The Article II Mandate
Forging a Stronger Economic Alliance between the United States and Japan

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THE ISSUE

- The underlying strategic interests and goals of the United States and Japan in the Indo-Pacific region are closely aligned, transcending today’s bilateral trade tensions.
- China’s growing influence and assertive behavior in the region pose a substantial challenge for the United States and Japan.
- There remains a strong demand in the region for U.S. and Japanese economic engagement and leadership in rule-making and norm-setting.
- Washington and Tokyo have complementary skills in economic statecraft and should work to better coordinate their economic policies in the region.

The alliance between the United States and Japan has been a force for peace and prosperity around the world for nearly 60 years. Economics has been at the heart of the U.S.–Japan alliance from the outset: Article II of the Treaty of Mutual Cooperation and Security mandates that the two allies “seek to eliminate conflict in their international economic policies and . . . encourage economic collaboration between them.” Nowhere are U.S. and Japanese strategic interests more closely aligned than in the Indo-Pacific region. Both Washington and Tokyo seek to ensure regional security and stability, expand trade and other economic opportunities, and support universal democratic norms. The two countries have worked constructively together for many decades to shape regional economic rules and norms through institutions such as the Asian Development Bank and the Asia-Pacific Economic Cooperation (APEC) forum.

Powerful forces are driving further strategic convergence between the United States and Japan. In the wake of U.S. withdrawal from the Trans-Pacific Partnership (TPP), China has launched an aggressive bid for economic leadership in the Indo-Pacific region, and economic coercion has become an increasingly common tool of Chinese statecraft. The China challenge is particularly pronounced in the areas of infrastructure and technology.

A more robust and coordinated economic statecraft, jointly pursued by Washington and Tokyo, is central to advancing U.S. and Japanese interests in the Indo-Pacific region. U.S. withdrawal from TPP has neither eliminated the agreement’s underlying logic nor closed the door on further strengthening U.S.–Japan economic cooperation. By working together to advance their preferred rules and norms, Washington and Tokyo can ensure better economic outcomes for themselves and others.
OBJECTIVE AND METHODOLOGY

Beginning in the summer of 2017, the Center for Strategic and International Studies (CSIS) in Washington and the Asia Pacific Initiative (API) in Tokyo embarked on a joint project to explore opportunities to improve U.S.–Japan economic cooperation in third countries. We used a case-study approach to examine a set of key countries and institutions in which the United States and Japan have aligned interests and potentially complementary skills, and where economic cooperation could be especially valuable in furthering shared interests.

Based on discussions with leading scholars and practitioners of the U.S.–Japan alliance in Washington and Tokyo, we decided to conduct our country case studies on a group of fast-growing, strategically significant countries in the Indo-Pacific region. We identified countries in the region that are projected to experience the fastest economic growth over the next decades. We also considered the geopolitical and geo-economic significance of these countries, as well as the extent to which the lessons of U.S.–Japan cooperation could best be applied to other countries. From this group, we selected four countries for case studies—Myanmar, Vietnam, India, and South Korea—to represent a variety of issues and contexts.

In addition to the four country cases, we identified two institutional and functional areas in which U.S.–Japan economic cooperation is particularly compelling: regional trade architecture in the Indo-Pacific, and the G7. Both represent key arenas in which the United States and Japan play leading roles in shaping economic rules and norms. The six case studies define and examine the key U.S. and Japanese strategic and economic interests at stake. Without a clear understanding of where U.S. and Japanese interests lie in any country or institution and, most importantly, where these interests align or diverge, policymakers in Washington and Tokyo will not be able to match means to ends effectively. Our case studies also incorporate a thorough analysis of the political and economic landscape of each country and institution. To this end, a joint delegation of CSIS and API scholars visited Myanmar and Vietnam in March 2018 and held wide-ranging interviews with government, business, and civil society representatives.

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Our analysis examines the state of U.S. and Japanese economic involvement in each country: not only trade and investment flows, but also aid flows, tourism, and other economic indicators that capture the full range of economic linkages between the United States, Japan, and the third countries in question. This economic analysis is coupled with an examination of political indicators of soft power and other measures of the U.S. and Japanese presence in third countries. Finally, for each case study, we offer recommendations for the United States and Japan individually, as well as proposals for joint action.
RECOMMENDATIONS FOR U.S.–JAPAN JOINT ACTION IN THE INDO-PACIFIC

1. Resolve bilateral trade tensions to clear the way for third-country cooperation.
The increase of trade tensions between the two countries has been an unfortunate distraction. The United States should work with Japan to address impediments to trade and investment; in doing so, both sides should act within established rules, seek to resolve differences through negotiation, and focus on enhancing cooperation in third countries.

2. Develop a joint strategic approach that plays to each country’s strengths.
The United States and Japan should work together to strengthen and operationalize the economic pillar of their respective free and open Indo-Pacific strategies and coordinate to maximize each country’s unique advantages, including by establishing a new, bilateral Indo-Pacific Economic Cooperation Dialogue.

Both sides should act within established rules, seek to resolve differences through negotiation, and focus on enhancing cooperation in third countries.

3. Work toward a free and open digital economy.
The United States and Japan should foster cooperation on emerging technologies and digital governance to ensure that both play a leading role in shaping the rules, standards, and norms of the future global economy. The two countries should cooperate in forums such as APEC to develop guidelines and principles for the digital economy.

4. Cooperate on trade liberalization and rule-making.
The true power of the U.S.–Japan economic relationship lies in the two countries’ ability to shape global economic rules, standards, and norms, especially in the Indo-Pacific region. Rule-making efforts should focus on extending the disciplines agreed in TPP, with particular focus on two key areas: the digital economy and state-owned enterprises.

5. Promote trilateral cooperation with European partners.
Europe has shown an intention to play a more active role in Indo-Pacific regional affairs. Trilateral economic cooperation among the United States, Japan, and the European Union should be expanded. Washington and Tokyo should also work within the G7 to gain European support for their endeavors in the Indo-Pacific.

6. Increase financing and other support for high-quality infrastructure investments to meet regional needs and enhance connectivity.
Both Japan and the United States have critical roles to play in the historic global infrastructure build-out. The two countries can improve operations and financing from their respective government agencies, facilitate information sharing between agencies with similar mandates, and jointly promote high standards for infrastructure investment.

7. Respond to the risk of geo-economic coercion.
There is growing concern around the world about China’s economic coercion. The United States and Japan should offer more support to countries that are part of the Belt and Road Initiative, through building the capacity of government staff, offering coordinated alternative financing, and improving intelligence sharing about China’s economic activities.

8. Seek an affirmative agenda with China where possible.
China shares a desire for a peaceful and stable Indo-Pacific region. The development needs of the region cannot be fulfilled by one country or organization alone. Cooperation and positive market competition where possible will be in the interest of all three major powers as well as regional economies.

Know-how, human capacity development, and a healthy climate for small and medium-sized enterprises (SMEs) are key forces for market-based growth and development. The United States and Japan should step up their efforts to develop capacity and skills in third countries and enhance SME access to global financing and trade.

10. Collaborate on anti-corruption efforts.
Countries with high levels of corruption are unlikely to generate stable or equitable economic growth and are at risk of becoming reliant upon non-democratic countries for trade and investment. Washington and Tokyo should enhance intelligence sharing on corruption and deepen joint work on anti-corruption in international forums.
Myanmar has a high-growth population and enormous development potential; however, it is a fragile democracy that is both wary of China and at risk of falling under Beijing’s influence due to strong economic and institutional ties.

**RECOMMENDATIONS ON MYANMAR**

We believe it is both vital and feasible for the United States and Japan to simultaneously advance both their economic and human rights objectives in Myanmar. By strengthening infrastructure, human capacity, and governance practices, Myanmar will become a stronger, more democratic, more stable nation, better able to negotiate relations with large neighbors, such as China, on its own terms.

**UNITED STATES**

1. Create pathways towards investment and lifted sanctions that are linked to improvements in human rights and democratization.
2. Support U.S. business efforts to be a positive force for growth and better governance.

**JAPAN**

1. Amplify the success of Thilawa SEZ as a model for foreign investment and better governance.
2. Improve information sharing with other embassies and chambers of commerce.

**JOINT ACTION**

2. Cooperate on human capacity building and technical assistance.
4. Cooperate on infrastructure development.
5. Improve coordination between the U.S. and Japanese embassies and chambers of commerce.
Vietnam is a high-growth, strategically important country that seeks to be more integrated into the regional economy, as seen by its involvement in TPP; at the same time, it is a non-democratic country with a state-dominated economy.

**RECOMMENDATIONS ON VIETNAM**

Other than Singapore, Vietnam is arguably the most important partner for the United States and Japan in Southeast Asia when it comes to advancing a rules-based economic order in the Indo-Pacific. The country’s historic suspicion of China and acceptance of higher standards in TPP negotiations makes Hanoi open to proposals from Washington and Tokyo for domestic economic reform and joint action in regional rule-making and norm-setting. Washington and Tokyo should enhance their individual and collective efforts to promote a more open, engaged Vietnam.

**UNITED STATES**

1. Use the U.S.–Vietnam Trade and Investment Framework Agreement (TIFA) to address market access and structural problems in Vietnam’s economy.
2. Work to build Vietnam’s administrative capacity.

**JAPAN**

1. Support investment in energy and include U.S. companies.
2. Invest in healthcare.

**JOINT ACTION**

1. Support Vietnam’s capacity to meet Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) commitments.
2. Coordinate on major projects in energy and infrastructure.
3. Establish a trilateral business forum.
4. Expand support for education.
India is a democracy that will soon overtake China as the most populous country in the world. If the United States and Japan can encourage Delhi to adopt more outward-looking trade policies, India has the potential to play an important role in rule-making in the Indo-Pacific.

RECOMMENDATIONS ON INDIA
As three of the largest democracies in the Indo-Pacific, the United States, Japan, and India have clear overlapping interests in promoting high-standard economic rules and norms and preventing regional overdependence on China. To this end, the United States and Japan should encourage India to become a more constructive player in regional economic rule-making and norm-setting.

UNITED STATES
1. Engage with regional as well as national leadership.
2. Resolve trade issues and expand trade opportunities through active dialogue.

JAPAN
1. Invest and develop high quality infrastructure and energy resources.
2. Remove obstacles and encourage investments in the manufacturing sector.

JOINT ACTION
1. Coordinate on major projects in energy and infrastructure.
2. Cooperate with India to develop and adopt infrastructure investment norms.
3. Advocate for greater competitiveness and trade in trilateral dialogues.
4. Collaborate on the establishment of an innovation hub in India.
5. Encourage the export of Japanese military technology to India.
South Korea is an advanced economy and U.S. ally, yet one that is deeply entwined with China’s economy, creating vulnerability to external shocks and influence. Reunification of the Korean peninsula—still far off but more conceivable than a year ago—could be a geopolitical game-changer, while South Korea will play a crucial role in Northeast Asian economic development.

RECOMMENDATIONS ON SOUTH KOREA
The United States and Japan have a compelling interest in a South Korea that is economically strong, militarily secure, and free from coercion by China or other countries. As an advanced economy with a similar stake in an open, rules-based order in the Indo-Pacific, Korea is an important partner in updating and upholding that order. Washington and Tokyo should do more to bolster Korea’s economic strength and independence and to encourage Seoul to join in collaborative economic endeavors in the region.

UNITED STATES
1. Fully implement the revised U.S.-Korea Free Trade Agreement (KORUS) and look for new areas of proactive cooperation.
2. Cooperate with South Korea to develop services with high levels of productivity.

JAPAN
1. Encourage South Korean accession to CPTPP.
2. Expand tourist relations.
3. Cooperate on measures to deal with an aging society and labor market rigidity.

JOINT ACTION
1. Deepen trilateral cooperation on regional economic rule-making.
2. Create mechanisms for trilateral research and development funding and information exchange on industries of the future.
3. Enhance trilateral energy cooperation.
4. Work together to push back against Chinese economic coercion.
Regional Trade Architecture has evolved over the last three decades, its progress shaped by the elevation of APEC to the leaders’ level, including heads of state, in 1993; the conclusion of scores of bilateral free trade and investment agreements between countries of the region; and the launch of two large plurilateral trade negotiations, the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP). The United States and Japan have participated in many though not all of these arrangements, and both have a strong interest in how the region’s trade architecture takes shape in the years ahead.

RECOMMENDATIONS ON REGIONAL TRADE ARCHITECTURE

With the current U.S. administration skeptical about multilateral trade, Japan has been pursuing a commendable role as a leader of trade liberalization and rule-making efforts in the Indo-Pacific. However, it cannot uphold this position alone; engagement by the United States, the world’s largest economy and traditional leader on Indo-Pacific economic integration, is needed to support Tokyo’s efforts. We offer recommendations below for individual and joint action by the two countries to move back onto the path of coordinated leadership on building an open, free, and fair regional trade architecture.

UNITED STATES

1. Avoid unilateral trade actions that harm allies and partners.
2. Build on the conclusion of the USMCA to extend high standards in trade throughout the Indo-Pacific.
3. Push for limited, urgent reforms of the WTO Appellate Body to preserve its ability to function.

JAPAN

1. Incentivize the United States to return to leadership in the multilateral trading system, starting with the WTO.
2. Place multilateral trade liberalization at the heart of the free and open Indo-Pacific strategy.
3. Ensure entry into force of CPTPP, upgrade rules at five-year review, and look to expand membership.

JOINT ACTION

1. Work together to extend and strengthen rules on SOEs.
2. Make high-standard digital rule-making a priority in bilateral cooperation.
3. Push for early progress in the TiSA services negotiations
4. Enhance cooperation in regional organizations such as APEC and ADB and strengthen links with Europe on economic rule-making.
The Group of Seven has lost much of its luster since it was first formed in response to the oil shocks of the 1970s. Bringing together leaders of the world’s seven largest industrialized democracies—the United States, Japan, Germany, the United Kingdom, France, Italy, and Canada—the G7 had early success in stabilizing the global economy and setting an agenda for international economic cooperation. But over time, the forum was rendered less effective by a combination of diminishing consensus within the group, growing questions about its legitimacy, and, in the wake of the 2008 financial crisis, elevation of the Group of Twenty (G20). However, there is a case to be made that the G7 is more relevant than ever, and many of the core interests that unite the United States and Japan align with those of other G7 members.

RECOMMENDATIONS ON THE GROUP OF SEVEN

While the G7 clearly can no longer serve as steering group for the global economy, it still plays a unique role as a gathering place of leaders of the world’s largest advanced democracies to discuss major global concerns. As the two largest economies in the group, the United States and Japan should combine forces to revitalize the G7 as a forum to promote a high-standard, rules-based global economic order.

UNITED STATES
1. Remain present and engaged in the G7

JAPAN
1. Harness Japan’s credibility to bolster the G7’s role.
2. Use the G7 and G20 in tandem to reinforce policy priorities.

JOINT ACTION
1. Use the G7 to reinforce trilateral work on trade rules.
2. Use the G7 to spread high global standards on quality infrastructure.
3. Begin collective action on limited case studies.
4. Reach out to other advanced democracies in the Pacific.
The United States and Japan are the world’s two largest market economies, bound together by a decades-old alliance that has become the linchpin of stability and security in the Asia-Pacific region. But differences over economic and commercial issues have been a recurring source of strain in the relationship for over half a century and still cast a shadow over bilateral ties today. Despite this, U.S. and Japanese strategic interests in the Indo-Pacific region are substantially—and increasingly—aligned, and economic cooperation between the two countries has the potential to advance those shared interests in the region and beyond.

This enhanced cooperation will require hard work on both sides. For Washington, it will mean recognizing that, while the United States and Japan may compete in commercial affairs, the two are not economic rivals. Rather, they are vital partners with shared interests and values, capable of playing a joint leadership role in Asia that advances high-standard economic rules, norms, and standards. Building on its free and open Indo-Pacific strategy, the Trump administration needs to develop and implement a comprehensive and cohesive strategy for constructive engagement in Indo-Pacific economic integration, one that involves close coordination with Tokyo.

Tokyo’s challenge is to build out its leadership role in the Indo-Pacific in the absence of traditional U.S. engagement. Japan is the only other country with the will and capacity not only to uphold but to advance a rules-based, high-standard, liberal economic order in the region. The Abe administration has shown a welcome new willingness to move beyond Japan’s traditional role of merely supporting Washington’s initiatives and instead to initiate measures that propel the U.S.–Japan agenda forward. This new dynamic was most clearly seen in Tokyo’s efforts to secure agreement among the remaining 11 members of TPP to implement the pact, rebranded as CPTPP. Tokyo has also signed an economic partnership with the European Union and is seeking to bring the Regional Comprehensive Economic Partnership (RCEP) to conclusion. Further efforts by Tokyo to lead global and regional rule-making should be encouraged.

It is critical for Washington to understand the fundamental drivers of the shared U.S.–Japan agenda and develop creative means to advance it. While current White House policy might limit the scope for high-level coordination in the near term, much can be done at lower levels of government, in multilateral institutions, and on the ground in the region to enhance cooperation and advance shared U.S. and Japanese interests.

We hope the findings and recommendations in our report, “Article II: Forging a Stronger Economic Alliance between the United States and Japan,” will make a useful contribution to strengthening the vital U.S.-Japan alliance, resulting in an even more effective force for peace and prosperity in the Indo-Pacific region. There has never been a more important time for the United States and Japan to work together to fulfill the mandate of Article II.

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