

Joint Statement
50th US-Japan Business Conference
U.S.-Japan Business Council/Japan-U.S. Business Council
November 15, 2013
Washington DC

The U.S.-Japan Business Council and Japan-U.S. Business Council (hereinafter, "the Councils") marked an important milestone with the 50th U.S.-Japan Business Conference held November 14-15, 2013. Meeting this year under the theme "Pacific Partners: Opportunities for Collaboration and Growth in the 21st Century," the 50th conference allowed members to reflect on the changes in the U.S.-Japan economic relationship over this time, and to envision the next 50 years.

The Councils acknowledged the improvement in the tone and substance of the conference and our economic relationship over the years: from serious tensions over market access and trade deficits throughout the 1970s, 1980s and 1990s, to the much more positive tone and constructive approach in recent conferences. Indeed, the Councils come away from the 50th Conference assured of the increasingly close and cooperative economic ties between our countries and the many opportunities to expand the commercial dimensions of our bilateral relationship in ways that will strengthen the overall U.S.-Japan alliance and contribute to sustained growth in both countries.

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 the U.S. and Japanese economies. Given the changes in the global business environment and corporate dynamics, the Councils also pledge to work together to refine and enhance our bilateral activities in order to maximize our ability to fulfill this mission.

U.S. and Japanese Economic Growth and Key Issues

With emerging economies in a decelerating trend and the Eurozone emerging slowly and unevenly from recession, there are heightened expectations for the U.S. and Japan to become the leading force in the world economy. The U.S. and Japanese economies have recovered moderately and the most extreme risks seem to have passed, but the Councils recognize there are vulnerabilities in each country and, by extension, the global economy.

Fiscal and Monetary Policy Challenges

In particular, the Councils have concerns with fiscal and monetary policy challenges of the United States and Japan, which pose some downside risks to the world economic outlook.

- First, understanding that the balance between fiscal consolidation and growth policy is important and delicate, the Councils urge both governments to establish credible medium- and long-term fiscal plans that are implemented gradually in ways that will stabilize the global financial system. The Councils strongly urge the U.S. Congress and administration to take into account the unsettling effect the recent debt ceiling extension had on global markets and confidence in the United States as an investment destination and avoid similar situations in the future.
- Second, the process of scaling back quantitative easing (QE), or “Tapering”, could lead to a sharp increase in long-term interest rates and excess volatility in the global financial and capital markets. The Councils urge both central banks, especially the Federal Reserve Board, to ensure effective communication on the exit strategy and a careful calibration of its timing and pace. The Bank of Japan’s quantitative easing policy is proving effective in reversing deflationary trends and stimulating domestic demand, as intended, and should be continued for the near term. It is the Councils’ view that this policy does not constitute currency manipulation, but is similar to what the Federal Reserve and other central banks have done to support domestic recovery and price stability, a position taken repeatedly by the G-7.

In addition to careful macroeconomic management, both countries need to move forward with bold and aggressive micro policies that will stimulate greater investment and business expansion that leads to job creation and higher household incomes.

United States

The Councils urge the Obama administration and U.S. Congress to move forward on the following measures:

- Market-based measures to support domestic energy production, particularly by taking full advantage of new discoveries of shale oil and gas.

- Regulatory reforms that reduce administrative and cost burdens and provide regulatory certainty for businesses.
- Tax reforms that lower the statutory U.S. corporate tax rate to OECD norms over time.

Japan: Launching the Third Arrow

The Councils commend and support the Abe government's broad economic policy framework, dubbed Abenomics, encompassing bold monetary easing policy, flexible fiscal policy, and "Third Arrow" growth measures. In light of macro constraints, the Councils agree that the critical element for achieving sustainable long-term growth is bold regulatory and structural reforms to spur private investment and private sector-led growth, including in critical sectors such as agriculture, health care, ICT, and travel and tourism. To this end, the Councils urge the Abe government to initiate and implement Third Arrow measures including agricultural reforms, labor market reforms, tax reforms that lower the corporate tax rate to the OECD average and, especially, regulatory reforms that reduce administrative and cost burdens and provide regulatory certainty for businesses.

Foreign Direct Investment

The Councils stress the importance of foreign direct investment (FDI) as a critical source of economic growth and employment in both countries. The USJBC has emphasized to Congress and other stakeholders the strong and positive contribution Japanese investment makes to the U.S. economy in terms of output, employment, tax revenue and trade, and encourages more investment by Japanese companies in the United States through both Greenfield investment and Mergers & Acquisitions. The Councils welcome the new initiative by the Obama administration and Select USA to encourage and facilitate more FDI in the United States, but suggest that greater regulatory and policy certainty are essential for investment decisions.

The Councils continue to be concerned by the relatively low level of FDI in Japan (less than 4% of GDP), but are encouraged by the Abe government's recognition that Japan needs more of it to help stimulate economic growth and new employment. As the government formulates policies and measures to promote more FDI, it is important to note that sustained economic growth and bold regulatory and other economic reforms that create a truly business friendly environment are the most important factor to attract FDI in either country. Accordingly, the Councils urge the Government of Japan to move forward with bold reforms to improve the business environment, including through regulatory and legislative changes that create new investment opportunities for domestic and foreign companies and level the playing field for foreign investors. The Councils urge the Government of Japan to work closely with the private

sector in identifying such opportunities and to move boldly to take advantage of them, particularly with the 2020 Tokyo Olympics in mind.

U.S.-Japan Trade and Economic Cooperation: TPP and other Initiatives

There are many opportunities for the United States and Japan to support global and regional growth and prosperity by supporting expansion of trade and investment and establishment of high standards and rules for commerce. The Councils agree that the United States and Japan should play the leading roles in moving the world system to greater trade liberalization, cooperation and expansion as a means of boosting economic growth in both countries, and globally, and pledge to accelerate efforts to support this objective.

In particular, in the Councils' view, the United States and Japan can and should play leading roles in helping establish a rules-based, high-standard economic architecture for the Asia-Pacific region, with the establishment of a Free Trade Area of the Asia-Pacific (FTAAP) as the long-term goal.

TPP

The Councils commend the Obama administration and the Abe government for moving boldly to bring Japan into the Trans-Pacific Partnership negotiations despite domestic industry and political opposition in both countries. Japan's entry into the negotiations is truly a game changing development that makes TPP more commercially significant for all parties, and provides a historic opportunity to strengthen the U.S.-Japan economic relationship and alliance.

As the largest and most sophisticated economies in the TPP negotiations, the U.S. and Japan have many common interests. The Councils therefore urge both governments to work closely to secure a comprehensive, high-standard agreement that will eliminate tariff and non-tariff barriers to trade in all manufactured and agricultural goods, services and investment while establishing new rules and disciplines in critical "21st Century" areas such as intellectual property, investment, competition/State-Owned Enterprises (SOEs), cross-border data movement, regulatory coherence and transparency, and supply chain and trade facilitation measures. TPP's impact will go far beyond the TPP itself. In light of other major multilateral and plurilateral trade negotiations also underway, it is particularly important that TPP establish high standards and strong rules that will serve as a template for these other initiatives so that trade in goods and services, as well as investment, will continue to grow in the coming decades.

Given the substantial immediate and longer term benefits to be achieved, the Councils urge the U. S. and Japanese governments to lead the TPP negotiations to a successful conclusion as soon as possible. The Councils support the objective to conclude negotiations by the end of 2013, but agree that the timetable should not drive an outcome that does not meet the ambition and high standards envisioned and committed to by the leaders of the TPP partners in 2011. As the negotiations enter the final stages, it is particularly important that the United States and Japan demonstrate leadership by finding practicable solutions that establish high standard rules in 21st Century areas and, consistent with the commitment to a comprehensive agreement, improve market access through the elimination of tariffs on all goods, with flexibilities on timing as needed for a few products.

The parallel bilateral negotiations between Japan and the United States are an essential element of a strong overall TPP agreement that, in combination with the broader TPP negotiations, should produce significant and mutually beneficial improvements in the bilateral trade and investment relationship. Accordingly, it is important that these negotiations result in additional firm commitments and concrete measures to eliminate tariff and, especially, non-tariff measures in all areas outlined in the agreements between the U.S. and Japanese governments on April 12, 2013.

In line with the points above, the Councils pledge to work closely with each other and both governments to promote wider understanding of the importance of TPP to the U.S. and Japanese economies among legislators and other stakeholders in both countries.

Other Agreements

The United States and Japan should take strong leadership positions in driving various other multilateral or plurilateral negotiations such as the Information Technology Agreement II (ITA-2), APEC Environmental Goods and Services, Trade in Services Agreement (TISA), and Trade Facilitation agreement currently underway to successful conclusion in a timely manner. The overriding objective in all should be to eliminate tariff and non-tariff barriers to trade on as many products or services as possible, including through expansion of product coverage under the ITA-2 and APEC Environmental Goods & Services negotiations; eliminate chokeholds that drive up costs and create inefficiencies in moving goods; and establish new rules that facilitate 21st Century trade and investment.

Global Energy and U.S.-Japan Cooperation

The energy profiles of the United States and Japan have changed dramatically over the past few years. The United States has emerged as a leading producer of carbon fuels due to new discoveries and recovery methods for shale oil and gas. The shale revolution provides a significant competitive advantage to the U.S. economy that could, under the right policy framework, contribute significantly to domestic growth and trade expansion. Combined with further development of renewable technologies and improvements in efficiency, the United States can potentially become a net exporter of energy in the years ahead.

Japan has been affected by the shutdown in nuclear electricity generation in the aftermath of the Tohoku disaster. Among other things, this has led to higher energy costs for corporate and household users and sharp increases in carbon fuel imports for thermal electric power generation. As Japan is at a critical point in determining its energy roadmap for the future, the Councils urge the government to work closely with the user groups including business and the energy industry in outlining an energy policy mix that will support economic growth, provide stable and affordable electricity for industrial and household users, and encourage development and use of new energy technologies. In the Councils' view, a stable, predictable and affordable electricity supply is an essential element for economic growth in the short and longer terms. To this end, it is important for Japan to continue its use of nuclear power as a source of electricity.

While there are many challenges posed by these developments, the Councils believe the United States and Japan have a historic opportunity to increase government and private sector cooperation in ways that will help meet them while ensuring sustainable and secure energy supplies for our economies and reducing adverse environmental impacts.

To maximize this opportunity, the Councils strongly urge the U.S. and Japanese governments to establish and institutionalize a comprehensive, high-level U.S.-Japan Strategic Energy Dialogue that would facilitate regular engagement between senior U.S. and Japanese government officials and business executives on a comprehensive range of energy issues. This dialogue should encompass policy, technological development and commercial application and opportunities in the major sectors of energy production, use and related technologies, including: carbon (oil, LNG, clean coal); renewables (solar, wind, geothermal, biomass, alternative fuels, batteries); demand management/efficiency (smart grid/meter, efficient building materials); and nuclear power with enhanced safety.

The Councils look forward to working with both governments to develop a timetable and agenda for the Strategic Energy Dialogue in the coming months, with a goal of holding the first Strategic Energy Dialogue in 2014.

Healthcare Innovation

The pharmaceutical and medical device industries note the remarkable progress made over the past decade in developing a shared industry vision toward adoption of healthcare policies in both countries that support innovation and rapid adoption of leading pharmaceuticals and medical devices in the U.S. and Japan.

The Councils also emphasize that strong, globally competitive, innovation-based pharmaceutical, medical device and diagnostic industries are critical components of strong domestic economies in both countries, contributing significantly to R&D, employment, trade and tax revenue. Accordingly, the Councils applaud the both governments for recognizing the important role the health care sector 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.

To this end, the Councils encourage the regulatory authorities in the U.S. and Japan to continue promoting fundamental policies that support industry innovation – such as R&D measures that facilitate and protect innovation, as well as expeditious regulatory review and approval process, transparent and predictable pricing and reimbursement procedures that take into account the high costs of innovation. The Councils welcome plans in the Japan Revitalization Strategy to establish a “control tower” function (Japanese version of NIH) in medical R&D to accelerate practical application of innovative medical technologies of potential benefit to patients worldwide.

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 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 to ensure transparency and procedural fairness in other participating countries related to medical device and pharmaceutical reimbursement.

Financial Services

The Councils stress that strong and transparent financial systems, capital markets and financial services sectors are essential to U.S., Japanese and global economic growth. Accordingly, the Councils fully support regulatory reform 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 domestic and global regulatory reforms on financial and capital markets, which threaten to harm the sector's ability to fuel 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. In this regard, it is especially important for regulators to take into account the fundamental differences between banking and insurance when setting regulatory structures and capital standards.

The Councils also worry about "the balkanization of regulation" - regulatory fragmentation across national jurisdictions, which will lead to greater ring-fencing of capital and liquidity, and reduce efficiencies and systemic resilience of 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. 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.