

JOINT STATEMENT
52nd Japan-U.S. Business Conference
- Next Generation Collaboration -
U.S.-Japan Business Council / Japan-U.S. Business Council
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The U.S.-Japan Business Council and Japan-U.S. Business Council (hereinafter the “Councils”) held their 52nd Annual U.S.-Japan Business Conference in Washington D.C. December 3-4, 2015. With a theme of “Next Generation Collaboration” the Councils highlighted the increasing range and depth of the shared objectives and collaboration between the U.S. and Japan in the economic, political and security spheres.

The Councils would like to acknowledge and commend the intense efforts made by leaders and officials from both countries to move the bilateral relationship in such positive directions in 2015, as punctuated by the very positive summit meeting between President Obama and Prime Minister Abe in April. The Councils welcome the initiatives listed in the joint Fact Sheet agreed upon at their summit meeting. Given the importance of bilateral relationship between the two countries, the rapid pace of innovation and the urgent need for public policy to keep up, it is important to continue to reinforce and establish further dialogues, that will help advance new innovations and improve the growth environment through appropriate regulatory and policy coordination in sectoral and cross-cutting areas, in consultation with the Councils and other business organizations.

The Councils recognize the significant opportunities before us to expand mutually beneficial collaboration even further through the initiatives highlighted below.

ECONOMIC OUTLOOK AND POLICY

The Councils expressed significant concern over the global economic outlook, with slower growth in the European Union and emerging markets such as China of particular concern. In light of such external headwinds, the Councils note that it is more important than ever that both governments sharpen their focus and strengthen efforts to overcome domestic resistance to economic reforms that will stimulate new domestic demand and investment.

U.S. Economy and Policy

The U.S. continues to carry the global economy amidst the emerging market downturn. Accordingly, the timing of a possible interest rate increase by the Federal Reserve is of primary interest. In this regard, the Councils appreciate the clear communication about the timing of such a policy move.

The Councils commend the recent agreement to extend the U.S. debt ceiling as a positive measure signaling the ability of both branches of government to cooperate to achieve needed stability in U.S. policy, which in turn bolsters market and business confidence. However, consistent movement on a number of critical economic policy matters such as immigration, tax, regulatory policy, energy policy and trade is essential for the U.S. economy to move to higher growth plateaus.

Japanese Economy and Policy

The Councils welcome the direction and accomplishments of the Abe government's economic policies over the past three years. Prior to the Abe government, the Japanese economy was faced with six challenges-- a strong yen exceeding 80 yen to the dollar, a high effective corporate tax rate, delays in the key trade agreement negotiations, electric power constraints, overly rigid labor and environmental regulations. To its credit, the Abe government is systematically tackling these and other challenges, with some positive results. The strong yen has currently subsided due to the quantitative and qualitative easing by the Bank of Japan. Although still high, the effective corporate tax rate was lowered. The TPP negotiations were concluded, and electricity costs are likely to decrease marginally in the form of a fall in resources, so the situation is gradually being resolved.

As a result, companies are reaching record recurring profit margins, and the benchmark Nikkei stock index reached 15 year highs exceeding 20,000 yen. The unemployment rate has fallen to the lowest level in the past 20 years, and the jobs-to-applicant ratio is at its highest level in the past 23 years. The rate of wage increases is at the highest level in the past 17 years. Furthermore, the number of foreign visitors to Japan as of the end of September has already surpassed the record full year figures achieved in 2014.

Despite these positive signs, the quarterly GDP growth rate from July to September was negative for the second consecutive quarter following April to June, which indicates that further measures are needed to deliver sustained growth in economic and inflationary terms. Growth in personal consumption and equipment investment

also lack strength. The long duration of deflation and the increase in the social security burden due to the acceleration of an aging population and declining birth rate, as well as a higher consumption tax, may be hindering consumption due to a bleak future outlook causing a defensive mindset in spite of wage increases.

Prime Minister Abe's most recent three new arrows of a "strong economy" "support for child-rearing" and an "improved social security" – are welcome initiatives. So, too, is the goal to achieve nominal GDP of 600 trillion yen by around 2020 by firmly addressing the mid to long term supply side challenges while confronting the prolonged effects of deflation. In order to achieve this goal and a primary balance surplus, it is necessary to accomplish structural reforms that boost productivity so all Japanese citizens, as well as companies, can participate actively in the workforce and society. The Councils thus expect and urge the Japanese government to exert continued strong political leadership and accelerate implementation of deregulation and systemic structural reforms that remove uncertainty of the future so that companies and individuals may participate actively.

TRADE AND INVESTMENT

The Councils appreciate the diligence of all trade ministers in reaching conclusion of the Trans Pacific Partnership (TPP) negotiations. The Councils have consistently supported the conclusion of a TPP agreement that brings the United States and Japan together under a new framework of free trade. The Councils remain fully supportive of achieving this outcome and will work actively in the legislative approval process.

The Councils recognize the enormous new opportunity that the TPP agreement potentially holds for deepening and broadening our bilateral trade and investment relationship, and integrating both economies further into regional trade. By bringing together the United States and Japan under a free trade agreement that substantially eliminates or reduces most tariffs, establishes high-standard rules in areas such as e-commerce and copyright protection, and reinforces transparency in customs and regulatory affairs, the Councils anticipate significant new growth in trade and investment among all participants countries through the TPP agreement.

The Councils continue to stress the importance of high standards in the U.S., Japan and other economies as essential to bolster new innovations that will drive future growth and competitiveness. In this regard, the Councils call on both governments to exert greater leadership in cooperation with one another and the other governments to establish higher standards and best practices across the Asia-Pacific region in areas

such as intellectual property protection, e-commerce, competition, regulations and standards.

Specifically, the Councils urge such leadership and greater coordination in other multilateral/plurilateral and regional trade initiatives, including Environmental Goods Agreement (EGA), the Trade in Services Agreement (TiSA), APEC and others. The Councils reaffirm the importance of an early and successful conclusion to negotiations regarding the Trade in Services Agreement (TiSA), and recognize the TiSA framework should be inclusive to encourage development of various types of already existing and future business models of services, including services accepted in the participating countries but limited elsewhere.

THE DIGITAL REVOLUTION

Technological innovations and the uptake of information and communications technology (ICT) have continued to bring about rapid and wide-scale digitalization and networking of systems and services, widespread use of massive data, high-speed computers, and ultra-fast networks. In addition to improvements in productivity and safety in ICT use, new values are being generated. Further expansion of the Digital Revolution into burgeoning areas such as the Internet of Things (IoT) is not only critical for the competitiveness of individual companies, but the U.S. and Japanese economies overall. The U.S. and Japan should lead the international community towards the full realization of its transformative potential of the “Digital Revolution” through strategic collaborations.

Government has an important role to play in fostering the digital revolution, primarily in setting the appropriate policy environment and competitive conditions – the “digital ecosystem”– that allows private companies to innovate and develop new products and services. The pace of technological change is so rapid that governments cannot anticipate development of the digital revolution through specific policy targets and measures, so finding the proper balance in standards, regulatory approaches and best practices that support the smooth and rapid development of new, innovative products and services, while protecting consumers and security, is essential for the full development of a robust and safe digital economy. Overly restrictive or prescriptive planning, regulation, and forced standard setting will impede rather than support this growth. In short, a light regulatory touch is required, and to the maximum extent possible, market forces should determine market outcomes.

The Councils emphasize the following areas where both countries should put priorities:

First, to ensure rapid growth and smooth development of the Internet of Things, Japan and the U.S. should continue to discuss higher-level IoT value creation, big data and artificial intelligence, and applications that will contribute to sustainable growth, solutions to global-scale problems, and creation of new industries and business models. Any efforts to develop country-specific or unique standards should be resisted, as this will complicate market dynamics and hinder the growth of the IoT, and the Councils encourage the U.S. and Japanese governments to work collaboratively in developing approaches that support the adoption of market-driven international standards, including through recognized standard-setting bodies and consortia.

Second, in order to fast-track the global “Digital Revolution,” Japan and the U.S. should establish an environment for the safe and secure use of data that serves as the basis for corporate activities. Ensuring the free exchange of data across borders and creating internationally harmonized rules on protection of personal information will contribute to development of the digital economy globally. As the U.S., Japanese and other governments weigh steps to help address privacy and security challenges, it remains critical that any requirements on the collection, processing, storage, or transmission of data are not made unreasonably cumbersome, do not create barriers to cross-border data flows, and avoid mandates for the localization of data storage within particular countries. In doing so, the U.S. and Japan would enforce the idea that privacy protection is in no way linked to where data is stored.

Third, the realization of the “Digital Revolution” further highlights the importance and urgency of cyber security measures, an area that has been subject to previous discussions and collaborations between Japan and the U.S. With the increase in both quality and quantity of corporate data, the protection of trade secrets, R&D data, and personal information has become an extremely important management issue for enterprises. Also, cyberattacks, which are increasingly becoming faster and more widespread, constantly pose serious threats to governments and enterprises, and, in particular, the protection of critical infrastructures has become an issue of utmost national importance. Accordingly, Japanese and U.S. governments and industry players should hold concrete discussions regarding the sharing of security-related information, improvement of defense capabilities, reinforcement of human resources, promotion of international collaborations, and pursuit of public-private partnerships in the field of cyber security.

Fourth, innovation is the core catalyst of competition and growth in the digital economy, and the United States and Japan – as two leading innovators – share a common interest in combatting the growing abuse of competition policies in the third

countries to achieve industrial policy goals. The fast-changing nature of technology markets suggests that they are already highly competitive, with little room for anti-competitive conduct. Accordingly, the Councils urge global competition policy authorities to adopt cautious approaches, particularly with respect to market intervention, in the digital economy.

Fifth, protection and enforcement of intellectual property rights is the foundation of innovation and the key to the expansion of the Digital Revolution. To this end, the Councils urge both governments to work closely with each other and the private sectors to ensure that intellectual property protection laws, regulations, and strategies for enforcement adequately support and protect existing rights as well as new ideas and business models within today's rapidly changing technological environment.

MEETING THE FINANCIAL AND HEALTHCARE NEEDS OF AGING SOCIETIES

The Councils continue to address the mounting financial and healthcare delivery challenges facing both countries stemming from rapidly aging societies.

The Councils agreed that macro-economic and structural reform measures that drive strong economic growth must be a core focus for governments to help ensure that the growing financial retirement needs of their citizens can be met. However, the Councils also recognize that greater economic growth alone is not sufficient to fully meet the broad range of challenges that result from large demographic shifts.

The Councils particularly stressed the importance of making the necessary targeted investments in human capital that meet the financial and health needs of retirees as well as of their supporting families. These investments are critical both in terms of enhancing the security of retirement for the elderly as well as fulfilling the higher level of economic growth that only a healthy and happy population can produce.

To bridge growing gaps and as a core tool to stimulate new growth, further reforms, new incentives, and other key policy initiatives are needed to ensure security for all individuals in their retirement finances, healthcare finances, and healthcare delivery.

While both the United States and Japan face challenges related to their aging societies, Japan's challenge is especially acute as, based on current demographic projections, nearly 40% of the Japanese population is projected by 2050 to be 65 years of age or older. In response, going forward the Councils will examine ways for governments to address these challenges and develop recommendations in the following areas:

- Measures to further boost individual retirement savings and pensions;
- Adopting innovative approaches that help individuals better plan for and meet the costs of healthcare that they face; and
- Taking steps that help harness advanced information technologies (IT) that improve patient care.

As Japan confronts its challenges in meeting the needs of its aging population, the approaches that Japan takes will be instructive to the United States and other countries also facing similar challenges.

UPHOLD THE FINANCIAL SECTOR'S ROLE IN PROMOTING SUSTAINABLE ECONOMIC GROWTH

Transparent capital markets and strong financial services sectors play a critical role in promoting sustainable economic growth. The financial services industry promotes growth not only as an employer, but also through products and services provided to governments, businesses, and consumers. These products and services enable innovation and unlock productivity, leading to new sources of growth. Despite these benefits, ongoing national and global regulatory reform efforts, taken in their entirety, run the risk of imposing severe burdens and limitations on financial institutions, ultimately raising costs and impairing market access for end users, contrary to the objectives of the Financial Stability Board and the G20, which have called for strong, sustainable, and balanced growth.

In this context, rather than continue to develop and impose yet more regulations, the Councils urge that now is the time to undertake a thorough review of the current set of reforms.

The Councils fully support reasonable regulatory reforms designed to strengthen the global financial system and our respective domestic systems. The Councils, however, urge the governments to avoid measures that would introduce volatility, destabilize the market for long-term insurance and as a result deny customers choice. Taking steps now can form a lasting framework for financial stability and economic growth, striking the right balance between preventing another financial crisis while not impeding the sector's ability to provide needed liquidity and support macroeconomic growth.

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 and avoid applying rules on an extraterritorial basis. There is also a concern about the one-size-fits-all approach to global regulation, which may lead to 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, and other global standards-setting bodies, while ensuring transparency and accountability to duly elected leaders, to strengthen the current framework of global economic governance for pursuing the strong, sustainable and balanced expansion of the global economy. Against this backdrop, the Councils believe that regularized bilateral Japan U.S. government-to-government consultations would facilitate joint Japan-U.S. leadership in the financial regulatory process.

U.S.-JAPAN HEALTHCARE COLLABORATION

The R&D-based pharmaceutical and medical device industries continue to play a vital role in improving the health and welfare of people in the world, including emerging markets, by driving economic growth and job creation, as well as developing innovative healthcare solutions that support the lengthening of the average healthy lifespan and reduction of the economic burden of disease.

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 legislative changes in Japan that separate medical device from pharmaceutical regulations, the development of the Agency for Medical Research and Development (AMED), and the promotion of the *Sakigake* policy. The Councils appreciate the steady decreases in approval times for pharmaceuticals and medical devices by the Pharmaceuticals and Medical Devices Agency (PMDA), as well as Japan's maintenance of the pilot program that provides price stability for pharmaceuticals over the patent/exclusivity period. The Councils welcome the introduction of *21st Century Cures Act* (HR 6) in the U.S., and support its full passage.

Moving forward, the Councils seek to collaborate with both governments to further incentivize innovation and improve health outcomes. The Councils encourage regulatory authorities 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, stable and

predictable pricing and reimbursement procedures that take into account the high costs of innovation.

GLOBAL ENERGY AND JAPAN-U.S. COOPERATION

Despite dramatic changes in the global energy picture due to the global supply-demand imbalance and resulting rapid decline in crude oil and natural gas prices over the past year and a half, the need for close collaboration between the U.S. and Japan on energy matters remains a central component of the bilateral relationship. Effective U.S. - Japan coordination on both energy policy and commercial energy matters can be instrumental in helping achieve energy security, environmental conservation, economic efficiency and safety while also meeting key national security objectives in both countries. Close cooperation among business, government, academia, and the public is important to achieve the best outcomes.

Accordingly, the Councils suggest the following approaches in order to build a "Next Generation Collaboration" between Japan and the United States on energy.

Continuing to Hold Comprehensive High-Level Public-Private Dialogue on Energy

As the importance and necessity of Japan-U.S. cooperation in the energy sector comes to light, the Councils appreciate such dialogues have been held between the two countries, not only government-to-government, but also public-private consultations, especially between the Councils and officials from the governments of both countries, and would like to encourage these to continue.

Cooperate to Achieve a Low Carbon Society

The Councils support close technical cooperation on various projects aimed at achieving the objectives of enhanced efficiency, reducing carbon emissions and increasing energy security, including innovative technologies in areas such as natural gas production that have helped reduce carbon emissions from energy production to historic lows. Japan is advancing high level technology in areas such as energy efficiency and clean coal technology. These complementary approaches provide a strong basis for both sides to step up information exchanges and technical cooperation in both areas to have the greatest impact.

The Councils propose promoting technical cooperation on high-efficiency gas-fired power plants and on measures to lower the cost of and promote the widespread adoption of Carbon Capture and Storage (CCS) technology. Reducing the cost of CCS in particular can be an effective means of encouraging improvements to conventional coal-fired power plants with high CO₂ emissions and strengthening policy towards coal fired generation. The Councils believe that this initiative will provide effective measures to emerging countries where energy consumption increase is expected for their economic growth from now on, and contribute to the global greenhouse gas suppression.

Approach to Nuclear Power Generation and Japan-U.S. Cooperation

The Councils recognize that nuclear energy continues to be important as a clean source of base-load energy. The decommissioning of Fukushima Daiichi Nuclear Power Plant and rehabilitation and reconstruction of the surrounding area continues to be a challenge for Japan. As this process moves forward, it is necessary for all public and private entities involved to share accurate information with the Japanese public and the world on a timely basis. From this effort, Japan can help other countries operating nuclear facilities enhance their safety procedures. By the same token, other countries can help Japan enhance safety through regular dialogue and exchange of best practices and standards.

Finding Solutions to Future Energy Problems by Utilizing Big Data

The utilization of big data has the potential to cause a major transformation to conventional unidirectional type large scale power generation, transmission, and distribution systems. Distributed power sources, which have been considered as relatively inefficient and not as economical as centralized power generation, can be a practical option thanks to innovative technology development.

Continued Importance of Hydrocarbons and Diversification of Resource Suppliers

Even with the focus on lowering carbon emissions and finding alternative sources of energy through renewable sources, efficiency and other measures, the practical reality is that hydrocarbons will continue to play an essential role in energy production in Japan and the United States for the foreseeable decades ahead.

For Japan, diversification of oil and gas supplies is a matter of national security to the extent that over-reliance on a single region for the majority of imports makes Japan vulnerable to potential supply disruptions and reduces its energy security. In this regard, the export of LNG from the United States to Japan, which is poised to begin soon as infrastructure changes are completed, has a much greater meaning than ordinary commercial trade. So, too, would exports of U.S. –produced crude oil. The Councils, therefore, urge the United States to lift the ban on the export of crude oil for the mutual economic and energy security benefit of both countries. The U.S. allows global trade of a vast array of products from agriculture, electronics and automobiles. Crude oil should be afforded this same treatment.

TRAVEL & TOURISM

The Councils discussed the subject of Travel and Tourism (T&T) for the first time at the Japan-U.S. Business Conference last year. T&T is one of the key drivers of the U.S. economy, and significantly contributes to job growth there. Needless to say, T&T is becoming increasingly important to Japan as well. According to the World Travel and Tourism Council, the T&T sector accounted for 9.8 percent (\$7.6 trillion) of global GDP in 2014. More notably, the T&T sector is expected to grow 3.8 percent annually, suggesting this sector has huge growth potential in the United States, and particularly in Japan.

Prime Minister Shinzo Abe last year made T&T one of the key pillars under his “Third Arrow” economic growth plan, with goals to increase the number of inbound foreign tourists to 20 million by 2020. The number of foreign tourists visiting Japan from January to September this year jumped 48.8 percent year-on-year to 14.48 million, according to the Japan National Tourism Organization. Spending by foreign tourists in Japan reached 2.6 trillion yen from January to September. Although there are positive signs showing growth in inbound tourism, revenue from the tourism industry in Japan is lower than that in the United States. Spending by foreign tourists in Japan remains half of spending by foreign travelers in the United States.

To achieve the Abe government’s ambitious goal to increase GDP by 20 percent to 600 trillion yen, the Japanese government must turn T&T into an active and aggressive strategy.

As Japan hosts the 2020 Tokyo Olympics/Paralympics, the upcoming games should serve as a major milestone for Japan to achieve that goal. The government must take specific actions such as overhauling visa requirements swiftly.

Looking to the future of T&T beyond 2020, the economic impact of building Integrated Resorts (IRs) is a focal point. Additionally, IRs could resolve accommodation and MICE (Meetings, Incentives, Conferences and Exhibitions) shortages in Japan. The Councils strongly support the introduction of IRs in Japan and urge the Diet to approve the enabling legislation as early in 2016 as possible so that the subsequent development process may begin. The Councils will also make further efforts to gain public understanding about IRs and programs that can address any social issues.

Regarding the United States, the Councils urge the United States government to improve its visa system. The United States needs to facilitate business travel for professionals working on short-term assignments and ease the inconvenience of customs and shorten the time-consuming immigration process at major entry airports. To this end, a program like Global Entry is extremely beneficial. The Councils urge the governments of both countries to work together with the private sector to bring Japan into the Global Entry network.

Furthermore, the Councils urge the United States to take actions such as improving airport access to railway and bus networks that offer comfortable and frequent service, and upgrading intra-city high-speed railway systems similar to Japan's bullet trains.

The Councils believe the development of the T&T industry is an indispensable element to facilitate the exchange of people between the United States and Japan to usher in a new era of collaboration.