

**Joint Statement**  
**51st Japan-U.S. Business Conference**  
**Japan-U.S. Business Council / U.S.-Japan Business Council**  
**November 14, 2014**

The Japan-U.S. Business Council and U.S.-Japan Business Council (hereinafter, "the Councils") took a new step toward the next 50 years with the 51st Japan-U.S. Business Conference held in November 13-14, 2014 at Tokyo, Japan.

Meeting this year under the theme "Shared Responsibility: Partnership for Sustainable Growth in the Asia-Pacific and Beyond," business leaders from Japan and the United States agreed on further cooperation for sustainable growth, peace and prosperity of Asia-Pacific region and beyond. The Councils note there were various reports and discussions on the global geopolitical situation including energy security and cyber security during the conference. Also, the Councils reaffirm the importance of cultural and people-to-people ties, which has been a key pillar of the Alliance between the two countries since its inception, and called upon member companies of the Councils to exert further efforts to promote those ties.

The Councils look forward to working closely with each other, and our respective governments, in the areas outlined below for the mutual benefit of our respective member companies and Japanese and the U.S. economies.

**1. Japanese and U.S. Economic Growth and Key Issues**

The Councils are encouraged by the gradual strengthening of the U.S. economy, which continues to outperform the G-7 economies, and some signs that the Japanese economy is rebounding from the sharp contraction in the first quarter of FY 2014. Overall, the Councils recognize there are vulnerabilities in each and, by extension, the global economy.

Therefore, the Councils urge both governments to: (1) establish credible medium- and long-term fiscal policies that are implemented gradually in ways that will stabilize the global financial system, keeping in mind the impact any measures may have on growth; (2) ensure effective communication and increased transparency, especially by central banking authorities, so as to avoid financial instability and negative spillovers to the global economy; and (3) pursue policies that will raise productivity in both economies in order to generate needed income and consumption increases that will drive overall demand.

### Japanese Economic Priorities

While there was a reduction in GDP during the second quarter of 2014 (April – June) mainly due to a slowdown of personal consumption in reaction to the tax hike in April, the Japanese economy is on a gradual recovery trend. However, attention needs to be paid to several factors which are having a negative impact on growth, including the prolonged recoil reduction in consumption, delay in the recovery of exports, increased import costs, stagnant incomes, and a chronic understaffing problem.

The Bank of Japan's quantitative easing policy has had a positive effect in reversing deflationary trends and stimulating domestic demand. Given recent factors affecting prices in Japan the Councils applaud the move to increase asset purchases announced October 31 to meet the 2% inflation target and boost domestic demand.

To complement fiscal and monetary expansion, the Councils urge renewed focus on structural reform under the Third Arrow that will sustain growth, boost productivity, and maintain investor confidence. The Councils applaud the enhanced "Third Arrow" measures announced in June in the Revised Growth Strategy that aim to accelerate reforms in so-called "hard-rock regulations" including labor, agriculture and the medical sector. In particular, the Councils urge prioritization and full and rapid implementation of reforms in the National Strategic Economic Growth Areas so that these may spread through the economy as much as possible. The Councils stress the importance of innovation through, for example, further utilization of ICT that stimulates the Japanese economy.

The Councils welcome measures to bring Japan's corporate tax rate more in line with other major economies by aiming at lowering it to less than 30% within a few years, and urge extension of the carry forward period for net operating losses to OECD norms as a means of spurring investment.

The Councils urge the Government of Japan to implement steadily all the measures specified in this growth strategy, particularly:

- Propulsion of Comprehensive Reform of Tax and Social Security:  
If the current low birth rate of 1.3 to 1.4 continues, the population of Japan will decline to 80 million, and form an "inverted pyramid" shape, where people over 65 years old consist of 40% of the total population. Consequently, the current social security bill of approximately 110 trillion yen per year will increase to approximately 150 trillion yen, resulting in a situation in which not only the social security system, but the sustainability of financial administration is

in a hazardous situation. Thus, it is imperative for Japan to enact comprehensive reform of social security and tax in parallel. The Councils urge steady increase in the consumption tax to 10%, prioritization and streamlining of social security benefit, together with sufficient consideration to low-income households, SMEs, and local economies. Given the current fiscal condition in which Japan depends on government bond issuances for nearly half of its expenditures, fiscal consolidation could not be achieved only by economic growth, though it would raise government revenues. The Councils expect the Japanese government to implement necessary measures not only to raise revenues, but also to curb expenditures, to achieve the primary surplus by FY2020 in line with current fiscal targets of the government.

- **Enhancing Women's Active Participation in the Workforce:**  
This is an important growth strategy for Japan's economy to achieve sustainable growth with the rapidly aging society, as well as an important management strategy for Japanese enterprises to survive in fierce global competition. To this end, the Councils call upon our member companies to promote a clear commitment and strong leadership by top corporate management in order to encourage awareness among employees.

### U.S. Economic Priorities

Although the U.S. economy is on a positive track and is outperforming other advanced economies, there are still concerns over stagnant wages and incomes, labor utilization, and corporate investment. It is clear that U.S. productivity growth has lost some momentum in recent quarters, and the Councils urge the U.S. government to renew its focus on what has long been a hallmark of the U.S. economy.

The Councils appreciate communication by the Federal Reserve Board on the direction of monetary policy in recent weeks. As global economic uncertainty mounts, it is more important that communication on the timing of suggested interest rate adjustments be as early and clear as possible in order to avoid destabilization of the markets and negative spillover into the real economy.

There are encouraging trends in the U.S. budget deficit, but longer-term concerns about the rising debt level remain. To stimulate more domestic and foreign investment, and tax revenue, the Councils urge the administration and Congress to begin discussions on comprehensive tax reform that would lower the statutory corporate tax rate to levels in line with other major economies while adopting a territorial system used by other advanced economies.

Similarly, the Councils urge concentrated efforts to gain Trade Promotion Authority in order to conclude major trade agreements such as the Trans-Pacific Partnership (TPP), Trans-Atlantic Trade and Investment Partnership (TTIP), Trade in Services Agreement (TISA) and Information Technology Agreement (ITA). To improve the investment environment, the Councils suggest that efforts to reduce the regulatory burden on domestic and foreign companies operating in the United States will have a significant impact.

Lastly, the Councils encourage measures that continue to support an “all of the above” energy strategy that takes full advantage of the U.S. shale oil/gas opportunity to support domestic growth and job creation.

## **2. Japan-U.S. Trade and Economic Partnership**

The Councils are encouraged by the general direction and more cooperative dynamics in the overall U.S. –Japan economic relationship. Companies in both Councils continue to see good opportunities to expand trade, investment and partnerships across all major industrial and service sectors in Japan, the United States and globally.

As the negotiations for the Trans-Pacific Partnership (TPP) agreement accelerate, the Councils applaud both leaders of Japan and the United States for their strong commitment to achieve a high-level agreement as stated in the Leaders' Statement on November 10, 2014 in Beijing. As the largest economies in the negotiations, the United States and Japan have shared responsibility to lead the negotiations to a successful conclusion.

A strong TPP agreement will bind Japan and the United States even closer by expanding our bilateral economic relationship even further, thus strengthening the foundation of our longstanding Alliance. Moreover, we share common interests in securing the establishment of high standard rules and open markets in Asia via the TPP. The TPP negotiations will enable both countries to work in close cooperation in shaping rules that will boost trade and prosperity for the region for current participants as well as those that will follow in the future. The Councils recognize that bilateral economic partnerships are not sufficient to facilitate development of global value chains, and that mega FTAs like TPP can serve as platforms that disseminate freer access to goods and services and enable participants to obtain benefits by streamlining regulations for investment and government procurement, protecting intellectual property rights, promoting coherence of regulations including standards and certification, establishing rules for competition with state-

owned enterprises and reducing non-tariff barriers. TPP will also have geopolitical benefit for the U.S., Japan and Asia-Pacific region.

Offers of ambitious and far-reaching market access for substantially all goods and services by TPP negotiating countries, particularly the United States and Japan, will greatly help all the TPP members to achieve high-standard rules among the region. Every participant has their own sensitivities on rules or market access, and the Councils urge all governments to manage these with creativity in order to maintain the principles, objectives and benefits in the overall agreement.

The Councils, working together with relevant organizations, are ready to support both governments in obtaining people's understanding on conclusion and ratification of the TPP negotiations in each country. The Councils call upon both leaders to make a bold decision from a broader perspective.

### **3. Global Energy and Japan-U.S. cooperation**

Energy is fundamental to global growth and stability. In this context, the Councils stress the enormous opportunity for enhanced cooperation between the United States and Japan on energy policy. Given the critical role of stable, clean and affordable energy in advanced economies, the United States and Japan can forge a mutually beneficial partnership on energy that will support U.S. energy exports, and stable and secure energy supplies for Japan; promote cleaner, low-carbon energy production to help address the pressing issue of climate change; and strengthen the broader U.S.-Japan relationship. The Councils extend their call for a deepened bilateral public-private sector Strategic Energy Dialogue to help identify and act on these challenges and opportunities.

Japan and the U.S. have dramatically different energy situations. Japan has been effectively without nuclear power generation since the Great East Japan Earthquake of March, 2011, thus deepening its dependence on energy imports, while raising questions about Japan's long-term energy security. Discussions of energy policy thus cannot be decoupled from energy security issues.

At the same time, the "Shale Revolution" in the United States is allowing it to become an energy exporter, leading to rapid change in the global energy arena. Stable supplies of LNG from North America will reduce Japan's dependence on fossil fuels imported from the Middle East, driving Japan's reevaluation of its energy security. Expanded use of LNG, along with a shift to renewable energy resources and development of additional clean energy technologies, will also contribute to Japan achieving the necessary CO<sub>2</sub> reductions for effective global warming countermeasures.

These crucial technologies include, of course, high-efficiency gas thermal power generation utilizing LNG. In addition, there is a role as well for oil gasification, carbon capture, utilization and sequestration (CCUS), coal gasification, ultra-supercritical coal-fired thermal power generation, and natural gas combined cycle generation. Since Japan and the U.S. are global leaders in these low-carbon technologies, Japan-U.S. cooperation in technology development can speed deployment of these technologies worldwide, with special focus on fast-growing developing countries. The Councils urge both governments to reduce regulatory hurdles to these new technologies, and promote a stable and predictable regulatory regime for new renewable energy sources that will attract additional investment.

In addition, with assured safety as the primary precondition, nuclear power remains an important part of base load power supply, and one that contributes to reduction of greenhouse gas emission. The Councils commend the Abe administration for moving ahead with nuclear restarts. As safe nuclear power can also play an important role in helping developing countries secure adequate energy supplies while limiting greenhouse gas emissions, the Councils also welcome the approval of the submission of Convention on Supplemental Compensation (CSC) to the Diet by the Japanese Cabinet, and urge its prompt passage by the Japanese Diet.

In many ways, Japan-U.S. cooperation through expanded commercial relations will form a stable platform for continuing the energy revolution. America's abundance of advanced exploration and production technologies provides another crucial factor in future discussions of energy security. Given the difficulty of strategically storing natural gas, improvements in shipping, improvements in supply contract conditions, and improvements in supply/demand forecasting will prove vital. The U.S. will be the gas exporter, and Japan the importer. The United States can provide the natural gas resource and production base, and Japan can provide the natural gas shipping production base and the investment dollars necessary to bring additional resources to market.

#### **4. Healthcare Innovation as a Driver of Economic Growth**

The Councils share the view that strong, globally competitive, innovation-based pharmaceutical, medical device, and diagnostic industries ("healthcare industry") are critical components of strong domestic economies in both countries, contributing significantly to GDP, employment, tax revenue, R&D, and trade. The Councils note once again the remarkable progress made over the past decade in developing a shared industry vision toward adoption of healthcare policies that support innovation and rapid adoption of biomedical products that improve patient care and health in both countries.

The Councils recognize and welcome that good progress has been made over the last several years in improving the competitiveness and attractiveness of the markets in both countries. In particular the Councils applaud PMDA for steadily decreasing medical device and pharmaceutical approval times as well as Japan's introduction of a pilot program that provides price stability for pharmaceuticals over the patent/exclusivity period.

Given the pressing needs in both countries, the Councils encourage the regulatory authorities in the U.S. and Japan to continue promoting fundamental policies that support industry innovation, including R&D measures that facilitate and protect innovation, expeditious regulatory review and approval processes, and transparent and predictable pricing and reimbursement procedures that take into account the high costs of innovation.

As the populations of both Japan and the United States age, the healthcare industries will play an especially critical role in maintaining healthy and productive work forces that sustain productivity at the high levels needed to increase economic growth and incomes in both countries. The R&D-based biomedical industries continue to develop innovative healthcare solutions that support the lengthening of the average healthy lifespan and reduction of the economic burden of disease.

The Councils also note the increasing importance of international trade to industry success. Given the sophistication of the U.S. and Japanese industries and relative transparency of the respective regulatory processes, the U.S. and Japan should work closely together in developing rules and practices in other countries that will support sound medical treatment. In particular, the Councils urge the U.S. and Japan to collaborate closely in the TPP negotiations to ensure the TPP agreement includes the strongest possible pharmaceutical IPR standards, as well as transparency and procedural fairness measures in other participating countries related to pricing and reimbursement.

In short, the Councils urge both governments to take into account the important role the healthcare industry plays in overall economic growth, and look forward to engaging with officials from relevant ministries on ways to support industry growth and development while improving overall patient care.

## **5. Financial Regulations Contributing to Sustainable Growth**

The Councils believe transparent capital markets and strong financial services sectors in the U.S.

and Japan are essential not only for growth in our two countries, but also for growth in the global economy as well. Accordingly, the Councils fully support reasonable regulatory reforms designed to strengthen the global financial system, and our respective domestic systems.

However, the Councils remain concerned about the potential for unintended consequences of the current national and global regulatory reforms on financial and capital markets, which threaten to impede the sector's ability to provide needed liquidity and support domestic demand, and hence to fuel broader macroeconomic growth. In this new regulatory environment, the Councils believe that supervisory measures should be appropriate to attain appropriate supervisory objectives and not go beyond what is necessary to achieve those objectives, and avoid distorting competition in the market. In this regard, it is especially important for regulators to take into account the fundamental differences between banks, insurance and other non-bank institutions when setting regulatory structures and capital standards. The Councils urge the governments to avoid measures that would introduce volatility, destabilize the market for long-term insurance and as a result deny customers choice.

The Councils remain concerned about the overlapping and cumulative impact of already globally agreed-upon regulations and the implementation of such measures in each jurisdiction, including Basel III, and the domestic regulatory reforms being implemented across national jurisdictions, which taken together could impose unanticipated consequences for the financial system, and at the same time create new opportunities for regulatory arbitrage. Furthermore, the Councils urge both governments to cautiously monitor the cumulative impact of regulation and to enhance cross-border cooperation and coordination among global regulators, in order to promote greater international regulatory consistency avoiding extraterritorial application. There is also a concern about the one-size-fits-all approach to global regulation, which will lead to a new risk for the global financial system.

In this context, the Councils call on both governments to continue working through the G20, the Financial Stability Board or other global standards-setting bodies, while ensuring transparency and accountability of duly elected leaders, to strengthen the current framework of global economic governance for pursuing the strong, sustainable and balanced expansion of the global economy.

## **6. Travel & Tourism: Promoting Human and Cultural Exchange**

For the first time, the Councils addressed Travel & Tourism (T&T) as a major topic in the U.S.-Japan Business Conference. T&T is a major contributor to economic growth and employment in



the United States, and is becoming so in Japan. T&T creates significant spillover effects in other industries and, as such, represents a large sector of economic output for almost all major economies. Worldwide, the T&T sector accounted for nine percent of global GDP (\$6 trillion) and provided 120 million direct jobs in 2013 according to the World Travel and Tourism Council (WTTC). There is potential for significant growth of the T&T industry in the United States, and particularly in Japan.

Against this backdrop, the Councils fully endorse the commitment made by President Obama and Prime Minister Abe at their meeting in Tokyo in April of this year to expand people-to-people exchange between Japan and the United States. The Councils agree with the view expressed by the leaders that "Broad people-to-people exchange between Japan and the United States has been a key pillar of our Alliance since its inception." Travel and tourism is a critical element in promoting and facilitating such exchange.

The Councils commend Prime Minister Abe for making T&T one of the pillars for economic growth under the Third Arrow, and for setting an ambitious target to increase inbound tourists to 20 million by 2020. There are positive and encouraging trends, with the number of foreign tourists entering Japan exceeding 10 million for the first time in 2013, and the current pace indicating over 13 million will enter this year. Japan still has abundant untapped capability to establish "destination" attractions that will draw tourists from the region and world in greater numbers. In particular, the 2020 Tokyo Olympics/Paralympics will serve as a major milestone towards the goal and Japan can go beyond.

Japan has many positive attributes required for a strong travel & tourism industry, including good infrastructure for air and ground transportation, a strong service-oriented culture, diverse geographic attractions, world class hotels and restaurants, cuisine culture as typified by "Washoku", and a modern communications and financial system. However, there are some issues that will need to be addressed in order to meet these goals and make this sector a stronger contributor to the Japanese economy, including more relaxation of visa requirements, smoother and faster immigration, upgrading of metropolitan and local airports and improvement of access, and improvements in the electronic payment system to allow greater and broader use of overseas-issued payment cards.

Longer term, MICE (Meetings, Incentives, Conferences and Exhibitions) is another important opportunity that can bring more people in from the world, promote exchange of people and information that encourages innovation and business changes, in addition to the immediate

economic benefit. In Japan, Integrated Resorts (IR) where meetings, conferences and exhibitions are held is under discussion. IR is expected to be a great contributor to the growth of T&T in Japan and the economic development of regions and related industries. At the same time, it is necessary to dispel social concerns over possible negative effects. The Councils are ready to contribute to the deepening of the discussions based on our experiences in development and management of IRs in the U.S. and Asia in order to increase public understanding of the positive impact IRs can have and the ways social concerns can be effectively addressed.

Although the U.S. travel & tourism economy is larger and more developed than in Japan, there are also infrastructure, regulatory, immigration and other issues that need to be addressed in the United States in order to facilitate and enhance tourism. In particular, the Councils urge improvement in the U.S. visa system to facilitate business travel for professionals coming to the United States for short-term assignments, as well as improvements that ease the time and inconvenience of customs and immigration processing at major entry airports. To this end, programs such as Global Entry are very useful, and the Councils urge the U.S. and Japanese governments to work together, and with the private sectors, to find ways to bring Japan into the Global Entry network.

Expanding T&T and other exchange between the United States and Japan is a win-win proposition for both countries, and the Councils pledge to make every effort to collaborate and promote two-way flows of business and leisure travelers to boost growth and job creation. In line with these priorities and opportunities, the Councils have formed a Travel & Tourism Working Group comprised of companies involved in various facets of the industry. The Working Group will work to support the objectives of both governments to expand bilateral and overall T&T activity in Japan and the United States.