

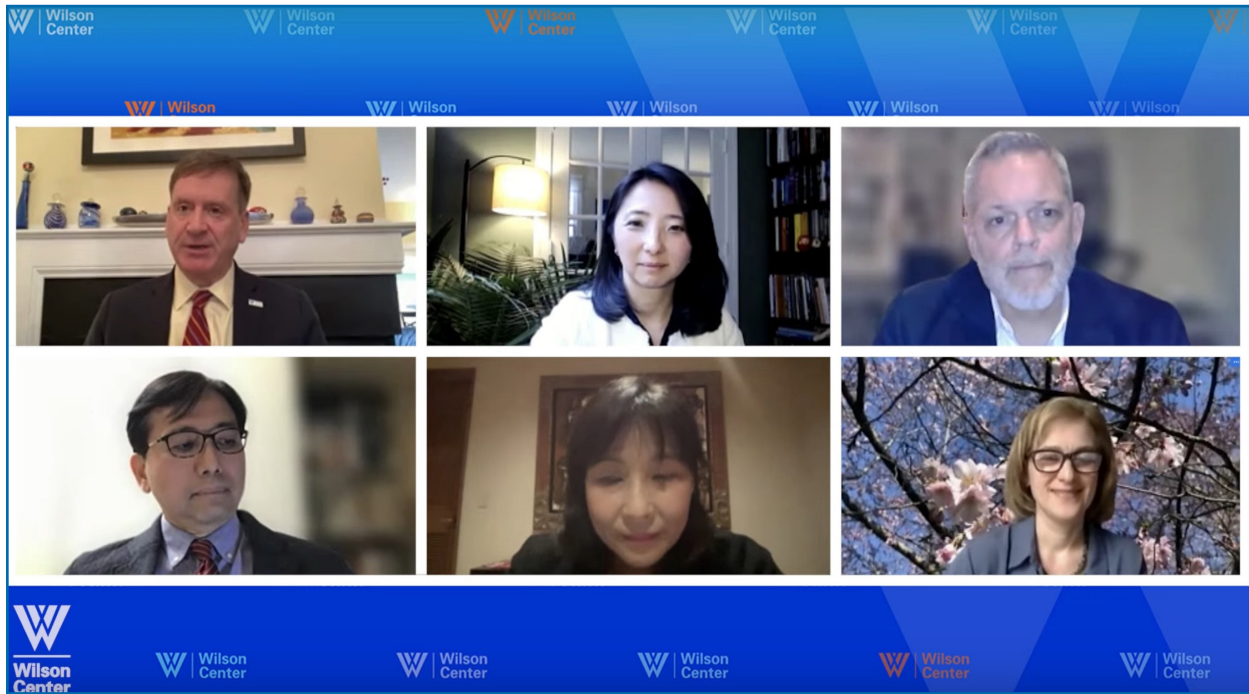


## An Updated Approach to Capitalism: New Opportunities for Japan-U.S. Cooperation

Since taking office as Japan's Prime Minister in October 2021, one of the top priorities for Fumio Kishida has been to ensure that the country can withstand the pressures of disruption from the global pandemic and emerge stronger in a post-COVID world. Japan is hardly alone in roiling from the impact of the pandemic, and Tokyo's focus on bolstering economic resiliency to withstand future shocks is not unique. Certainly, a reassessment of supply chains and how to boost resilience as well as maintaining cost effectiveness has become a challenge for all exporting economies including Japan and the United States. Meanwhile, the semiconductor industry has come to the forefront of debate concerning economic security as it highlighted the weaknesses of depending far too

heavily on certain regions for products that are not only driving growth, but also at the heart of security and technology. As they face similar challenges and share similar concerns, the prospect for Tokyo and Washington to cooperate further on ensuring supply chain security remains strong as the world slowly begins to emerge from what hopefully is the worst of the pandemic.

At the same time, the global pandemic has made clear some of the systemic vulnerabilities that had already been challenging inclusive growth. While international financial markets have not only been able to weather disruptions caused by COVID but have actually surged in value amid an influx of economic stimulus policies, the pandemic has



further highlighted the vulnerabilities of lower-income workers in particular. A sharp divide between those who have been able to weather the pandemic relatively unscathed financially and those whose livelihoods were uprooted emerged as a result of COVID.

Prime Minister Kishida has unveiled an economic revitalization plan that went beyond simply ensuring recovery from the pandemic, but also sought to address some of the fundamental challenges that have been facing Japan not just during, but also prior to the outbreak of COVID. In promoting a vision that redefines capitalism, the Kishida administration has sought to address both the challenges facing growth and economic expansion as well as social stability and the wealth gap.

Since the U.S. withdrawal from the Trans-Pacific Partnership free trade agreement in 2017, Tokyo has played a key role in ensuring that the principles of transparency as well as fair trade are adhered to in the Indo-Pacific. The success of the TPP's successor, CPTPP, is clear from its ability to continue to attract some of the world's most

competitive countries to join since the treaty came into effect which in turn demonstrates Japan's leadership role in promoting the rules-based economic architecture of the region. But while expectations for Tokyo to continue being a driver of ensuring fair trade in the Indo-Pacific and beyond, there are growing expectations too for Japan to lead the way in other pressing economic issues facing the region.

Certainly, Prime Minister Kishida's call to address income inequalities and growing concerns about domestic economic resilience has attracted the attention of U.S. analysts that have grappled with the challenges of balancing social inclusion and competitiveness. As a Washington-based think tank focused on international affairs, the Wilson Center has been particularly interested in the proposals made by the Kishida administration to reexamine how Japan can bolster its economy fundamentally by reimagining capitalism. In short, the time has come to reassess how systems that have led to a surge in the global economy can be adjusted so that they continue to be effective in the 21<sup>st</sup> century.



On February 23, 2022, the Wilson Center's Asia Program hosted an hour-long discussion on an updated approach to capitalism and new opportunities for cooperation between Japan and the United States. The online forum featured Noriyuki Shikata, Cabinet Secretary for Public Affairs at the Prime Minister's Office; Katherine Monahan, Director of the Office of Japanese Affairs at the U.S. Department of State; Yumiko Murakami, General Partner at MPower Partners; and Charles Freeman, Senior Vice President for Asia at the U.S. Chamber of Commerce.



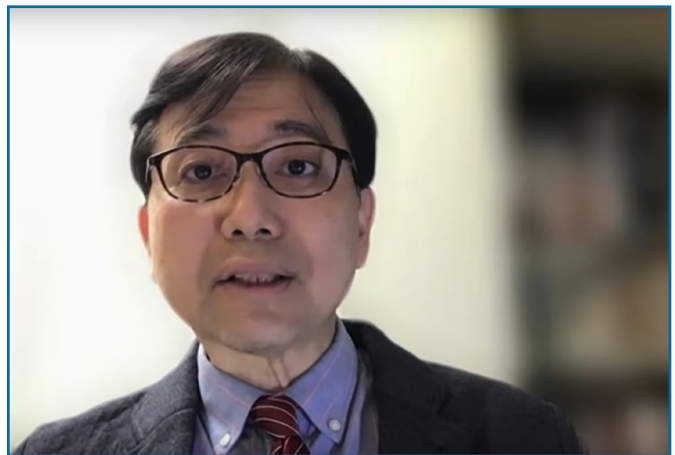
In opening the panel discussion, the Wilson Center's President and CEO Ambassador Mark Green pointed out that Japan and the United States together provide the cornerstone for maintaining peace and stability in the Indo-Pacific, with a shared goal of promoting the rule of law as well as good governance. At the same time, he noted the challenge for both Washington and Tokyo to ensure that democracies continue to thrive and prosper.

The Cabinet Secretary for Public Affairs at the Japanese Prime Minister's Office, **Noriyuki Shikata**, said that one of the goals of taking a new approach to capitalism under the Kishida administration would be to balance economic growth with social concerns including income

disparities, which in turn would bolster the attractiveness and resilience of democracies.

Shikata emphasized that the new capitalism is more precisely translated as "sustainable capitalism." It is sustainable because it addresses more of "various challenges in the form of widening income disparities, poverty, and the growing problem of climate change" that the society is facing on one hand, and it still builds on the value of capitalism that promotes "the healthy development of democracy" on the other. Shikata also argued for how the new capitalism as a vision could share the values of the Build Back Better initiative of the Biden administration, which also promises rebuilding the middle-class and meeting climate goals, and extended the discussion into the numerous cross-border challenges that would be better addressed through bilateral cooperation between Tokyo and Washington as well as multilateral coordination including climate change and digitalization. Shikata also said that opportunities for the two countries to work together in pursuit of growth and sustainability are especially strong in the Indo-Pacific.

"We wish to ensure a sustainable economic growth with energy security in the Asian region. And Prime Minister Kishida is trying to establish an Asian zero emission community that will take the lead in decarbonizing the carbonization





technology standard and international quality infrastructure development with other Asian countries. Unless we address the challenges facing the mega cities in Asia or India, we will not be able to address climate change challenges... Of course, this involves the need for quality infrastructure, and this is the area where there will be a joint venture between the United States and the Japanese companies. We don't intend to—as governments—excessively intervene into the private sector activities. The aim is to just create environments for more investments," Shikata said. Further information on the increase in Japan's allure as an FDI destination can be found at <https://www.japan.go.jp/investment/index.html>

**Katherine Monahan**, Director of the Office of Japanese Affairs at the U.S. Department of State, reaffirmed the need for Washington to work closely together with Tokyo on infrastructure development in the Indo-Pacific, and capitalizing on their shared economic values and long-standing relationship based on mutual trust to address shared regional concerns.

"On quality infrastructure development, we are working very closely with Japan on rules for transparency and lending practices. That is very important, and Japan has been a champion of making sure that China and other countries don't sign agreements with developing countries

that are not transparent and that dig them into debt or other undesirable effects for the world," Monahan said. She added that Washington is in the midst of developing an Indo-Pacific Economic Framework that would allow the United States to work together with like-minded countries including Japan on shared economic interests in the region including digital trade without signing on to the CPTPP trade agreement.

Meanwhile, **Yumiko Murakami**, General Partner at MPower Partners, stressed the need for Japan and the United States to work more closely together on climate change in the context of establishing rules of reaching the shared goal of zero carbon emissions. She pointed out that Europe currently dominates the debate concerning ESG investment standards as well as accounting and transparency.

"Collaboration between Japan and the U.S. will be important to advance this agenda on a global basis, in particular, in the Asian region. We can do so by basically sharing the driver's seat and drive the bus, and then set rules and treaties and regulations," Murakami said. She also pointed to technology as an area for further cooperation between Tokyo and Washington, especially as Japan has led the way in promoting public-private partnerships which is essential for innovation in the competitive and rapidly changing sector.





As for **Charles Freeman**, Senior Vice President of the U.S. Chamber of Commerce, he expressed his concerns about what is actually meant by new capitalism and addressing market failures. Like Murakami, Freeman noted that all government initiatives, be it new capitalism or the Biden administration's Build Back Better World plan, require the private sector to push economic growth forward. He also cautioned against restricting private sector growth in an attempt to right market failures and achieve equity.

"It's important that as we look to address some of these market failures, that we don't forget the first rule should be: don't unnecessarily hamper growth in the name of equity," Freeman said. "I worry a little bit that because of China's successes, that the United States and Japan, and other democratic market-oriented countries are learning the wrong lessons from China and actually seeking rather than shore up our existing economies. And address narrowly, the challenges that we face, surgically, the idea is to actually copy China and to have more state-driven capitalism, which would be an enormous mistake."

Prime Minister Kishida's vision for new capitalism in Japan has sparked a debate about addressing the challenges of economic expansion at the same time as meeting the needs of greater social inclusion and sustainability. At the same time, the

agenda outlined by the new capitalism framework also brings to the forefront the need to address cross-border interests bilaterally and multilaterally. As the global economy faces greater challenges stemming from political risk to natural disasters and other disruptions, Japan and the United States must work more closely together to address the challenges ahead for growth both within and outside of their borders.

On the domestic front, there is a greater understanding between the two countries that they share not only common economic interests, but also concerns about balancing social stability and growth. At a time when Japan and the United States are united in their commitment to promoting democracy, they also clearly share economic values too. At the same time, both Tokyo and Washington have acknowledged the challenges ahead in ensuring that the rule of law, transparency, and good governance are viewed as a roadmap for growth for all.

The value of capitalism is being challenged in a world where authoritarianism is proposing an alternative path forward. Japan and the United States will need to work closely together to reinvigorate commitment to democratic values across the Indo-Pacific as a path for economic development with benefits across the board, and not just for select industries or interest groups.

The future of new capitalism is not, however, simply about a meeting of economic ideology on both sides of the Pacific. Rather, by focusing on both an economic growth strategy as well as emphasizing the need for redistribution of wealth, the Kishida government's economic plan also provides a way forward for countries across the Indo-Pacific. In particular, the focus on investing in technology especially on digital transformation and innovation as a way to generate more wealth



across the board is a vision that appeals across the world's most dynamic region. A commitment to investing in human capital and broader social spending also appeals beyond Japan and the United States.

At the same time, a renewed emphasis on cross-border challenges, most notably climate change, will be key to bringing together the culturally, economically, and politically disparate countries of the Indo-Pacific to work together for a common goal. By honing in on shared economic values of commitment to improving living standards, investing in people, and addressing seismic challenges that no one country can solve on its own, the vision for a new form of capitalism is expected to continue to resonate across the Indo-Pacific.

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## About the Speakers

**Charles Freeman** is Senior Vice President for Asia at the U.S. Chamber of Commerce. During his government career, he was Assistant Trade Representative for China Affairs, and legislative counsel in the U.S. Senate. After leaving government, he has consulted on Chinese and other Asia-focused businesses during market entry, expansion, and crises phases. He was also PepsiCo's Vice President for global public policy and government affairs for Asia, the Middle East, and Africa.

**Mark Green** is President, Director, and CEO of the Woodrow Wilson International Center. Prior to joining the Wilson Center, Green served as Executive Director of the McCain Institute, Administrator of the U.S. Agency for International Development (USAID). He also served as President of the International Republican Institute, President and CEO of the Initiative for Global Development, and senior director at the U.S. Global Leadership Coalition. From 2007 to 2009, he was U.S. ambassador to Tanzania. Before that, he served four terms in the U.S. House of Representatives representing Wisconsin's 8th District.

**Katherine (Kemy) Monahan** is Director of the Office of Japanese Affairs at the U.S. Department of State. A career member of the Senior Foreign Service, she has served eleven tours on three continents over 27 years. In her four years as Deputy Financial Attache at the U.S. embassy in Tokyo, Ms. Monahan negotiated a new bilateral tax treaty and coordinated joint efforts to freeze terrorist assets after 9/11. A member of the first class of the Japan Exchange and Teaching (JET) Program in Fukui Prefecture, Japan, Ms. Monahan then studied law at the University of Tokyo and was an Economic Analyst with the Yasuda Research Institute in Tokyo.

**Noriyuki Shikata** is Cabinet Secretary for Public Affairs with the Prime Minister's Office of Japan. A career diplomat, his extensive experience in government includes Assistant Minister and Director-General of the Ministry of Foreign Affairs' Economic Affairs Bureau and Deputy Director General of the Consular Affairs Bureau. He was also Deputy Chief of Mission, Envoy Extraordinary and Minister Plenipotentiary at the Embassy of Japan in China, and Deputy Director General of the Asian and Oceanian Affairs Bureau of the Japanese foreign ministry.

**Yumiko Murakami** is a General Partner of MPower Partners, an ESG-focused global venture capital fund based in Tokyo. Previously, she was the head of the OECD Tokyo Center, and she also spent nearly two decades as Managing Director at Goldman Sachs and Credit Suisse, mainly in New York and London. She has also worked for the UN peacekeeping operations in Cambodia before the investment banking industry.



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