices and the implications of that.

Effects of TPP in 2015

And then obviously the third one is TPP or it's trade, but I think TPP is where the action is in 2015. The big question there is whether TPP is going to be completed both in the room among the 12 countries negotiating and then here in the Congress. I think most people at the turn of the year here are feeling a little more cautiously optimistic on both of those fronts. It seems as though the U.S. and Japan are pretty close to a deal, and that with a little bit more movement I think mostly on the Japanese side because Abe-san has the power to move - Obama has less control over this - I think that a deal can be struck. I believe the story that this will carry over the momentum in the room [sounds like].

There are still some issues among the other 10 parties. For example, Canada is being difficult on some agriculture issues and others. But frankly, if Canada doesn't want to fall into line, then I'm sure that the other 11 would be happy to go forward without Canada. So I think Canada will come along in the end. I don't think that's going to block agreement among the 12.

And then if that substantive deal is done, even if it isn't fully signed, and it's not going to be because it's a thousand pages, and it has to be scrubbed in English and then translated into Spanish and, thanks Canada again, in French, the official versions are going to be in three languages so that's going to take quite a long time. But if the substantive political deals are done in the room [sounds like], then that will inform the TPA debate here. In fact, I think it's necessary to the TPA debate. Whenever you hear about TPA has to come before TPP. The reality is, in substance, I think TPP has to come first than TPA.

It looks like the two parties are moving towards each other on this issue. And notwithstanding disagreeing on pretty much everything else, they seem to still be talking about being able to compartmentalize trade and move forward. That doesn't mean it's going to be easy. Both parties have problems on trade and a difficulty corralling their caucus, but in the end I think the votes are there for TPA and then ultimately for TPP. That may or may not happen in 2015, the TPP vote, as a technical matter. But sometime by the turn of next year it seems to be the most likely scenario. But I say that with only about at most 60-40 confidence. So there's a substantial risk that this could either blow up in the room or in Congress.

But assuming that happens, I mean it's going to be, I think, transformative. It's going to have a huge impact. It's going to give a reevaluation to the pivot, the rebalance strategy. It's going to give substance to that. It's going to make people realize the U.S. and Japan are real players in the region. I think it's going to give pause in Beijing and make them recalculate some of the things that they're thinking of certainly in the economic space. So I think that's the biggest thing to watch and, as I say, I'm cautiously optimistic it's going to move forward.

So I will stop there in terms of my own commentary, put my moderator hat back on, and just ask one question before turning it open to the floor. Actually, two questions. One is about China, which is understandably this is a conversation about Japan and among Japan experts primarily. But what do we think China really wants in 2015? What do they want? I mean, again, at the beginning, a year ago, things didn't look so good in terms of China's posture in the region. They seem to be still in a fairly assertive mode. But sometime in the middle of the year things seemed to have switched and they seemed to be putting on a more friendly face and trying to use positive diplomacy to win friends and influence people, establishing new institutions of infrastructure, banks and so forth, and putting aside or setting aside significant amounts of money for big projects like the new Silk Road and so forth. I wonder what people think China really wants.

In particular, in light of all of this conversation about the 70th anniversary, it seems inconsistent if they're going to use the 70th anniversary as a source of division. That seems inconsistent with some of their other friendlier diplomacy in the recent past few months. So I just wanted to ask people to elaborate a little bit more on that.

I'll just throw my second question in so you can answer them both or either, which is we haven't mentioned India. Now I know we're kind of in the State Department Asia here, but in the defense of [indiscernible] in Asia, India's part of the story. With the new leader there who seems pretty dynamic and proactive and wanting to do a lot of things, particularly in the economic sphere to begin with, I wonder how they factor into all of these. Brian, in Southeast Asia they seem to have interest. So what are the implications of India's new sort of leadership and position in the region? So either/or of those. If we can go back, maybe backwards from Brian.

What does China want in 2015

Brian Harding

I'll take up the China one. I think they want a more positive relationship with Southeast Asia. They think that relations have gone off the rails somewhat unintentionally. The problem though is that the key issue on the South China Sea, the land reclamation on rocks out there continues. I don't think that's about to stop. They're not about to start negotiating collectively with ASEAN. They still want to work bilaterally with other countries. The key problem that they see to be bilateral issues with Vietnam and the Philippines is really not going away. But certainly, they understand that perhaps their tactics and sort of public diplomacy has sort of taken them off course and would like to find ways to work productively with Southeast Asian nations, and that's not necessarily at all at odds with Japanese or U.S. interest in terms of maritime connectivity and what have you. But I'm going to Beijing on Tuesday to talk about Southeast Asia, so let's see what they'll say.

India's Role in the Region

Robin Sakoda

I'll take the second first. India clearly is an important part of the calculus with Japan and with the U.S., particularly when it comes to the economic relationship and the benefits that we hope as we move forward within India. In both U.S. and Japan respectively, India plays a significant role in the maritime security considerations in the region. I believe that geographically Japan's security strategy doesn't simply go south from Japan into Southeast Asia, but it goes south and it

goes west. It goes west to the Persian Gulf. That is geographically the scope of, at a minimum, Japan's interest.

To go to China, I have a different view from you, Matt. I think if we allow China the opportunity to use the 70th anniversary to criticize Japan and the U.S., they'll take it. And so I think it should be something that we take on as work as we go through this year, that we not allow that to happen. And we do that by focusing on the appropriate substances I outlined before.

Emma Chanlett-Avery

The only thing I'd add, and India's completely out of my lens so I'm just not going to answer that at all, I would just say on Japan and China's -- I mean the Senkaku issue just makes it sort of a world onto itself where there are huge dangers that we need to monitor. But I would say from a U.S. perspective, China does seem to be playing a little bit better. I mean the climate deal that Obama had when he was there, their attitude towards North Korea being a little bit tougher on Pyongyang and seeming to be pretty impatient, they don't like the new leader so much, that has all been sort of helpful to the U.S. So maybe that signifies that there's a bit more of a cooperative attitude going forward.

But I think it's going to be hard to keep them in the productive column. In terms of the 70th anniversary, I think just domestically they feel they need to throw some of that red meat out. But if you minimize it, then I think we're doing pretty good.

Matthew Goodman

A dumb question. But I don't remember the 50th and 60th being such a big deal. Why is the 70th such a big deal? I mean 80th maybe. The number eight is a big deal in Asia, I know. But I don't quite understand why this is so bad. And actually a serious point, I wonder whether it reflects the change in China's -- I mean in that 10 years China has evolved, and I wonder whether that's why we're more worried about it than we were 10 years ago. Or maybe I'm just wrong. Maybe it was a big deal 10 years ago. But I just don't remember this much conversation about anniversaries. But okay, with that I will open up the floor. Again, we know who you are. But if you could -- are there other microphones?

Rust Deming

Thanks very much. Rust Deming. First of all, Zach, I'm so disappointed in you saying that we're here to really ridicule --

Male Voice

I'll make it up.

Rust Deming

-- a very, very good presentation. My question is to you. I like the distinction you made between contingency planning and defense planning. In terms of future defense planning, nothing seems to me to be more crucial than the maritime area formerly known as the AirSea Battle. You may have seen the Joint Staff this week changed it. It's now Joint Access and Maneuver in the Global Common, something like JAM-GC or something. It has a certain ring to it.

Matthew Goodman

I'd add it comes under the Joint Staff.

Rust Deming

Yeah, J7 or something like that. Anyway, when I talked to my Japanese friends who are involved in the government, they have expressed concern. They don't really understand what the whole AirSea Battle, JAM-GC, whatever, is all about, and they don't feel like they've really been drawn into it. And they worry about the implications for a forward basic strategy and so on. Isn't there a lot of homework for us to do in the alliance in terms of defense planning in that area? At least on the outside we don't seem to be doing yet because of sensitivities and a lack of coherence on the U.S. side, I guess.

Matthew Goodman

You mean a lot of work to do in the bilateral?

Rust Deming

In the bilateral, yeah.

Robin H. Sakoda

I absolutely agree with that and the reason why I brought it up. Aside from the two examples that I raised, FSX and missile defense, there are other programs but much smaller in scale. For example, I think it's the airplane, the jet ejection seat [indiscernible] something. But as for real components of necessary operational requirement and operational capability for something that we can see into the distant future, there are only two that I know of, and that's something that we should do much more of. And the reason why is because arms are becoming more and more expensive, more and more technologically complicated. And again, why not? U.S. and Japan who happen to be allies, who happen to be very technologically advanced and with really thick economies. So yes, we have a lot to do in that area, and it needs to start with an exchange of views on our estimates of the security environment 15, 20, 25 years out.

How do we see the future? What are the challenges? What are the threats that we can estimate for the distant future? And then to think through, how do we deal with that? That takes smarter people than me. It takes technicians and people that understand how to counter weapon systems. And so we need to get busy at that.

Matthew Goodman

Thanks. Yes, sir.

Strategy of U.S.-Japan Alliance

Will Atkins

My name is Will Atkins. I'm a Sasakawa Peace Foundation fellow with CSIS-specific form and an Air Force Major. No offense to our friends from the Army. Kind of a follow on to that, Mr.

Sakoda. When you're looking 10, 15 or 20 years out with the alliance in general, what is our grand strategy? Where should we be that many years out? And therefore, for next year and this year, what events should we be working on in order to bring us to that future that we're looking for? I'm not necessarily speaking about the threats, but the alliance in general. Thank you.

Robin H. Sakoda

I think that's why Rus brought it up and why I agreed with him, is that there hasn't been -- certainly not enough. I don't want to say there hasn't been any, but there has not been enough in coordinating those requirements. And I don't think we've done enough in that first step that I just explained in sharing the views of what are the things that we need to be concerned about in the future.

That's how missile defense started. They remembered the missile defense study from I think it was in the late '80s that started the U.S. on this track. And we met with the Japanese several times to begin a study in August 23, 1994 - my first meeting in the Pentagon - and it was a gradual ramp-up of that. But it was one program. It was one system. What I'm suggesting is we take a more comprehensive view of the security environment. What mutually are things that we need to be concerned about and what are the things that we need to get busy on when it comes to co-development, co-production, and co-employment of a system?

Matthew Goodman

Are there other questions? Yes, sir. I'm looking to the back so I'm not discriminating here. I'm trying to find people if you're interested in the back.

Kuniyoshi

Thank you. Kuniyoshi. This is a very urgent, immediate problem that I'm coming to. I want to know the opinion of all the participants or public commune. This is only two things. One is to give money, \$200 million. And the other one is we don't give money. If we don't give money, they will behead two Japanese citizens. If we give money, we don't know. They have also two choices. They want to run away with money and/or might kill or may not kill. This is a very urgent problem. So I want to know your opinion or your position and the public opinion.

Matthew Goodman

I think Emma alluded to it, but I don't know Sak and Brian. Sak, do you want to take that on?

Japanese Hostage Crisis in Syria

Robin H. Sakoda

You mentioned that if Japan gives the money, then you get the hostages back. Or you give the money, and then the terrorists take the money and run away. The story doesn't end there. They take the money. They run away. They say this worked. What's the next plan? We need to develop the next plan to get the next \$200 million, or \$400 million or billion. And I don't agree with all of the policies of the United States, but this is a gut-wrenching, very difficult, agonizing circumstance and policy. As you put it, this is a binary decision. You step up and you give the money and you reinforce the terrorist thinking, or you refuse them. That's the way I see it.

Matthew Goodman

Yeah. I'm out of my lane so I should be careful. But I mean if Abe-san refuses to pay the money, which seems to be what he's signaling, that seems to me significant. It seems like that's different from how Japan might have handled something like this in the past. I'm again out of my lane. This is not my area of expertise, but that's my sense. If that happens, is that Abe's just different approach to these things? Is it a signal of something about Japan's position in the world or power? Is it something about domestic debate on this kind of issue now or is it just something about this particular situation and the two individuals involved? Which is another possibility.

Emma Chanlett-Avery

I think just from reading in the press, I think Japan has gone both ways on this before. There was a time when this happened, when Koizumi was in power and they didn't pay and an individual was killed.

Male Voice

In 2004.

Emma Chanlett-Avery

In 2004. But there was another time when they did with the miners in Kyrgyzstan or something like that where a couple of million dollars in ransom was paid. So it seems like they've gone both ways in the past. Certainly, it's not like -- I mean European countries also tend to pay the ransom.

Matthew Goodman

Although they deny that they do. The difference here is that there's such a public request for the money or demand for the money that it's going to be harder to play that game that the French and Italians and others seem to play. But again, I'm out of my lane so if others want to comment on that and asking questions. Is there anyone at the back who would like to ask a question? Okay, Jim is not at the back, but he would like to ask a question.

Jim Shaw

Sorry. Thank you very much. Jim Shaw [phonetic] from Carnegie. I want to put a sharper point on the TPP question I guess and ask your panelists about if things don't go well. If TPP, you know, either it falls apart in some kind of obvious manner or it just keeps dragging on and the political momentum of the United States completely dissipates. What are the implications of that this year in the context of how China might move forward with its various proposals of Asian-centered solutions to different economic and trade issues and how this plays in Southeast Asia and in U.S.-Japan relations? I also want to put a little sharper focus on the implications of it not working out and what you think is at stake here.

Effects of TPP Negotiations Falling Apart

Matthew Goodman

I'll let Emma really answer the question, but let me just let her think about it while I say something. First of all, trade negotiations always take longer than they're supposed to take, especially one as complicated as this. So I think you have to be a little philosophical about the possibility of it taking a little bit longer than I sort of optimistically laid out. Although if it does, one has to worry about the U.S. political calendar and whether this can actually get down politically in the U.S. Meanwhile, other dynamics may change in the region. Let me just put the sound bite out there first. I mean it would be catastrophic if TPP isn't ultimately passed, I think, for our strategy in Asia, you know, for our economic strategy. In our economy it would not be a good thing, and for Japan even more so. So it's sort of unthinkable on one level.

But since you've challenged us to think it through, I think that it is possible, if it drags out much longer, that not only -- I mean I think, first of all, China will probably try to revive other approaches. I mean they're already doing bilateral deals. Maybe they'll try to conclude other bilateral or many lateral deals, maybe try to get the regional comprehensive economic partnership going again, although that doesn't seem to be moving very far or very fast now.

And I think there is a risk that the rest of the region, having tolerated the TPP approach -- and tolerate is not the right word - I think that there's a welcoming of the TPP approach because people actually really want the high standards in the region. But I think there will be voices in Southeast Asia, for example, who will say this was too difficult and the Americans reach too far. They will want to perhaps find other approaches that are easier or that don't involve the U.S. I think that would be very damaging in addition to the huge opportunity cost of not getting this done economically.

In terms of embedding the U.S. and Japan more firmly in the region as leaders of the region and shaping the rules for the future, the rules are out of date. Remember this is not just a competition over the rules. As the president said, and he's right, it is a competition over the rules but it's also that rules need to be updated. If they aren't, these trade agreements are already 20 years behind business. At best, TPP might catch up another 10, but, meanwhile, businesses are going to move on another five. So we're going to be always trying to catch up, and it's going to make it more difficult to gain the efficiencies that give economic benefit to everyone involved. So it would be very bad news and, as I say, to me unthinkable. I think it's going to happen so -- I mean it's not going to happen, that is that there's going to be a deal. Emma.

Emma Chanlett-Avery

You're way more of an expert on this than I am, but I'll just say I do sort of observe U.S.-Japan relations through the lens of Congress often. I would just say, well, first of all, in the State of the Union there seemed to be a signal from the president that he was going to put some White House muscle behind this. I think that there's a question about whether or not a Republican Congress wants to give him that victory. That could play a role at some point. Yeah, if there's going to be catastrophic implications, it probably wouldn't be this year. This could take a lot longer. If it's going to die, it's going to take forever for that to happen.

And then just one other thing. When, of course, FTA, the Free Trade Agreement with South Korea came up, it took forever. It seemed like things were going poorly. The overall bilateral relationship was not good when they proposed this and it was sort of like trying to salvage it by capitalizing on the one thing that was okay in the relationship. But by the time we got to the end of the deal, first of all, strategically our relationship had changed. And also, at the end of the day, you had all of the agricultural and other sectoral debates and negotiations earlier. At the end of the day, it did have to do with our strategic objectives in that region too. They started looking

You know, people started thinking about North Korea and that threat and needing to shore up our relationship with South Korea. So at the end of the day, if you can get to there, I think that there are going to be votes cast with an eye to what our strategic position is in Asia.

Male Voice

Adding on to that in how TPP is not just an economic agreement, it forces other things and it certainly has security implications. But it also will force reforms in various countries. They're just thinking about Southeast Asia. TPP is very important in human rights and labor rights legislation. And I'm sure there are many other examples. But in addition to the economic benefits, we need to remember that's going to force reforms that wouldn't otherwise happen because these countries see the benefits of joining the TPP. And then who knows if we conclude that the TPP and the leadership in Beijing decides that this is a good vehicle to achieve reforms that we would also like to see there. So there are all sorts of other follow on benefits that we should keep in mind.

Stu Ricketts

Hi, I'm Stu Ricketts [phonetic]. A very quick comment on TPP, but I want to ask a couple of questions about U.S.-Japan and the defense guidelines and such. First, I don't think it will be economically catastrophic in the United States if we don't do TPP. What I do think would be a huge loss is I think the big enchilada is that if TPP exist, China would be compelled to join which would help the momentum tipping more of the balance toward liberalizers, modernizers, play-by-the-rule-izers in China. And I think that would be the huge loss. Unfortunately, I think it is thinkable that the politics of peroculism in various countries are such that, in fact, this could turn to Doha. I have a genuine fear of that. I'm not as optimistic as you are that this thing can be done in the next few months in our calendar.

U.S.-Japan Threat Assessment

Here's my question. Sak, you're talking about in terms of what the U.S. and Japan have to do with planning. Is there a joint threat perception or threat assessment that is done by the two countries as opposed to each doing their own that guides the cooperation?

Robin H. Sakoda

Yes. But there's a difference in a dialogue, exchanging views of different parts of regions and doing that exchange with an eye towards identifying operational requirements and capabilities. There's a finer point to it.

Stu Ricketts

So one does not inform the other?

Robin H. Sakoda

They're related, but they're not the same thing. The analysis of long-range estimate in the security environment is done in the context of identifying reasons, the rationale for the future operational capability and requirement. Exchanges of views on long-range estimates in a security environment could be, for example, in a political environment, one that focuses on

economic aspects of that estimate. So in order to do the kind of thing that I'm suggesting, it needs to be pointed, very focused on that purpose.

Matthew Goodman

Before I take time, I will just say on Rick, I mean we have our views. I understand your less optimistic view. I acknowledge that there are substantial risks and this could happen. But I still think on balance, it's going to happen. But I do endorse your point about China would actually ironically be one of the biggest losers from a failed TPP economically. Because to the extent TPP is helping to drive the reform debate, I mean if you put the TPP agreement whence we can all see it, next to the third plan on a reformed document in China, they're not that different. They're trying to do a lot of these things domestically, including disciplining their state enterprises and so forth.

So actually if without that momentum from TPP it would be harder to do the things China needs to do to get to this more sustainable growth path, and I think that's an important loss if it doesn't happen. Okay, Tom. Did you have a question?

Japan-South Korea Relations on North Korea Threat

Tom Hubbard

I'm Tom Hubbard at McLarty Associates and the Korea Society. I found this discussion very interesting, and I also found this morning's discussion more domestically-oriented political discussion quite interesting. I guess one of the conclusions that we've all taken and we heard this morning is that Abe is likely to be around for quite a while longer, maybe another four years. I think most of us have tended to see that as good for the U.S. and Japan relationship. We've seen it as kind of disruptive in the region. But Brian, I think you pointed out the important point that for Southeast Asia at least, a few more years of Abe might be a very good thing. You pointed out also that it appears that China is getting used to the idea that Abe will be around for a while and that there's been some easing in attention, although the medium and long term competition is very much there.

But the one place is Korea, where four more years of Abe is seen as a very negative thing, and the Koreans haven't come to grips with that yet. I think this is a real problem partly because the one flash point in the region that does not seem to have eased at all recently is North Korea. And not only are both South Korea and Japan our allies but both of those alliances are in many ways focused on that North Korean threat. And so tending to that Korean relationship is very, very important.

I guess I would throw out to the table that I think Japan needs to do more to deal with the problems with Korea. Korea needs to do more as well. And I guess I would ask if anybody on the table wanted to comment on my comment and put forward any ideas on what both sides could do.

Robin H. Sakoda

Wow. To respond to remarks like that from the former ambassador is kind of daunting, but I agree with that. I find that some of the things that Japan does borders on quibbling when it comes to especially numbers of incidents and people that took part in the negative parts of

Japan's history that's being criticized, and that doesn't help. But at the same time -- and I think your comment is focused on Tokyo-Seoul, right? I think Seoul needs to find a way to welcome a positive proposal, and both sides need to work on the proposal. And that's what it seems like is a little bit of a shortfall.

I think the U.S. should involve itself only when there are U.S. interests directly involved. If we get into something, an issue where our specific interests are involved, I don't think we can be helpful. And so this recent agreement where we are a part of this three-way information sharing on developments on the Korean peninsula, specifically North Korea, that's what we can do.

Emma Chanlett-Avery

Just a little bit more. First of all, in some ways the North Korean threat is the one thing where we are able to coordinate. Thank god for the small things. But the information sharing agreement you mentioned, and that's actually we've been able to stay fairly pretty much on the same page in terms of North Korea, that's one area that's been a little more productive.

I generally agree with Sak that it's like I want the U.S. to stay out of it. Congress doesn't always stay out of these issues, and sometimes that's driven by domestic constituencies and other things. But it's an equal branch of government, and when you talk about things like a possible visit from Abe and aspirations for him to do a joint address, these things seem to come into play for sure. So I deal with that a lot in my job in that Congress tends to voice different things and have different views, or at least individuals do and some of those individuals are in particularly powerful positions. We saw this when Koizumi I think wanted to do a joint address or people wanted him to do a joint address and the relationship that the leadership level was very, very strong. He was rebuffed because of some of these concerns. So it's just another angle to keep an eye on when you think about that relationship.

Matthew Goodman

Maybe you should ask Prime Minister Netanyahu how to get that done, how to get that particular thing done. Is there any final question? We do have maybe two minutes if there's one more question for the group.

Let me just, if I could, because Emma suggestion a good question for Brian that I wanted to ask earlier - which is about the 70th anniversary again and whether that there's talk about that in Southeast Asia, whether Southeast Asians care about this at all.

70th Anniversary Effects in Southeast Asia

Brian Harding

We always talk about the 70th anniversary in Northeast Asia. This in the past few months has given me the homework assignment to get smarter on the 70th anniversary in Southeast Asia, which I haven't fully done yet. But I mean it's not nearly as poignant and, frankly, it's pretty remarkable in the Philippines in particular at how strong the relationship is between Tokyo and Manila. And I think part of it is it wasn't a 50-year colonial experience, it was a few really bad years. Frankly, Manila has incredibly mixed feelings about its history with the United States also. But I think they're at a point right now, aside from a pretty noisy left, that they're in a very difficult security situation. They basically have no military. All they have is an alliance

relationship with the United States and their doubling down on that relationship and opening themselves up to new partnerships with other countries. Japan is probably along with us, and Australia perhaps right behind it.

Every single country in the region is looking for deeper ties with Japan and the Philippines included. It is remarkable actually when you compare and contrast between Northeast Asia and Southeast Asia in thinking of the war. But yeah, of course, you're going to have to calibrate statements and be smart about it. But in general it's just a far better environment for Japan.

Male Voice

I think you asked earlier why is everybody talking about the 70th anniversary, and I think one reason they're talking about the 70th anniversary is because they've got the 50th anniversary a bit [indiscernible]. The tribute between Korean [indiscernible] has set it. It's kind of useful for what we're trying to do --

Matthew Goodman

Interesting. Well, thank you all. Thank you, panelists, for joining me up here. Really helpful comments. I learned a lot and I hope all of you did. Please join me in thanking our panel. Thanks again to Carnegie for putting this on.

Ambassador Malott

Thank you very much, Matt. Unfortunately, I can't offer alcohol right now at this point in time, although there are the saké tastings that the Japan-America Society of Washington does organize. I just want to quickly say thank you to John, and to Marc, and to the society. I'll safely say you've done it again. A very successful day, a great audience and group. I really appreciate everyone's contributions to today and look forward to doing it next year in seeing how we did on some of our predictions. But thank you again. Thank you for coming.