

JOINT STATEMENT
53rd JAPAN-U.S. BUSINESS CONFERENCE

The Promise of Globalization

U.S.-Japan Business Council / Japan-U.S. Business Council
Tokyo
November 3-4, 2016

Overview

1. The U.S.-Japan Business Council (USJBC) and Japan-U.S. Business Council (JUBC) and (hereafter, the “Councils”) held the 53rd meeting of the Japan-U.S. Business Conference (hereinafter, the “Conference”) in Tokyo on November 3-4, 2016, under the Conference theme: “**The Promise of Globalization.**” This Conference assembled business leaders from the world’s largest advanced economies, the United States and Japan, who confirmed their shared values and vision for a free, open and rules-based global trading system. These leaders further confirmed a determination to expand cooperation, and to pursue stable and sustainable growth not only in the markets of the two countries, but in the global economy as well.
2. The Councils expressed concern over calls by some voices around the world for policies that threaten to constrict economic ties between nations, rather than expand and improve them. They further agreed the United States and Japan have a shared responsibility to build upon the strong foundations for growth, which are made possible through respect for the market mechanism and the associated rules that have facilitated the expansion of the global economy. The Councils confirmed a shared belief that the two countries – representing one of the world’s most important bi-lateral economic relationships -- have a special responsibility to cooperate to update and augment the rules and regulations of trade and commerce in ways that support broad-based economic growth, new and higher-paying jobs, greater openness and efficiencies, and mutually beneficial economic integration.
3. Despite an increase in economic and geopolitical uncertainty, the Asia-Pacific region has been and will remain the center of global economic growth, as well as a key source of growth for both the United States and Japan. The strong ties between our two nations serve as a pillar for the peace and prosperity in that region, and the relationship supports the region’s development. In this regard, the ratification and implementation of the Trans-Pacific Partnership (TPP) agreement by member countries will update, expand and improve economic integration not only between Japan and the U.S., but across the region as well.
4. In addition to the deepening and advancement of globalization, the Conference covered a broad range of additional topics, including the promises and challenges of

innovative, 4th generation industries, such as the Internet of Things (IoT), artificial intelligence, big data and robotics. The Conference addressed the economic, social and political challenges of aging populations, as well as the need for greater workforce diversity resulting from the active engagement of women and foreign workers. Further discussion also was held on key industrial sector topics, including financial services, energy, healthcare, and travel and tourism.

The Global Economy and Key Challenges Facing the United States and Japan

5. The economies of industrialized countries, including the United States and Japan, are continuing to recover from the 2008 financial crisis, although growth remains short of expectations. Volatility in natural resource prices and slowing growth among some newly-industrializing economies continue to create risks and uncertainty.
6. The Councils noted the dangers of over-emphasizing monetary policy in pursuing macro-economic goals, and underscored how successful government stewardship of economic matters also requires political leadership and broad consensus to take the bold measures needed to address cyclical and structural challenges.

Priority Challenges and Issues in the United States:

7. Challenges facing the United States include the need to forge a stronger consensus among and within the Congress, the executive branch, and the American public for new policy, regulatory, and fiscal approaches that will support the critical role that large and small businesses play in growing the economy and providing new jobs.
8. Facing a demographic shift from the gradual retirement of the baby boom generation from the workforce, the Councils agreed on the continued need for comprehensive immigration reform.
9. Opportunities to strengthen investment in U.S. infrastructure also remain unfulfilled and need further attention, including the construction of a high-speed rail network and revamping rail lines across the United States.
10. The Councils also urge the new U.S. administration to foster a positive business environment at home, and underscored the need to continue attracting foreign direct investment (FDI). FDI from Japan already directly generates more than 900,000 jobs across the nation. The importance of this investment is magnified when considering both the direct and indirect jobs supported by Japanese FDI in the United States, surpassing 1.5 million combined direct and indirect U.S. jobs in the automotive sector alone.

Priority Challenges and Issues in Japan:

11. In tandem with continued monetary and fiscal measures aimed at overcoming deflation, it is imperative that Japan make structural and regulatory reform the highest economic policy priority. To that end, it remains essential that the Japanese government work in close cooperation with domestic and foreign businesses and other stakeholders to identify and implement specific reform measures that will be most effective in generating higher productivity and economic growth and sustaining investor confidence over the medium- to long-term.
12. To overcome deflation and fuel demand, it is necessary to ease consumer uncertainty about the future and build trust, which requires maintaining a sustainable social security system and a strong commitment to fiscal consolidation. Concretely, this includes setting a target for a primary fiscal budget balance surplus by FY2020 and pursuing pro-growth policies that will allow for the planned increase in the consumption tax in October of 2019.
13. Japan, with a declining population, must make continued efforts to address a particularly acute demographic challenge. The government's call to "realize diversified working methods by diversified people," which includes empowering women and achieving greater participation of the elderly in the workplace, has become imperative. It is also important for Japan to reform its labor regulations to permit greater flexibility for employers, such as expanding the so-called white collar exemption, adopting other measures that value performance over hours worked, and facilitating greater acceptance of foreign workers.
14. It is also necessary to plan for investments and improvements to deteriorating infrastructure, with particular care given to the prevention and mitigation of the disruptive capacity of natural disasters.

Strengthening and Advancing Globalization

15. The Councils expressed concern over the global proliferation of protectionist and anti-globalization sentiment. In recent months, public opinion has shown a tendency to turn against economic integration and free trade agreements. Participants in the Conference agreed the benefits of a rules based trading system far outweigh the challenges, and stressed the need to address fears of economic dislocation as the industrial structure changes along with technological advancement.
16. The Trans-Pacific Partnership (TPP) agreement has the potential to usher in a new era of inclusive growth, prosperity and cooperation across the Asia-Pacific by advancing trade among countries representing 40 percent of global GDP. The pact will set high standards and rules that promote trade in new areas such as the digital economy, investment, protecting innovation and labor rights. It will also facilitate

great opportunities for small- and medium-sized businesses, and raise labor standards. These outcomes are precisely what is needed to dispel fears that globalization has, among other things, caused wealth disparities and a declining middle class. But it is also imperative that these and other high standards also are included in other new multilateral and bilateral trade agreements currently under negotiation, such as the Trade in Services Agreement (TiSA), the Transatlantic Trade and Investment Partnership (TTIP), Japan-EU Economic Partnership Agreement and the Regional Comprehensive Economic Partnership (RCEP).

17. The Councils support the progress in trade liberalization over the years, noting those advances have fueled growth and helped millions climb out of poverty. The Councils further remain committed to the cause of TPP, and its promise of open, transparent and inclusive markets. The Councils expect Japan's legislature will soon approve the trade agreement, and they urge the US to exert strong leadership and take all necessary measures, as soon as possible, thereby passing the legislation needed to deliver the promise of this comprehensive trade pact to all 12 member nations, and to create new opportunities for growth.
18. Along with trade, direct investment has been another force that has transformed, and contributed substantially to, our bilateral economic relationship. With an open climate that welcomes foreign direct investment, the United States has been a large recipient of investment from Japan, which ranks number one in terms of "flow" of investment and number two (second to the United Kingdom) for the "stock" of investment from abroad. This investment has made significant contributions to regional economic growth in the United States, to the labor market, and to reduced trade friction. Japanese investment has been an overwhelming success for both countries, and stands as a powerful example of the benefits of trade and globalization, and has further contributed to people-to-people exchanges that have resulted from increased travel, overseas study, and cultural exchanges.
19. Japan also continues to seek foreign investment, including from the United States. This will bring new ideas and new money that will improve Japan's growth and economic vitality. Japan will become an even more business-friendly country by providing further incentives, regulatory and tax reforms, and fostering greater receptivity to mergers and acquisitions by foreign entities. USJBC member companies, meanwhile, already have large investments throughout Japan and expect to make further sizable contributions. The Councils support measures to fuel further investment in areas ranging from tourism to research and development.
20. The Councils support efforts by the governments of the United States and Japan to update and augment the rules and regulations of trade and commerce, both through continued government-to-government dialogue, as well as between members of the private sector and other stakeholders. Such activity will support broad-based economic growth, new and higher-paying jobs, greater openness and efficiencies.

The Digital Revolution: Potential and Challenges

21. The Conference saw a continuation of last year's focus on the digital economy, with both sides continuing their work on supporting technological innovation, including the adoption of international standards, upholding cross-border free flow of data, strengthening cyber-security, and protecting intellectual property. The Councils emphasized the importance of government engagement in bilateral and international public-private consultations, thereby avoiding regulatory and other policies that create obstacles to innovation. The Councils also underscored the importance of international harmonization of policy approaches, and welcomed the endorsement of these and other principles at the G7 ICT Ministers Meeting and the G7 Leaders Meeting.
22. As stated in the "Charter for the Digitally Connected World" adopted by G7, the global economy has a significant opportunity to achieve growth through data-driven innovation, while taking into account privacy and data protection. By its very nature, the internet should not recognize borders, and business entities and individuals should benefit from its potential, regardless of geographic location. Cyber security concerns are growing, particularly in the areas of both information systems and control systems for the IoT. The Councils urge both governments to reassure the public so businesses can secure the free and safe distribution of data. The Councils noted open innovation is essential for the development of the digital economy, and urged both governments to promote stronger cyber security policies aimed at supporting the stable development of digital economy.
23. The development of new technologies and the creation of new business models underpinning the "4th Generation Industrial Revolution" are rapidly advancing in areas such as the IoT, Artificial Intelligence, big data, robotics, self-driving vehicles, and drones. With the digital revolution has come the sense of unlimited new possibilities as well as fears of shrinking markets for traditional manufactured goods, and the resulting closure of legacy factories. Economic growth is the only long-term answer to these fears, and both Councils focused on the opportunities for existing industries to evolve, benefit and grow through the utilization of new technologies and digital economy innovations. The Councils further called for the promotion of such innovation, and the widespread application of IoT across industries, while maintaining technology-neutral policies.
24. As reflected in the industry-specific supplements to this Joint Statement, the Councils seek to advance, for example, the expanded use of big data and telemedicine. Faced with aging populations, they call for access to innovative medicines and medical devices to improve health, welfare, workplace efficiency, and labor market utilization. They encourage the development and utilization of navigation, digital translation, as well as greater accessibility for international payment cards in promoting tourism. The Councils called for greater conservation and efficiencies in the energy sector through smart grids and smart cities, as well as

for better consumer accessibility to financial services through “Fintech” and “InsTech” innovations.

Demographic Change: Threats and Opportunities

25. The Councils have focused attention on the growing challenges both countries face in responding to aging populations, including in the areas of health and welfare, retirement savings, and pensions, and have identified the following areas as priority advocacy objectives that will help reduce the burdens on governments through private sector solutions to these large social and political challenges:
- New steps to expand and improve private retirement savings and saving options
 - New steps to encourage greater labor flexibility and diversity in the workplace and introduce new workers
 - New investments in health and the introduction of new management systems that are necessary to support a healthier, longer-serving workforce, and to increase productivity in the workplace
 - Increased focus on sustainable fiscal policies related to social welfare spending
 - New steps to ensure public retirement programs are sustainable
 - Embracing new technologies, such as health IT, that improve productivity
26. The Councils agreed to continue to broaden their focus on this important topic, including ways in which the private sector can contribute to the increased participation of senior citizens in the workforce, or take advantage of innovations in the sharing economy, and equalize opportunities for women and minorities in the workforce. Leveraging technology and considering new labor policies, including those related to foreign workers, are other areas for further discussion and advocacy.

Uphold the Financial Sector's Role in Promoting Sustainable Economic Growth

27. The financial sector faces cyclical and structural challenges that are creating uncertainty, volatility in the markets, and complexity in the financial ecosystem. At the same time, new regulations and aggressive monetary policies are putting downward pressure on the profitability of financial institutions. The Councils urge both governments to monitor the potential negative impact on the financial sector of the tensions over the US political transition and the UK/EU Brexit negotiations.
28. The Councils believe transparent capital markets and strong financial services sectors play a critical role in promoting sustainable economic growth, and the two sides agreed the financial services industry promotes growth not only as an employer, but also through products and services provided to governments, businesses, and consumers. Accordingly, the Subcommittee on Financial Services

has identified the following areas as requiring particular attention by, and action from, the governments:

1) Regulatory Challenges

Although financial products and services enable innovation and unlock productivity that lead to new sources of growth, 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. Such an outcome would run contrary to the objectives of the Financial Stability Board and the G20, which have called for strong, sustainable, and balanced growth.

- *Regulatory 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 excessive 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.
- *Regulatory Coherence and Consistency:* 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 not only to new risks for the global financial system, but may also inhibit the supply of long-term funding through the capital markets.

2) New Measures to Re-ignite Sustainable Growth

- *Central Bank Policy Measures:* The Councils support the Bank of Japan's objective of stimulating the Japanese economy, and appreciate the goal behind the central bank's decision to impose negative interest rates (NIR). Both Councils support measures that would result in increased bank lending to deserving borrows, thus bringing about increased spending, growth and inflation.

At the same time, the Councils see little evidence to date that the NIR policy has achieved its intended goals and instead see the policy may be resulting in unintended consequences. For long-term investors such as life insurance companies and banks, the negative interest rate policy reduces the usefulness of providing traditional products to customers, while also significantly eroding the value of these businesses over time. The longer the NIR policy is in place, the less customers will seek out investments and retirement policies that are key to

managing the rapid aging of society. Indeed, the NIR policy may discourage spending among Japanese consumers, as particularly retirees confront the need to save more against a declining investment return on their savings.

- *Structural and Regulatory Reform:* The Councils do note the recent new framework, announced by BOJ, may ease some of the challenges related to NIR. However, the Councils believe it would be difficult for Japan to rid itself of the challenge of deflation through monetary policy alone, and underscored the need for the Japanese government to promote a prompt and consistent action for the structural and regulatory reform as a top prioritized issue of economic policy. 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.
- *New Opportunities:* The arrival of new financial technologies, known as FinTech or InsTech, presents the financial services industry with new markets and business opportunities, while promising to increase dramatically customer convenience. The Councils urge both governments to maintain a regulatory environment that doesn't suppress innovation in this developing market, but rather supports the ability of participants to respond flexibly to new opportunities, while maintaining an appropriate focus on customer protection and ensuring the stability of payment system.

3) Strengthening U.S.-Japan Leadership in Global Economic Governance

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, so as 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.

Energy Sector and Challenges of Innovation

29. The United States and Japan remain natural energy partners for a range of reasons, including their complementary relationships in energy production and consumption as well as their focus on energy efficient technologies. Both countries have the opportunity to deepen these relationships to achieve a stronger strategic partnership and presence in the Asia-Pacific that promotes stable, reliable energy development and innovation. The Councils believe the U.S. and Japanese governments, in cooperation with the private sector, should remain engaged on key topics such as renewable energy, natural gas, hydrogen energy, energy-saving

technologies, energy storage, artificial intelligence, and the Internet of Things to help address these urgent climate change concerns.

30. The Subcommittee on Energy has developed recommendations aimed at further leveraging our partnership to achieve a more sustainable energy mix through an all-of-the-above approach by government and business that achieves the optimum balance for growth and the environment.
 - 1) Natural Gas: The Councils support Japan's continued development of a diversified, balanced portfolio approach to LNG imports, including from the United States, Australia, and others. This will enable LNG to contribute to Japan's growth as a stable, affordable source of fuel for electric power generation and other uses as a cleaner alternative than other fossil fuels.
 - 2) Nuclear Energy: The Councils support a measured, cautious return by Japan to the use of nuclear power as an important source of carbon-free energy production. Japan's nuclear energy utilization goal for 2030 can only be achieved by securing the trust of the public following Japan's 2011 nuclear disaster. This will require greater awareness of the rigor of new standards and oversight for the industry introduced since that time. The Councils also emphasize the importance of further enhancing business cooperation in the nuclear sector as critical partners who are committed to nuclear safety and global non-proliferation. The Councils also support the timely renewal of the U.S.-Japan Agreement on Peaceful Uses of Nuclear, the bedrock of the cooperative relationship between the two nations.
 - 3) Coal and Carbon Capture: To meet Paris Agreement targets, U.S.-Japan should accelerate cooperation in the areas of carbon capture from fossil fuel electricity generation and other technological developments.
 - 4) Renewable Energy: The Councils support further efforts by the governments to promote the utilization of renewable energy technologies. Achieving the most efficient feed-in tariff structure that supports both demand response and energy storage systems is a key element in creating a healthy electricity market that provides for peak load generation capabilities.
 - 5) Leveraging Distributed Energy and ICT Technology: The Councils draw attention to the importance of ensuring the free, unfettered flow of data across borders in order to maintain remote monitoring of distributed and cogeneration facilities, usage of which is growing, and for joint U.S.-Japan leadership in setting and spreading this standard.

Increasing Healthy Life Expectancy through Healthcare Innovation

31. Innovation is at the center of healthcare industry in United States and Japan. This has helped improve people's health and raise economic productivity worldwide. The Councils advise both governments to further improve the environment for healthcare innovation in a way that allows for greater efficiency and fully acknowledges the value of innovation as follows:

- 1) Promote R&D: Facilitate collaboration across the public, private, and academic sectors and provide platforms for efficient translational, pre-clinical and clinical development that will spur innovative R&D.
- 2) Sound Regulation: Further develop regulatory systems that are efficient, transparent, and consistent. Such systems help encourage global development and result in first-in-world approvals by minimizing country-specific requirements and maximizing harmonized international standards and practices.
- 3) Rewarding Innovation: Ensure that pricing and reimbursement systems fully recognize the value of innovation in an efficient, transparent, and consistent way while providing full protection for inventions and data.
- 4) Preventive Care and Health and Productivity Management: Promote preventative care and Health and Productivity Management to reduce the economic burden of disease and extend healthy life expectancy and improve efficiency in the workplace through digitalization and community-based care with the ultimate goal of sustaining a healthy and productive workforce. In addition, speed efforts to recognize the health benefits of functional foods, such as health foods and dietary supplements.
- 5) Global Cooperation: Cooperate with other countries and regions including in the Asia Pacific region to improve health and thereby lay a strong foundation for sustainable economic growth and greater international trade.

Leveraging the Opportunities of Tourism

32. Close ties and shared values between the people of the United States and the people of Japan are an important foundation of the global partnership between our nations. Growth in travel and tourism therefore provides not only economic benefits, but can also strengthen the US-Japan partnership. The Councils are encouraged that Japan has made important strides in recent years in terms of improving services and infrastructure for tourists, which has contributed to the substantial increase in tourism in Japan in recent years. This increase has resulted in a tripling of the amount of spending by foreign visitors in Japan, in just the last three years.

33. However, more work remains to be done. With the 2020 Tokyo Olympics and Paralympics now clearly in sight, the Japanese government is pursuing additional measures to provide for further improvements, as well as to set the stage for continued growth in the numbers of visitors to Japan even after the Olympics conclude. The Councils support these and other efforts, including the government's policy direction based on its "three perspectives" and "ten reforms," toward promoting sustained, long-term growth in tourism as a key contribution to Japan's ambitious goals to grow its economy.
34. The travel and tourism industry also has long been a key factor for the U.S. economy, and the Councils believe that further improvements in access and convenience for tourists visiting the United States would improve U.S. economic growth.
35. The following are the Subcommittee on Travel and Tourism's priority areas of focus and advocacy:
 - 1) Promoting More Business and Conference Travel – MICE & IR: Japan lags far behind other nations in the availability of MICE (Meeting, Incentives, Conference and Exhibition) facilities that provide world-class, desirable venues for business and conference travel. Authorizing Integrated Resort (IR) facilities would represent one important step toward addressing this shortage, and the Councils therefore strongly support the introduction of IRs in Japan and urge the Diet to approve enabling legislation that would allow the development process to begin. The Councils also will continue making efforts to advance public understanding about IRs, and encourage programs to address any social concerns that their authorization could present.
 - 2) ATM/Payment Card Acceptance: The Councils recognize and appreciate that banks in Japan, including JUBC member companies, have recently increased the acceptance rate of foreign issued ATM and payment (credit and other) cards, and continue to support additional measures to improve the rate in retail and other outlets.
 - 3) Reducing Wait Times for Arrival and Departure Processing: The Councils support further efforts by both governments to eliminate long wait times at airport and other arrival and departure points for international visitors.
 - 4) Improvements to Airports and Airport Transportation Infrastructure: The Councils underscore the importance of improving airport transportation and airport access in both countries, including through the construction of high-speed rail systems, as well as efforts to further expand the functions of metropolitan airports as well as upgrading local airports.