

Building a New Japan-U.S. Relationship:

Taking as an Opportunity the Advent of the New U.S. Administration amid Today's Turbulent International Climate

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Keizai Doyukai

(Japan Association of Corporate Executives)

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Introduction

Calling for "hope and change," Democratic Senator Barack Obama has emerged as the victor in the U.S. presidential election, and the first change in administration in eight years will soon take place. The new Obama administration will start out amid expectations that it will manage to survive a period of turbulence on a global scale, marked by challenges such as the global financial crisis, which originated in the United States; sudden rises and falls in prices for the food, resources, and energy; global warming; the rise of emerging nations such as the BRICs; terrorism and ongoing regional and nationalist conflicts in places like Afghanistan, Iraq, and Africa; the relative decline of American influence against this background; and instability in the international system that has prevailed since the end of the Second World War. What role will the United States play in this new international environment? How will "change" affect the world order based on U.S. leadership known as "American unipolar dominance"? These are questions on which Japan and the rest of the world are now focusing their attention.

The present moment provides a rare opportunity for Japan to actively engage the new Obama administration with regard to the state of the Japan–U.S. relationship and initiatives to tackle regional and global issues. The chance to consider redesigning the international system as well as strengthening and extending the Japan–U.S. relationship is now on Japan's doorstep. It is often pointed out that Japan's efforts to disseminate news and opinions on issues relating to Japan's domestic and international affairs in English to the international community are insufficient. It is disadvantageous for both Japan and the rest of the world that the international community has few opportunities to access the insights and ideas of Japan, as an advanced democracy and a major economic power. Through clear and effective dissemination of our perspectives, Japan can lessen the risks brought about by unnecessary misunderstandings. In order to make use of this opportunity to build a new Japan–U.S. relationship and strengthen Japan's international influence, Japan must make a concerted effort to embark on proactive engagement and effective dissemination of its views and we believe that it is high time for Japan to take responsible and concrete action.

This policy paper draws on the findings of the fact-finding mission to the United States [September 23 to 28, 2008, with visits to New York City, Washington D.C., and Minneapolis] undertaken by the Committee on Americas-Japan Relations (Chairman: Yoshinari Hara, Chief Corporate Adviser, Daiwa Securities Group Inc.) and makes recommendations to both U.S. and Japanese Governments as well as leaders in various circles on such matters as the roles that Japan and the United States should play respectively and together to promote the national interests of Japan and ensure the peace and prosperity of the international community.

Our Understanding of the Current World Situation

1. Deepening Globalization and Diversification of the International Community

The international community is entering a turbulent period. It has long been noted that under the American-led world order, globalization has advanced and its influence on our politics and economy has been profound. This current has brought a diversification in the cast of players influencing the international community by encouraging the rise of emerging nations such as the BRICs, regional communities of nations such as the European Union, nongovernmental organizations such as environmental groups, and international terrorist organizations. It is paradoxical that as U.S.-led globalization deepens, the unipolar dominance of the United States decreases and the world becomes substantially less predictable.

2. Expanding Geopolitical Risk and Cross-Border Issues

In addition to the free flow of capital, services, people, and information, and the proliferation of influential nations and nongovernmental organizations, serious problems are arising that transcend national borders and existing organizational and institutional frameworks. These include global warming, large-scale natural disasters, pandemics (the spread of infectious diseases on a global scale), and international criminal activities such as piracy, money laundering, and human trafficking. These transnational threats, combined with the expansion of geopolitical risk, have exposed the fact that the existing system is unable to control the risk factors, and has caused people to lose confidence in the effectiveness of that system.

3. Instability in the World Order

It is becoming clear that among the emerging nations such as the BRICs and nongovernmental organizations whose international influence is rising, some are adopting stances that challenge the system and code of conduct built up mainly by the United States and the other advanced democracies. At the same time, some advanced democracies are beginning to assert the necessity of rebuilding the existing international system and of a new international framework. The present situation, in which nations, regions, and nongovernmental organizations are vying for influence over the construction of such a new decision making process, shows that a global effort is taking place to seek out a new world order. Under these circumstances, the financial crisis shaking current international financial markets and accordingly affected international economy have shown the limit of the current systems and institutions in international finance and economy and are urging countries concerned to take immediate actions to overcome.

4. Coexistence of Risks and Opportunities in Asia

Events in the Asian region in particular possess a human scale that encompasses more than half of the world's population and involve dynamic development between wealth and poverty, peace and conflict, and growth and stagnation. Though Asia's rapid growth has drawn the world's attention, many Asian nations are unable to deal adequately with the political and economic issues they face, raising concerns as to their future stability. Risk and opportunity coexist in Asia, and realizing peace and prosperity there in the long term is of enormous significance to the international community as it searches for a new world order.

The Direction of Japanese Diplomacy

As stated above, to overcome the current situation in which players in such areas as economy, security, global energy and natural resources are expanding globally and opportunities and risks coexist, the world needs new and universal vision and global framework. Under these circumstances, Japan should more than ever before make clear its own role and responsibility in international community. Japan must reconstruct its diplomatic

strategy to secure its own national interests and is expected to establish multi-layered international relations by actively engage the world including not only the United States, Asian countries, but also regional entities such as European Union, and newly emerging countries. The underpinnings listed below should serve as the direction and cornerstones for Japanese diplomacy.

1. Developing Active Diplomacy Aimed at Realizing Peace and Prosperity

The future of Japan as a resource scarce nation cannot exist without closely involving itself within international community. To help realize continuing peace and prosperity in the international community, Japan should actively take the initiative as an advanced democracy, not being contented with a passive stance, and carry out its obligations to the full. It also goes without saying that the content of Japan's efforts to engage the outside world should be meaningful both from the standpoint of Japan's national interest and in an international context as well.

Japan's proactive diplomacy should aim at the maintenance and expansion of a world order that is rule-based, highly transparent, and open. In so doing, Japan can improve predictability and stability of the political and economic environment in which Japan finds itself. It can be effectively carried out through the establishment of a framework for coping with transnational threats and the promotion of human security and so forth.

Japanese corporations in particular have expanded the scope of their activities in the Asian region and contributed to the increasing vitality of the Asian economy. They should actively work to apply the expertise they have accumulated in that process to the creation of a new system.

2. Carrying out Diplomacy toward the United States to Realize International Stability and Prosperity

Although the United States has taken a leading role to establish and maintain international order for a long time, it is beginning to be widely discussed in the world that the United

States' influence in the world affairs is in relative decline due to such factors as the current financial crisis and the war in Iraq. However, the world is expecting the United States to take a leading role as a responsible great power since without saying its outstanding military power, world's largest economy, the United States still remains as an incomparable political and economic power and no one can replace its position.

The new U.S. administration will regard the revitalization of its domestic economiy as the highest priority area for the time being to carry out its election campaign promises. However, at the same time we urge the United States to tackle global issues in areas of international finance, environment, and energy. In order to find solutions to these issues, the United States must seek out ways and means to take a leadership role with multilateral approach.

Taking this opportunity, Japan as an economic power should define its global role and execute its responsibility with concrete action. Japan should cooperate with the United States whose political and economic power exceed that of any other nation, to exercise its responsible leadership role in the international community. It is meaningful and important for the world's two largest economies to cooperate with each other for the good of the world. When Japan engages in a dialogue with the United States, it must pursue co-evolution between Japan-U.S. Alliance and prosperous coexistence with Asian nations through existing frameworks such as APEC (Asia-Pacific Economic Cooperation) and ASEAN+3(Association of Southeast Asian Nations, Japan, China, South Korea). Japan and the United States must further strengthen political and economic strategic dialogue and share their long-term vision and objectives.

In addition, it goes without saying that both Japan and the United States must nurture people who can gather expertise in sustaining the international system and engage in the tasks of building and running the new system. Exchanges between them must be strengthened and constant hard work invested in heightening the knowledge and experience they possess.

3. Developing Diplomacy Centered Around Prosperous Coexistence with Asian Countries

It is an important concern for not only Japan, but also for the world that Asian countries achieve a healthy development. While Asian countries hold enormous potentialities for growth, they also have political and economic issues that need to be tackled.

Historically, Japan has built close economic relations and formed a cultural sphere with Asian countries. Japan must take a leadership to solve issues that Asian countries face and bring out their latent potentials in order to further strengthen co-evolutionary relations with them. This not only serves Japan's national interests, but also answers an expectation of the global community.

Japan must define its role in Asia and contribute to the region's peace and prosperity through formulating a clear diplomatic strategy vis-à-vis Asia. In so doing, Japan must prepare for the newly emerging nations such as China and India, and find ways to promote cooperation with such countries as the United States, China, India, and Russia. With respect to an East Asian economic framework, we must further expand ASEAN + 3 to establish an open economic community in accordance with the free trade regime under the World Trade Organization (WTO) principles and contribute to the development of global economy. In addition, Japan should continue to take a leading role to stabilize the region's economies.

The Expected Roles for Japan and the United States

Finance and the Economy

In a globalized economy, international cooperation is crucial to overcome the current financial crisis and economic turmoil. Especially, Japan and the United States, as the two largest economies in the world, must build closer relationships through deepening the dialogue between the economic ministers and enhance the economic partnerships at strategic level.

1. Overcoming the Financial Crisis

(1) Dealing with the Financial Crisis

Both Japan and the United States should take all appropriate measures to minimize the negative effects of the financial crisis on the real economy. In coordination with the international community, Japan and the United States should make maximum use of the monetary and fiscal policies at their disposal. In addition, in order for financial institutions to regain their credibility in the market, the United States needs further injection of public funds into financial institutions on the premise of critical evaluation of their assets.

Also, to avoid the negative effects of the imbalances in the international economy and excessive liquidity, all nations including Japan and the United States must exercise appropriate macroeconomic policies. Based on that premise, market rate of exchange should fundamentally be respected. Furthermore, it is necessary to consolidate the confidence of the U.S. dollar as the world's key currency.

Concrete measures to strengthen a financial base of the International Monetary Fund (IMF) must be taken as soon as possible. Furthermore, Japan must make proposals regarding alternative fund-raising methods to stabilize the international financial market.

(2) Pursuing Further Improvement and Coordination in the International Financial System

To achieve a fundamental solution to the current world financial crisis, it is necessary to enhance market discipline through global coordination.

It is also necessary that an international monitoring system for global financial institutions be set up, and related discussions should include the establishment of an international institution for this purpose. In this connection, we would hope for regulatory reform oriented toward greater transparency, with more uniform accounting standards, more uniform and stricter asset appraisal, and stricter standards regarding off-balance-sheet financing. In addition, different countries' standards for such things as public listing of stock and financial products should be standardized to put in place suitable conditions for international competition in finance.

Based on the recent G20 financial summit held in November, 2008, measures should be undertaken in concert with the aim of establishing a code of conduct for the credit rating agencies and coordinating the regulations in different countries. Furthermore, Japan and the United states must actively engage in strengthening the functions of the international financial system including the introduction of a new body for monitoring and rulemaking.

2. Reconsidering Corporate Governance Systems

The current financial crisis has also served to raise consciousness of issues related to the state of corporate management. Enterprises in Europe and North America need to implement management with a longer-term perspective. Both employers and employees must break away from compensation systems that are excessively dependent on short-term performance and reconsider their corporate governance systems. Naturally, pursuing better systems of governance is an obligation shared by Japan and the United States. We should also point out that an effective corporate governance should not be limited to establishing the internal rules and systems of an enterprise but must also be pursued through its relations with the wider marketplace.

3. Enlarging the Free Trade System

The experience of the Great Depression shows the dangers of a situation in which international cooperation breaks down and individual nations succumb to protectionism. In order to promote the free trade system and the realization of a free investment environment worldwide, Japan and the United States should put their full efforts behind the reaching of an agreement in the Doha Round of the World Trade Organization(WTO) negotiations. We strongly urge the United States to exercise its leadership without resorting to protectionism to maintain and expand the free trade system which contributes to the growth of U.S. economy. Japan, on the other hand, must recognize its responsibility as an economic power and make earnest efforts to solve domestic issues including reforms in its agricultural sector. At the same time, both governments should endeavor to realize an FTA or EPA between Japan and the United States.

4. Further Encouragement for Regulatory Reform

From the viewpoint of reinvigorating Japan's economy, the Japanese government promotes WTO negotiations as well as bilateral and multilateral Economic Partnership Agreements (EPAs), and it has made a public commitment to double foreign direct investment in Japan and the number of foreign visitors. It should aim for growth through market functions and the power of the private sector by moving forward with further regulatory reform, including in fields such as healthcare and agriculture.

The Americans, for their part, should give sufficient consideration to ensuring the proper functioning of market mechanisms as they set about rebuilding its regulatory regime.

The Environment and Energy

1. Formulation of the Post-Kyoto Protocol Policies

(1) Setting Responsible and Meaningful Targets and Implementing Effective Policy Measures

The irreversible advance of climate change is an issue on a global scale. Recognizing that global warming is a problem that affects our own economic activity and even the continued survival of humankind, we urgently need to have a greater internationally shared sense of crisis than ever before. It is necessary for the countries and regions of the world to work toward solutions by carrying out their "common but differentiated responsibilities."

At the 2008 G8 summit in Toyako, Hokkaido, a call was made for efforts to achieve common, worldwide long-term emissions reduction targets looking ahead to 2050. It was also agreed that the advanced countries should play a leading role by implementing ambitious medium-term targets. Based on this result, Japan must put forth responsible medium-term targets for constructing an effective next-phase framework while continuing its efforts for further technological innovation. As it occupies a leading position in the international community, and since it is the largest emitter of greenhouse gases, the United States should recognize its own responsibility and make a clear commitment to new medium- and long-term reduction targets. Also, it is important for the United States to lead its economy out of massive energy consumption.

In addition, both Japan and the United States should continue to take the initiative on constructive discussions to boost the effectiveness of efforts to cut emissions, holding wide-ranging talks on the introduction of incentives such as emissions trading, a sector-by-sector approach, and official development assistance.

(2) Aiming for Participation by All Countries and Regions

We should aim for participation by all countries and regions in the next-phase framework for preventing global warming, and to achieve this both Japan and the United States with other

advanced nations must declare their commitment to responsible and meaningful reduction targets in order to convince other emerging nations and developing countries to participate in the post Kyoto-protocol framework under "common but differentiated responsibilities."

The will and the action of the United States as the biggest emitter will decide the direction of the post-Kyoto protocol framework aiming at the participation of all nations in the world. The United States should recognize its responsibility and undertake meaningful efforts. In order to formulate an effective framework, Japan should also actively urge the United States to take responsible action and play a role to induce emerging nations and developing countries to participate in the next-phase framework by actively promoting international cooperation on energy conservation technology. In this sense, we must strongly recognize the fact that the formulation of the next-phase framework will be also affected by the effectiveness of Japanese leadership.

(3) Building an International System to Carry Out Scientific Research

Both Japan and the United States must insist on the establishment of an international system that will permit objective verification of the volume of greenhouse gas emissions, which will form the foundation for future international negotiations, as well as management of emissions performance.

2. Promoting Development of Energy-Saving Technologies and Alternative Energy Technologies

The coming of the global crisis of climate change is a good opportunity to set as a goal the creation of a low carbon society including reformation of our life-style, and measures to fight global warming must be seen as long-term investments toward that goal. One example is technology development. Both Japan and the United States must promote transfers of energy-saving technology to developing countries and must strengthen their collaboration on the development of innovative technology, including alternative energy technology.

As the world enters a new era, early investment in areas such as technology development should not be transient but rather ongoing. Enterprises with accumulated expertise in the

expansion of the environmental business and practical experience in environmental management can play a major role in guaranteeing that investment remains ongoing. Such enterprises have already implemented a cyclic process whereby, with the support of stakeholders, they can continue to make profits while moving forward with environmental measures. They demonstrate clearly that initiatives to tackle environmental problems are far from simply a "cost" to be borne.

Diplomacy and National Security

1. Working to Ensure International Peace and Prosperity

(1) Cooperation Aimed at Reduction and Eventual Elimination of Nuclear Arms and Discussions on the Future of the Treaty on the Non-Proliferation of Nuclear Weapons (NPT) System

Stressing its three non-nuclear principles¹, Japan has consistently appealed to the international community about the horrors wrought by nuclear weapons. Japan should never abandon its responsibility as the only nation to have experienced a nuclear attack, and continue to engage with the international community, including countries possessing nuclear arms, with the aim of a complete ban on nuclear weapons. Due to its geopolitical environment, Japan has no choice but to rely on the nuclear deterrent provided by the U.S., but the ultimate achievement of international peace requires the reduction and eventual elimination of nuclear arms. This is a key goal of Japan's diplomacy for moral reason as the only nation to have experienced a nuclear attack and Japan must make earnest and continuous efforts towards its realization..

As a superpower possessing overwhelming military capabilities, the United States has an enormous influence on trends related to reduction and non-proliferation of weapons of mass destruction. We would urge the U.S. to be aware that this influence brings with it a

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¹ The successive Cabinets of Japan have repeatedly articulated the "Three Non-Nuclear Principles," which is used to describe the policy of not possessing, not producing and not permitting the introduction of nuclear weapons into Japan. There is no change in the position of Government of Japan in that it continues to uphold these principles.(Ministry of Foreign Affairs, Japan)

corresponding responsibility and encourage it to continue to work resolutely toward the reduction and eventual elimination of nuclear weapons. The framework of the Strategic Arms Reduction Treaty (START), which has played a historic role in efforts to reduce nuclear arms, will soon expire, but it is essential that an effective verification system and mechanism for information exchange remain in place between the two great nuclear-armed powers, the United States and Russia. We call for diplomatic efforts to be redoubled in order to achieve as soon as possible a new framework to succeed the old one.

Furthermore, the Comprehensive Test Ban Treaty (CTBT) still has not gone into effect, and the situation is such that only the efforts of the nuclear-armed countries themselves can be relied on to actually reduce the quantity of nuclear arms. We hope that Japan will continue to urge the United States to ratify the CTBT and strengthen its bilateral talks with the U.S. regarding the nuclear menace in Asia, both inside and outside the NPT system, and that the U.S. will continue to play a leadership role.

The system for reducing nuclear arms and preventing their proliferation under the NPT system is wavering considerably. This lack of firmness invites unprincipled compromises, long-term loss of influence, and a weakening of the NPT system. Many have pointed out that steps such as agreements to cooperate on nuclear power with countries that are not signatories to the NPT run the risk of reducing confidence in the NPT system. Japan and the United States must move ahead with discussions on topics such as the proper future status of the NPT system and the peaceful use of nuclear power.

(2) Building a Systemic Infrastructure for Improved International Governance

As we pointed out at the beginning of this paper, while transnational threats are affecting the international community as they spread more widely and rapidly than ever before, we have an ever more diverse set of tools to deal with them. As Japan and the United States confront the specific problems each of us face, we must first accelerate our efforts to track the ever-changing situation and take bold steps to set up effective systems to deal with them, including bringing new partners into the effort. If bringing stability to the international community is one of the main functions of the Japan–U.S. relationship, we must engage the

problems facing the international community head-on and endeavor to lead the global discussion.

2. Maintaining Stability in Asia by Strengthening the Japan–U.S. Alliance

(1) Steady Implementation of the Roadmap for Restructuring of U.S. Forces in Japan

To ensure that the Japan–U.S. alliance develops appropriately in response to changes in the security environment, the two governments engaged in repeated discussions on targets and capabilities, eventually agreeing in 2006 to a "roadmap" for the restructuring of U.S. forces in Japan. The restructuring proposal should be implemented steadily in order to maintain the firm relationship of trust underlying the Japan–U.S. alliance.

In the present international situation, for the time being, we feel that it is important for us to maintain the current policy of assuring Japan's security through a two-pronged approach combining Japan's own defense efforts and the Japan–U.S. alliance. Consequently, since the two governments have already agreed to implement the restructuring proposal, it is essential to avoid situations that could heighten mutual mistrust. Our alliance relationship will be enhanced and developed by understanding the strategic interests of the other party and accumulating mutual trust through concrete action.

(2) Creating a Framework for Dialogue and Cooperation on Security in Asia

The Japan–U.S. alliance functions as a stabilizing factor in Asia. Based on this track record, Japan and the United States should arrange opportunities for multilateral talks and cooperation on issues related to Asian security, and continue to contribute to a greater sense of regional solidarity and mutual understanding. Through these practices, Japan can create a synergy between the policies of the strengthening of the Japan-US alliance and the promotion of Asian diplomacy.

3. Aiming for Effective Implementation of Japan's National Security Policy

(1) Creating a Permanent Legal Framework for International Operations by the Self-Defense Forces

Japan considers participation in international peacekeeping operations to be one of the primary missions of the Self-Defense Forces, it has made clear its intention to play an active role in maintaining a stable international community. Nevertheless, under the current state of affairs, it is necessary to establish a legal basis through passage of a special measures law, or the like, each time the Self-Defense Forces participates in any activities outside of peacekeeping operations centered around the United Nations.

Avoiding this case-by-case approach and misunderstanding which may follow regarding the Japanese intentions, Japan must put in place a system that will enable a more expeditious contribution to world peace by enacting a permanent law that clearly states the goals, standards for deployment, and duties to be performed by the Self-Defense Forces when participating in U.N. peacekeeping operations or other multinational peacekeeping activities. During the Diet deliberation of the bill, we must take into consideration such issues as recently reported counter-piracy measures and the establishment of civil-military cooperation (CIMIC) system². The CIMIC system will facilitate humanitarian and reconstruction assistance overseas following the end of conflicts, and Japan may need to discuss at the Diet in the near future on the possibilities of engaging these kind of activities in, for instance, Afghanistan.

(2) Strengthening Human Resource Base Related to Foreign / National Security Policies

Our own creativity and conceptual ability are what will clear the way for the future of Japan's security and the Japan–U.S. alliance. There are calls for Japan to improve its efforts to

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² Keizai Doyukai (Japan Association of Corporate Executives), *Toward the Establishment of a New System: Enactment of a Permanent Law Covering Operations Contributing to Peace and Reconstruction Following the Cessation of Hostilities and Establishment of Japanese Style CIMIC* (November 2004), available through http://www.doyukai.or.jp/en/policyproposals/articles/pdf/041124.pdf

disseminate views and opinions, but to accomplish this, it is essential to further augment the ranks of Japanese talents capable of engaging in international intellectual exchange.

Under the realization that a broad human resource pool leads to enhanced creativity in Japan and an improved ability of Japan to influence those outside its borders, it is highly desirable that personnel to engage in foreign / national security policies be recruited from throughout society and that venues for them to be active and be expanded. It is necessary to bring together people with knowledge of foreign policy from businesses, government agencies, political parties, universities, think tanks, etc., and to deepen our discussion on Japan's future national security strategy at these circles, and to create an environment in which they can exchange information and ideas and develop through friendly competition. And, at the governmental level, Japan should establish a system of widely recruiting and utilizing talents for foreign and national security matters. For this purpose, it should set up an institution such as Committee on Foreign and National Security Policies³ as the core platform to discuss and formulate Japanese foreign and security policies by forging the related governmental ministries and agencies as a step towards strengthening the function of the Prime Minister's Office.

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³ Keizai Doyukai (Japan Association of Corporate Executives), *Basic Guidelines for Japanese New Foreign and Security Policies: Pursuing the Most Suitable Approach for Future National and Global Interests* (September 2006), available through http://www.doyukai.or.jp/en/policyproposals/articles/pdf/060901.pdf

Conclusion

Both Japan and the United States endured the Cold War and the search for a new order that followed, finally arriving at the present situation. Our relationship extends back more than half a century, and it has played an important role in maintaining the stability not only of Japan but of the entire Asia-Pacific region as well.

Nevertheless, a close bilateral relationship is maintained through constant effort by both partners, and it cannot survive the next generation if we are overconfident in our past achievements and turn away from new challenges. Particularly at a time such as the present, when the international system is becoming less transparent overall, we should think carefully about what sort of bilateral relationship is desirable in order to realize the national interests of both partners and the prosperity of the international community.

Based on such a critical approach, this policy paper proposes policies for making a contribution to Japan and the U.S., Asia, and the world in the three fields of finance and the economy, the environment and energy, and diplomacy and security by bringing together ideas and insights from both countries. In so doing, Japan should define its global role and execute its responsibility with concrete action.

Naturally, the interests of Japan and the United States do not coincide completely, but looking beyond differences of viewpoint and perspective, it is a fact that the two countries share many common interests. Building a New Japan–U.S. relationship should start with a mutual confirmation of the positions of the two partners with regard to concrete issues.

Japan and the United States already have a track record of exchanges at many levels, including as partners in security matters, economic activity and as students of learning each other's cultures. Building on this foundation, we must continue to strive to enhance human exchanges in the years ahead. Contact with ideas and people that differ from what one is accustomed to not only helps promote mutual understanding, it also functions as a catalyst for forward-looking change in both societies. Keizai Doyukai hopes to help contribute to the

solution of issues separating Japan and the United Sates, and to strengthen the relationship between them, through candid exchanges of views and ideas.