

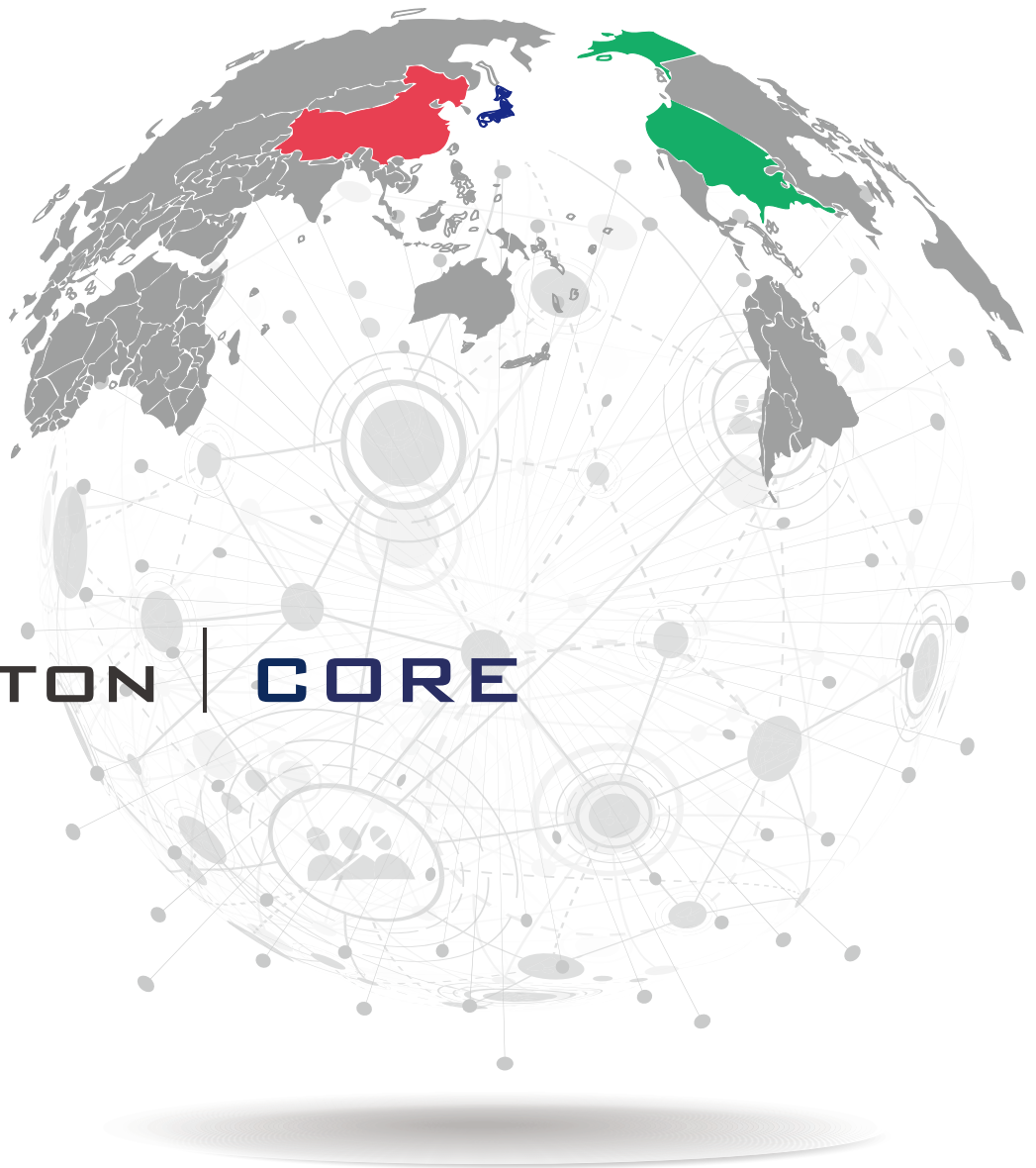
U.S.-Japan Relations:

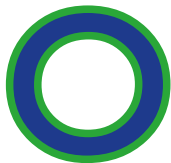
Opportunities for Enhanced Cooperation to Meet New Global Challenges

Interview with
Scott Seaman,
Vice President,
International
Business-Government
Counsellors (IBC)

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On April 16, 2021, Japanese Prime Minister Yoshihide Suga visited U.S. President Joe Biden at the White House, making it the first in-person leaders' summit for Biden since his inauguration. After the bilateral summit, what kind of relationship is expected between the United States and Japan? Washington CORE's Chiyo Kobayashi had an in-depth conversation with Scott Seaman, Vice President of International Business-Government Counsellors (IBC), on the topics that were discussed between the two leaders, as well as other topics, and their implications for Japanese businesses and the U.S.- Japan bilateral trade relationship in coming years.



FINDING AREAS FOR PARTNERSHIP

KOBAYASHI: During the in-person summit between U.S. President Joe Biden and Japanese Prime Minister Suga Yoshihide, the two leaders discussed a variety of issues on which the U.S. and Japan should continue to work together. What kind of relationship do you foresee between the two nations?

SEAMAN: I think the number one issue in everyone's mind—both in the U.S. and Japan—is how to move forward in efforts to work with China, as well as to find ways to manage China's behavior not as individual countries but as a group of allies and like-minded countries. Obviously, this is a very sensitive topic, but this was one of the main topics of discussion for Biden and Suga—how to better cooperate on China issues while at the same time identifying areas of cooperation with China as appropriate.

KOBAYASHI: Experts from the U.S. and Japan have identified some of the major areas where the two countries can cooperate, such as COVID-19, climate change, and emerging technologies. How can the two countries work together on these three major areas in the future?

SEAMAN: On COVID-19, one area in which the two nations can cooperate is strengthening cooperation to provide more assistance to other countries—whether that involves providing vaccines or other types of assistance. China is providing medical assistance, vaccines, and other things to other countries as part of its diplomacy efforts. I think the U.S. and Japan, both together and separately, also can make a large contribution in that area.

Vaccine supply chains can also be another area for cooperation between the U.S. and Japan. The U.S. is producing vaccines for COVID-19, but Japan does not currently have this capability. So, that has certainly raised a lot of concerns about the ability of Japan to satisfy its own domestic demand for appropriate vaccines during the next pandemic. Cooperation on supply chains often focuses on components of manufacturing. But in this case, the focus should be on how the two countries can work together to preserve and protect supply chains during future pandemics.

Regarding climate change, Japan has outstanding, cutting-edge technologies to contribute to the global effort to manage this problem. Climate-related technologies are also critical to Japan's economy. I look forward to the U.S. and Japan being able to cooperate more, not only in creating additional rules and providing additional financing for the global effort to combat climate change, but also showcasing Japan's world-class technologies.

Japan had traditionally funded fossil fuel energy projects in developing countries, but the Suga administration

has decided to move away from that, which dovetails well with the Biden administration's focus on tackling the climate change crisis.

Lastly, technology is an area in which the U.S. and Japan have often competed. Now, the question is how to cooperate to establish more robust global rules that facilitate the development of digital businesses, including e-commerce. Japan has proposed a broad range of new ways to enhance digital services and digital trade, and this is an area where the U.S. and Japan can and should cooperate more.

It is also important to focus on technology issues related to managing and protecting intellectual property rights (IPRs) and security of cross-border data flows as companies and consumers do more business digitally. The U.S. and Japan can work together to promote broader and stronger international rules for digital business.

BIDEN'S ASIA HANDS

KOBAYASHI: What are your thoughts on the leadership that Biden is assembling for his Asia policy team, for the U.S.-Japan relationship and beyond?

SEAMAN: There is much talk about the fact that many people who were in the Obama administration are moving into the Biden administration and the pros and cons of this happening. Some people argue that experience and institutional knowledge will help administration officials perform their duties more effectively. Others caution that experienced people might be less capable of coming up with fresh ideas and instead rely too heavily on old ways of doing things—which may or may not be useful.

But many of the senior people involved in Biden's Asia policy have very "regional" backgrounds. They are not just Japan or China experts, but have often served in U.S. government positions across Asia, broadly defined. I believe it is important, especially now, to have people who are generalists and can view Asia as a very large, diverse region while also understanding and appreciating the problems that affect the region as a whole. Overall, Biden is assembling a great Asia policy team with relationships throughout the region, and I expect they will perform very well.

U.S. TRADE POLICY

KOBAYASHI: Concerning Biden's trade policy, what do you think his administration will do regarding trade agreements with Asia?

SEAMAN: Many people in Japan's government and business community likely continue to hope that the U.S. will rejoin the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in the future, but both Republicans and Democrats have become more skeptical of free trade agreements. People in these parties do not agree about very much at all these days, but one area where they do share many of the same basic views is trade. For example, both Republicans and Democrats are very concerned that trade agreements will eliminate jobs and weaken the manufacturing sector in the U.S.

Biden's administration is unlikely to return to the CPTPP anytime soon. However, there is always the possibility, especially if pressures continue to grow to compete with China and to cooperate in efforts to persuade it to accept rules-based trade, of the U.S. becoming more interested in actively engaging in regional trade discussions, including related to the CPTPP.

If the U.S. tries to return to the CPTPP, it would likely push to incorporate into it many restrictions in the United States–Mexico–Canada Agreement (USMCA) on labor practices, environmental protection, and rules of origin that would be difficult for CPTPP countries, including Japan, to accept. Given that, even if the U.S. is willing to rejoin the CPTPP, negotiations required to reach that goal would be very tough.

But even if the U.S. does not return to the CPTPP, the U.S. and Japan can continue to work together on trade and trade-related issues. For example, both countries are interested in reforming the WTO (World Trade Organization) so that it can more effectively address problems such as IPR violations, forced technology transfers, and industrial subsidies.

Also, there is appetite in the U.S. to talk more about a potential digital agreement for Asia, and this creates opportunities for U.S.-Japan collaboration. COVID-19 has increased interest in creating more secure networks, better protection for data and privacy, and so on. The U.S. and Japan should consider expanding cooperation with each other and other countries in the digital space and do so in ways that promote rather than restrict business operations.

SEEKING SUPPLY CHAIN RESILIENCE

KOBAYASHI: Recently, the supply chain for semiconductors has received media attention due to COVID-19 disruption. This could be another area in which the U.S. and Japan can cooperate.

SEAMAN: Yes. Biden wants the U.S. government to play a much more active role in protecting and developing the semiconductor industry in the U.S.

As you know, South Korea and Japan are engaged in a protracted trade dispute that has been problematic for many firms involved in the semiconductor industry and its supply chains in both countries. Biden, Suga, and South Korean President Moon Jae-in should work together to find a way to resolve Japan's dispute with South Korea or at least reduce friction between them so that there can be more trilateral cooperation on semiconductor-related issues and many other issues of shared interest.

When I talk to businesspeople in Japan and South Korea, they are keen to maintain good bilateral relations and to cooperate while trying their best to work around political problems in the Japan-South Korean relationship. I think both Suga and Moon understand that prolonged political squabbles do not benefit either of their countries.

With Biden now president, the U.S. will take a more active role in trying to bring Japan and South Korea close together. There is a very important “mediation” role that the U.S. can play, but ultimately it is Japan and South Korea that must decide to move past some of these long-standing issues. There is space for discussion, but I wonder if we will first have to move past the South Korean presidential election in March next year before there can be major changes in the bilateral or trilateral relationship. It will probably not be easy for Moon and his Democratic Party to make any sudden, major policy shifts before then that might anger their supporters on the left—such as taking a “softer” stance on disputes with Japan. That said, I am optimistic that the three countries will be able to work together more closely in the future.

Taiwan plays a key role in global semiconductor supply chains, but it presents numerous and very difficult political issues. Biden and Suga should continue to deepen bilateral discussions on how best to handle relations with Taiwan and with China, including by the U.S. and Japan continuing to stress to China that it must not try unilaterally to alter the status quo, especially by using force or the threat of force. Biden and Suga underscored “the importance of peace and stability across the Taiwan Strait” in a joint statement issued after the summit.



INCREASINGLY COMPLEX BUSINESS ENVIRONMENT IN ASIA

KOBAYASHI: Concerning economic decoupling with China, how would you advise multinational corporations doing business around the world about where to draw the line?

SEAMAN: The situation is becoming more complicated. When companies think about doing business with or in China, the U.S.-China relationship is one of their main considerations. Companies have been trying to avoid making either the U.S. or China upset about their business activities, but companies are increasingly struggling to navigate safely not only through U.S.-China friction, but through that between China and other countries as well.

For example, China and Vietnam are engaged in territorial disputes. If a foreign company does business with or in both these countries, it risks being accused by one or the other of somehow not supporting its territorial claims. Companies doing business in China and the Philippines likely face a similar dilemma now or will in the future.

Interestingly, many Chinese companies are finding it more difficult to devise strategies that prevent them from running into trouble with Beijing. A case in point is Jack Ma's struggle to run his business as he thinks fit while remaining on good terms with the Chinese government. In the future, Chinese and Japanese companies might cooperate not only on business matters, but also in efforts to manage relations with Beijing.

Many Chinese companies are also finding it harder to defend their IPR inside China. IPR infringements have long been a problem for foreign companies in China. But as Chinese companies have grown, they, too, have had to fight harder to protect their trademarks, copyrights, patents, and trade secrets in China and elsewhere.

A new trade-related topic likely to receive more attention in Washington this year is the concept of censorship as a trade barrier. The basic idea is that government censorship could be considered a non-tariff trade barrier and if that is the case, there should be an effort to create rules to address that problem. It is hard to imagine China ever accepting such a concept, and it is yet another example of how the trade world is becoming more complex and politically charged.

BUILDING STRONG INFRASTRUCTURE AROUND THE WORLD

KOBAYASHI: Concerning Biden's infrastructure initiative, it would be very exciting if some Japanese companies could participate in U.S. infrastructure projects. There is also a possibility that companies from both countries will work together on infrastructure development in other parts of the world. However, U.S. presidents have often pledged to fix infrastructure without keeping such promises. Do you think this time could be different?

SEAMAN: Biden seems to view infrastructure in two ways. The plan to upgrade and improve domestic infrastructure in the U.S. has both economic and strategic objectives. The better infrastructure a country has, the better its economy can function. But at the same time, Biden sees a strong U.S. economy as needed to compete effectively with other countries like China. So even



though we often think of infrastructure as involving “local” projects, these projects often support efforts to achieve larger strategic or foreign policy goals.

Japan has assumed a leadership role in helping countries in South and Southeast Asia, for example, develop domestic infrastructure, often as an alternative to infrastructure offered by China. China has a lot of money to fund infrastructure in other countries, but this assistance often comes with strings attached, including financial strings that can create a debt trap for recipient countries.

Japan, under Prime Minister Abe Shinzo, promoted the concept of high-quality infrastructure, and that has been quite successful. The basic idea is to have Japan compete for infrastructure projects not based only on cost, but also on the quality and long-term benefits of Japanese infrastructure projects and assistance. Biden also wants to create alternatives to what China is offering on infrastructure, and this presents an opportunity for Biden and Suga to deepen cooperation on infrastructure-related issues in the U.S. and elsewhere.

BUY AMERICAN UNDER BIDEN

KOBAYASHI: Under the Biden administration, will foreign companies find it more difficult to do business in the U.S.? Some foreign companies are concerned that President Trump-style “America First” policies and trade barriers will persist.

SEAMAN: Many foreign companies are concerned about Biden's “Buy American” program. A key idea that foreign companies doing business in the U.S. should stress when talking with Americans inside and outside of government is how they can create good jobs. In states and local communities across the U.S., if a company provides jobs that enable people to support their families, those people usually do not care whether the company is American or not.

When South Korean and U.S. companies were working to persuade Congress to ratify the U.S.-Korea Free Trade Agreement (KORUS), one of the most effective approaches involved the companies explaining how they, using the KORUS, could contribute to local economies, including in specific Congressional districts. So even if the U.S. federal government often prioritizes working with U.S. companies, there will always be many local communities that welcome opportunities to work with Japanese and other foreign companies as well.

As for Biden's infrastructure plan, I do not know how many opportunities it might create for foreign companies to win contracts. While U.S. companies might have a political advantage, there are likely technologies that U.S. companies cannot provide or that foreign companies can offer at a lower cost. It will be interesting to see whether the flood of new U.S. infrastructure spending enables foreign companies to showcase their capabilities and expand production and sales operations here.

JAPAN AS A MARKET WITH POTENTIAL

KOBAYASHI: Japan's aging population is often viewed negatively. But is there perhaps a way for companies in the U.S. and other countries to view Japan's demographics profile in a positive light?

SEAMAN: In addition to innovative technologies for green energy and climate change, Japan offers cutting-edge technologies and research related to aging. I often think aging does not receive enough attention as an area for more collaboration and cooperation not only between the U.S. and Japan, but also between Japan and other countries such as South Korea. Both Japan and South Korea are advanced industrialized economies with aging populations, Japan is older, but South Korea is not very far behind, and the pace of aging is faster in South Korea.

Every country in the world wants to take better care of its older people, making this a relatively comfortable area for them to cooperate, discuss new ideas, and identify policies that have worked well in one country and could be adopted by others. Also, if businesses can develop new technologies, products,

and services that become popular in Japan, those companies can likely sell those same things in the U.S., South Korea, China, and many other countries where populations are aging or will do so in the future.

There are more discussions in the U.S. about aging as a positive force that can create opportunities for companies to develop new products and services. Aging does not have to be seen only as a problem that increases government debt, reduces productivity, and slows economic growth. Maybe there is a way to turn the aging issue on its head and view it instead as a chance to spur political and commercial innovation and cooperation.

KOBAYASHI: What is your impression of Japan as a market for U.S. companies? Do U.S. businesspeople view it as in decline or shrinking?

SEAMAN: Despite slow growth and an aging population, Japan is still an incredibly wealthy country, and many older Japanese have significant financial resources. So there is interest among, for example, foreign financial services companies in perhaps starting or expanding operations there to help people manage and invest their money more effectively.

During the 30 years that I have been watching Japan, people have often said that it is in terminal decline and shifted their attention to other countries like China, Brazil, and India that are seen as being on upward trajectories. But given increased risk in U.S.-China relations, and the possibility that doing business in China will become even more difficult for foreign companies, I think many U.S. companies are taking a second look at more mature markets like Japan.



SCOTT SEAMAN, VICE PRESIDENT

Scott Seaman has over twenty years of experience working on international political, economic, and commercial issues in both the private sector and government, often with a focus on Asia.

Before joining IBC, Scott was a director for Asia at the Eurasia Group, where he analyzed political risk in the region (especially related to Japan, South Korea, and North Korea) for a broad range of global investors and multinational corporations. Scott has also held positions with MetLife (international government relations), Cerner Corporation (health information technologies), the U.S. Commerce Department's International Trade Administration (trade policy), and the Liberal Democratic Party of Japan (International Bureau) in Tokyo, Japan.

Scott completed PhD and MA degrees in political science at Duke University and a BA degree (Government Honors Program, Phi Beta Kappa) at the University of Virginia. He received intensive language training at the Inter-University Center for Japanese Language Studies in Yokohama, Japan.

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