Exploring New Partnerships and Opportunities in U.S.-Japan State and Local Economic Collaboration

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Abstract

Increasingly important within the U.S.-Japan economic relationship are sub-national linkages at state, prefectural, regional, and local levels. Decades of expanding flows of trade and foreign direct investment (FDI), and resulting economic and supply chain integration, have generated impacts and benefits across every region of both countries. The growing prominence of regional industry clusters coupled with the co-evolution of policymaking that encourages the growth of innovation-driven industry sectors has positioned the state and local levels as natural areas for expanded bilateral economic activity. At a moment of transition in U.S. trade and economic policies, including toward Japan, these partnerships sustain and enhance economic cooperation. Recent examples of such partnerships provide models for future economic projects at the state, prefectural, local, and academic levels.
Introduction

Several years of momentum in U.S.-Japan economic relations toward increased market opening and economic integration, centered on the Trans-Pacific Partnership (TPP), came to a pause with the Trump administration’s withdrawal of the United States from the pact in January 2017. Generating additional uncertainties in the bilateral economic relationship are the White House’s evolving trade policymaking structure, initial actions to revise the North America Free Trade Agreement and the U.S.-Korea Free Trade Agreement, and increased pressure on businesses to locate manufacturing jobs in the United States. Also creating turbulence are shifting policy approaches toward areas with economic implications such as climate change that previously saw extensive bilateral engagement. The two countries have launched a new economic dialogue chaired by Vice President Michael Pence and Japanese Finance Minister Taro Aso, and the Trump administration has expressed interest in pursuing a bilateral trade agreement with Japan, but the path forward remains in flux.

Of course, U.S.-Japan economic ties are not exclusively the sum of national-level policies. Developments and dynamics at the sub-national level actively shape and inform the bilateral relationship. Trade and FDI are the predominant drivers, but additional activities are emerging as the U.S. and Japanese economies continue to integrate, particularly as specific metropolitan regions emerge as clusters for next-generation industries important to future growth in both countries. This context presents important opportunities to expand forward-looking approaches at the state and local levels.

The Local Context of U.S.-Japan Economic Relations

The United States and Japan share a robust economic relationship, interconnected through trade, FDI, and global supply chains. Related policies in both countries are often influenced by local conditions and dynamics, particularly when specific regions and industries feel threatened by competition. Headlines on these issues often obscure the considerable economic benefits generated through bilateral trade and investment.

U.S. exports to Japan were estimated to support more than 710,000 jobs across the United States in 2013, including more than 10,000 jobs in 24 states. Japanese firms

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1 A draft version of this paper was presented at the Catalyst Workshop on Policymaking in East Asia, held at the College of East Asian Studies at Wesleyan University, Middletown, Connecticut, on May 20, 2017. The author would like to acknowledge and thank the following workshop participants for their comments, many of which are reflected in this paper: Mary Alice Haddad, Ezra Vogel, Kristin Vekasi, Liv Coleman, John Davis, Mark Manyin, Linda Hasunuma, and Yinan He. The author would also like to thank Eric Halvorson for his insights and perspectives.
employ more than 700,000 Americans across all 50 states, with at least 10,000 Americans employed by Japanese firms in 20 states. While Japanese FDI has flowed into the U.S. market for decades—with the total stock of Japanese FDI in the United States reaching $418.8 billion in 2015—successive Japanese governments have sought to increase inbound FDI. More than 1,800 individual U.S. firms operated in Japan in 2015, with more than 7,000 subsidiaries of U.S. businesses located in every Japanese prefecture. These kinds of activities are shaping a closer U.S.-Japan economic relationship.

Bilateral economic engagement at the state and local level has a long history, often correlated with private sector activities. Organizations such as the Midwest U.S.-Japan Association and the Southeast U.S.-Japan Association have for decades brought together business leaders and local government officials from U.S. regions and Japan, playing important roles in deepening linkages between Japanese companies and the U.S. communities in which they have invested. States, prefectures, and cities of all sizes routinely dispatch business and trade missions between the two countries. These and other activities have importance beyond economic benefits: state and local officials frequently advance into higher national political office and gain the ability to shape relationships at the national level.

Moreover, states and cities often take leading roles in advancing initiatives and policies that foster the growth of new industry sectors. Successful clusters in the United States have attracted Japanese companies and researchers and drawn attention from policymakers looking to replicate such clusters in Japan. This builds on a long history of mutual learning and co-evolution between the two countries in policy approaches intended to advance innovation to achieve economic development goals. For example, the great interest within Japan in Silicon Valley's innovation ecosystem has generated a range of activities such as prize competitions and entrepreneurial education programs intended to develop new Japanese entrepreneurs and build bridges between startups, finance and venture capital, and universities in Japan and Silicon Valley. Nascent clusters in Japan are

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4 The author would like to thank Ezra Vogel for offering insights on the role of these organizations, and ways Japanese companies have worked to develop strong community ties across the United States. Catalyst Workshop on Policymaking in East Asia, College of East Asian Studies, Wesleyan University, Middletown, CT, May 20, 2017.

5 A prominent recent example is Vice President Pence, who as Governor of Indiana made multiple visits to Japan. See White House, Office of the Press Secretary, “Remarks by the Vice President to US-Japanese Business Community,” April 19, 2017. https://www.whitehouse.gov/the-press-office/2017/04/19/remarks-vice-president-us-japanese-business-community.

also drawing attention from U.S. counterparts, such as Fukuoka’s clean tech and startup scene.\textsuperscript{7}

Activities including research and development (R&D), technology demonstration projects, and workforce training also contribute to shaping local economic ecosystems for innovation-driven economic growth. These increasingly present potential venues for U.S.-Japan collaboration. In this context, it is useful to consider the roles and potential benefits that sub-national level partnerships could offer in building new platforms for economic engagement.

**Washington-Japan Aerospace Engagement**

Washington state is home to Boeing’s commercial jet manufacturing facilities in Everett and Renton, for which Japanese manufacturers are among the largest suppliers, contributing 35 percent of the 787 commercial jet, 21 percent of the 777, and 21 percent of the 777X currently under development.\textsuperscript{8} This has fostered extensive supply chain connections and investment, with Japanese suppliers including Toray Composites America, Panasonic Avionics, and Jamco North America having established manufacturing facilities in Washington.

This relationship is evolving as Japanese manufacturers seek to establish more prominent industry positions. Leading Japanese suppliers to Boeing have made clear their desire for a more equal partnership in the development of future jets,\textsuperscript{9} and some such as Mitsubishi Heavy Industries (MHI) are reentering the commercial jet industry after a 40-year hiatus with the Mitsubishi Regional Jet (MRJ). MHI’s selection of Washington as a location for MRJ flight tests and related engineering work has sparked strong interest in building connections with the MRJ supply chain and drawing related manufacturing activities to the state.\textsuperscript{10} At the same time, Japanese prefectures looking to grow their aerospace industries, including Mie and Aichi, have signed recent memorandums of

\textsuperscript{7} For example, the Trade Development Alliance of Greater Seattle, an organization of local governments and businesses that promotes the greater Seattle region for international trade and investment, coordinated a clean tech business mission to Fukuoka and Kitakyushu in 2009, and a business mission to Fukuoka in April 2017 focused on developing relationships with regional startups and technology entrepreneurs.


\textsuperscript{10} A business mission led by Washington Governor Jay Inslee to Japan in September 2015 was heavily focused on aerospace, including a visit to the MRJ assembly line in Nagoya.
cooperation (MOC) with Washington. The Japanese government signed its own MOC with Washington in June 2016 in which aerospace was a central component.\(^{11}\)

Workforce development is one area of focus in these activities, driven in part by interest among Japanese local governments and universities in encouraging students to consider aerospace careers. Delegations of Mie government officials, businesses, and university faculty visited Washington communities to learn about aerospace workforce development and related training resources. Mie National University concluded a memorandum of understanding (MOU) with South Seattle College on aerospace workforce training. Ideas explored in these discussions included technical expert and short-term student exchanges, among others.\(^{12}\) Additionally, Kakamigahara City in Gifu Prefecture signed an MOU with Everett Community College to conduct programs for middle school students focusing on aerospace, and for a management-level group of technicians.\(^{13}\)

These activities, while early stage, represent an area of intriguing potential. This includes developing models of collaboration around training curriculums, which could be replicated in other industrial sectors in both countries. Additionally, they could augment new opportunities for partnerships in aerospace-related technologies that until recently were limited by Japan’s long-standing “three principles” on defense industry-related exports.\(^{14}\)

**Hawaii-Okinawa Clean Energy Initiative**

New and renewable energy technologies have been a prominent area of U.S.-Japan engagement in recent years, and a sector that local governments in both countries have sought to advance as a new economic growth engine. One initiative involving state and local governments was the Hawaii–Okinawa Partnership on Clean and Efficient Energy Development and Deployment, launched in June 2010 by the State of Hawaii and Okinawa Prefecture, the U.S. Department of Energy, and the Japanese Ministry of


\(^{12}\) The author has participated in meetings and activities carried out under the Mie–Washington MOC.


\(^{14}\) The “three principles on arms exports” was a Japanese government policy from 1967 to 2014 restricting the transfer overseas of arms exports. In 2014, the Japanese government replaced this policy with the “three principles on transfer of defense equipment and technology” which allows for such transfer in cases where it contributes to Japan’s security and the active promotion of international peace cooperation. Ministry of Foreign Affairs, “Japan’s Security Policy.” [http://www.mofa.go.jp/ftl/npsp/page1we_000083.html](http://www.mofa.go.jp/ftl/npsp/page1we_000083.html).
Economy, Trade and Industry. Its goals were to develop and disseminate renewable energy and conservation information and technology solutions to island and other remote communities, including through sharing best practices and conducting joint projects focused on energy efficient buildings, smart grids, renewables, and people-to-people exchanges.\textsuperscript{15}

Through this initiative, Hawaii and Okinawa conducted joint energy efficiency evaluations of government buildings, information exchanges, and developed an online curriculum on energy efficient building technologies for middle-school students.\textsuperscript{16} A joint smart grid demonstration project involving several Japanese private sector companies was conducted in tandem with the existing Maui Smart Grid Project to evaluate new technologies and improve power grid efficiencies.\textsuperscript{17} Another area of engagement between Hawaii and Okinawa has been ocean thermal energy conversion (OTEC); Hawaii and Okinawa both have OTEC demonstration facilities and have included it on the agenda of meetings and conferences.\textsuperscript{18}

Although this initiative resulted from national-level discussions about collaboration in renewable energy technologies, much of the related activity has taken place locally and at the private sector level, including the Maui Smart Grid Project.\textsuperscript{19} Additionally, as noted by Aiko Shimizu in her assessment of the initiative, it intersects with broader topics within the bilateral relationship, including sustainable development and national security, while also supporting economic development in Okinawa.\textsuperscript{20}

\textsuperscript{16} METI, “Hawaii–Okinawa Partnership on Clean and Efficient Energy Development and Deployment.”
\textsuperscript{20} Aiko Shimizu, “Powering Paradies: Recommendations for the Hawai‘i–Okinawa Clean Energy Initiative.”
I2CNER

R&D is central to economic development activities related to innovation and is an area of extensive U.S.-Japan engagement. One example of a joint initiative is the International Institute for Carbon Neutral Energy Research (I2CNER) between Kyushu National University in Japan and the University of Illinois at Urbana-Champaign, launched in 2007 to advance science and basic research aimed at reducing carbon emissions, and establishing a non-fossil fuel-based energy carrier system.21

I2CNER originated as an institution-driven initiative resulting from extensive interaction between specialists in hydrogen and materials fatigue testing at the two universities during the early 2000s. During the same time, Fukuoka Prefecture emerged as a leading center within Japan for hydrogen energy development which led to efforts to secure national funding. The two universities successfully proposed I2CNER to Japan’s Ministry of Education, Culture, Sports, Science and Technology for the World Premier International Research Center Initiative program in 2010.22

I2CNER and its university partners have worked to increase linkages across both countries. I2CNER has a satellite facility at the University of Illinois. The two universities have signed agreements to facilitate greater interaction between researchers, and are pursuing initiatives including a joint degree program and cooperation between the universities’ respective technology licensing offices to promote collaboration with industry and advance intellectual property management and technology transfer.23 Long-term, I2CNER’s success in facilitating collaborative engagement and commercialization of the technologies developed in its labs could be an innovative model for U.S.-Japan science and technology R&D activities at the institutional and regional levels.

Considerations for Future Partnerships

These examples are at a relatively early stage of development, but offer elements for consideration in designing, developing, and advancing future U.S.-Japan economic partnerships at the sub-national level.

One is that successful, sustainable partnerships develop organically, built on common goals and interests. I2CNER and activities between American and Japanese partners in aerospace emerged through long-standing relationships and mutual interests.

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21 Information on I2CNER is available on the center’s website at http://i2cner.kyushu-u.ac.jp/en/about/purpose.php.

22 Author’s visit to I2CNER and meetings with I2CNER officials, Fukuoka, Japan, November 15, 2013.

These are supported by a long-term vision and commitment by state and local leaders to identify priorities and action steps. They also require dedicated resources to support related activities, good channels of communication, and support from organizations that are well-positioned to contribute energy and expertise, such as Japan-America societies and Japan’s Council of Local Authorities for International Relations.

Effectively incorporating local community participants and demonstrating local economic impacts is essential. Observers of the Maui Smart Grid Project have raised the importance of engagement with the customers and users of the system and its related supply chain, and raised the question of whether they are aligned with and advance local goals.24

The national governments should play a supportive role in helping state and local counterparts identify opportunities for economic engagement, as was the case in the Hawaii-Okinawa Clean Energy Partnership. This includes facilitating connections, providing funding, and sharing information and best practices. To be sustainable, however, the leadership, initiative, and momentum should come from states and prefectures, cities, higher education institutions, and the private sector, all of which are well positioned to encourage local economic benefits.

Meriting exploration are activities to include rural communities not currently engaged in bilateral activities. These could focus on sectors such as emerging agriculture and natural resources technologies that may offer potential to support targeted local economic revitalization efforts. This could draw from the experiences of long-standing initiatives such as the Japanese Agriculture Training Program, a more than fifty-year old program with the goal of helping improve Japan’s agriculture sector through the transfer and introduction of U.S. technology and farming methods.25

These represent just a few approaches through which sub-national actors are charting a course for new and expanded forms of U.S.-Japan economic engagement. Taking place alongside economic and trade policy developments at a national level, they offer constructive venues in which states, prefectures, regions, and communities can pursue activities that support local economic goals and advance the broader bilateral relationship.

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24 Author’s conversations with industry participants in the project.
25 Information on the Japanese Agriculture Training Program is available at http://www.bighend.edu/academics/programs/international-students/japanese-agricultural-training-program-jatp/.
Chamber of Commerce and Executive Director of the U.S.-Korea Business Council, and an International Affairs Fellow in Japan with the Council on Foreign Relations. A former POSCO and Japan Studies Visiting Fellow at the East-West Center, he has also worked in state, prefectural, and local government in the United States and Japan. His research activities focus on economic, innovation, and trade policy in Japan and Korea and their relations with the United States.