



US•JAPAN  
BUSINESS  
COUNCIL

# RE-CENTERING ABENOMICS:

**New Structural and Regulatory  
Reforms Remain Vital for Economic Growth**

## Overview

The U.S.-Japan Business Council (USJBC), an affiliate of the U.S. Chamber of Commerce, is comprised of companies at the core of the U.S.-Japan economic relationship. USJBC members are committed partners of Japan and work collectively with the Japanese private sector and the Japanese and U.S. governments to support growth in trade and investment between the United States and Japan, as well as new growth within both economies.

In the USJBC's view, the conclusion of the Trans-Pacific Partnership (TPP) negotiations presents an unparalleled opportunity to make major strides in these core USJBC objectives. By removing or reducing thousands of tariffs, eliminating non-tariff measures, establishing new rules that speed up trade in physical as well as digital products, improving the protection of copyrights and other intellectual property, and meeting new commitments in services trade, the U.S. and Japan can potentially expand and improve the \$200 billion bilateral trade relationship in mutually beneficial ways.

Overall, the U.S. and Japan stand to gain significantly from the TPP, with one leading think tank estimating that, in the aggregate, the United States and Japan stand to gain \$131 billion and \$125 billion in income, respectively, by 2030.<sup>1</sup> The USJBC is mindful that there are several very important areas in which the overall TPP agreement has not achieved the high standards aspired to by the U.S. business community, particularly IP protection for biological drugs and exclusion of financial services from the ban on data server localization requirements contained in the E-Commerce Chapter of the TPP. These issues are critical to highly competitive U.S. industries, and it is essential that the U.S. government and Congress engage in finding solutions that will bring the agreement up to the high standards needed to secure passage by the Congress.

Even as a strong TPP outcome will unleash tremendous new opportunities to open the Japanese market and help drive some needed structural changes in Japan, the USJBC also urges the Government of Japan to utilize this opportunity to give renewed attention to, and further efforts toward, structural reform as the top economic priority. With investors assessing whether Japan's use of monetary and fiscal tools to stimulate economic growth have reached their limits, the combination of the TPP and a renewed, aggressive focus on structural reform holds the best hope to unlock the new investment, innovation, and demand that Prime Minister Abe seeks to boost confidence in the economy. Developing and enacting further meaningful reforms in areas such as agriculture, healthcare, labor, the digital economy, tourism, and retirement savings will boost economic growth and household incomes, and lower debt levels.

Among the areas highlighted in this paper, the USJBC recognizes that both the U.S. and Japanese governments face many similar economic challenges. These range from establishing business and regulatory environments that both effectively facilitate and protect flows of data and intellectual capital that are central to 21<sup>st</sup> Century growth to

---

<sup>1</sup> P. Petri and M. Plummer, "The Economic Effects of the TPP: New Estimates" in Peterson Institute for International Economics, *Assessing the Trans-Pacific Partnership: Volume 1 Market Access and Sectoral Issues*. PIIE Briefing 16-1, Washington, 2016.

advancing policies that promote innovation and expand productivity in areas such as life sciences and information and communications technology. In this spirit, the USJBC urges both governments to bring focus and attention on solving challenges through a renewed, regular economic dialogue that engages our governments and private sectors in a collaborative effort to advance reform and confront new challenges to growth and job creation in both countries.

To support this dialogue and a re-invigorated reform agenda in Japan, the USJBC has compiled this paper to highlight core areas that, from the perspective of businesses that view Japan's economy as possessing large untapped potential, are particularly important to supporting and stimulating new growth. The USJBC will engage with the Japanese and U.S. governments in 2016 on these priority areas.



## **Re-centering Abenomics: New Structural and Regulatory Reforms Remain Vital for Economic Growth**

Since it took office in late 2012, the USJBC has consistently applauded the efforts of the Abe government to increase economic growth, overcome deflation, and address Japan's growing debt problem through its three-pronged strategy, now known worldwide as "Abenomics," of fiscal stimulus, aggressive monetary easing, and structural economic reforms. There have been positive steps forward on all fronts.

However, even with fiscal stimulus, large-scale monetary expansion, and some notable structural reforms, Japan's economy has struggled to achieve sustainable economic growth. Real GDP growth has been in negative territory five of the past 12 quarters, including a decline of -1.1% (annualized) in the fourth quarter of Calendar Year 2015. Continued weak demand at home also highlights the degree to which Japan's growth has been fueled by a renewed dependence on exports, made easier in large measure by a weaker yen that supports large manufacturers. These exports have translated into record profits for Japan's export-driven manufacturers, but only modest increases in wages and new investment at home.

Meanwhile, the weaker yen also saps purchasing power from Japan's roughly 100 million consumers, further depressing domestic demand – a trend that is only modestly eased by increased spending from the rapidly growing number of foreign tourists that the weaker yen has attracted to Japan's shopping districts. Given this context, economic growth needs to be on a solid and sustained upward trend prior to any increase in the consumption tax, currently scheduled for April 2017.

Now, with global growth slowing and uncertainty rising, the Japanese economy is in a difficult position. In recent months, confidence among foreign investors in the future prospects for Japan's economic growth also begun to weaken: overseas investors sold a net 2.8 trillion yen of Japanese equities in February 2016, the third-straight monthly fall. Public confidence in Abenomics within Japan, as measured by public opinion polls, has also weakened. With limited capacity for more fiscal and monetary stimulus, it is increasingly apparent that maximum attention and effort needs to be directed to structural economic reforms, the so-called Third Arrow of Abenomics.

### **Structural Reforms Needed to Transform Growth Trajectory**

There have been a number of positive structural reform steps taken since the Abe government entered office – notably in the areas of corporate governance and utilizing women more effectively in the workforce and in management positions. Steady progress on reforms in 2015 included legislation that: reforms agriculture cooperatives to modernize Japan's agriculture sector; reduces the corporate tax rate; strengthens the utility of Japan's system of special zones; introduces measures to promote the advancement of women in the workplace; and further deregulates the electricity sector by allowing households to choose power providers and separating power generation from distribution. The USJBC applauds these efforts, as they are important steps, and they

required considerable effort on the part of the government to overcome resistance from vested interests in many cases.

In terms of next steps for reform, a handful of key bills are in the queue for Diet action that would contribute greatly to economic growth and dynamism. These include enabling legislation necessary for the construction in Japan of “Integrated Resorts” (IRs) – multi-billion dollar mixed-use developments including hotel, entertainment, MICE, restaurant and retail facilities – as well as amendments to the Labor Standards Law to give companies a freer hand to hire temporary and contract workers. It is important for new, sustainable growth that these bills pass the Diet in 2016.

Reforms tied to Japan’s implementation of the TPP agreement are another pending source of change. Likely to be approved in the Diet sometime in 2016 for implementation when TPP ultimately comes into force, these reforms include the elimination and reduction of tariff and non-tariff measures on agricultural and other products and services, as well as welcome new reforms in areas such as stronger protection for copyrights and other intellectual property and enhanced regulatory transparency.

As meaningful as the TPP will be for Japan, however, further reform initiatives will be necessary to bolster confidence, create and sustain new avenues of growth over the medium to long term, and minimize the risk of long-term stagnation. The USJBC is concerned that the momentum for additional structural reform appears to be waning at a time when investors and businesses are questioning whether Japan has reached the limit of its monetary and fiscal stimulus tools for re-inflating the economy, and are looking to the government for new measures to drive growth.

In September 2015, for example, Prime Minister Abe announced that the government would shift its focus to targeted social welfare improvements as its new “Third Arrow.” Although new social welfare measures, such as steps to help keep more individuals in the workforce by easing burdens on family caregivers, are positive and welcome, concerns are also rising that this new priority is coming at the expense of lost momentum on cross-cutting and sector-specific reforms that are important to domestic and foreign companies, and that will support medium- to long-term economic expansion.

In broad terms, additional bold reforms are necessary that fundamentally improve Japan’s economy in ways that have profound and lasting impacts on productivity and growth, including through shifting business and consumer sentiment and behavior, improving the incentive/disincentive equation for new investment, increase labor market flexibility, and ease the ability for companies to enter or exit new activities with relative ease and lower cost.

Although the political climate for reform may be complicated, Japan’s coming Upper House election, expected by July 2016, also presents an opportunity to demonstrate leadership by advancing further reforms that will raise confidence in Japan’s economic prospects among foreign companies and investors. It also will be important for the Abe government to underscore that it is prepared to continue to make bold progress on economic reform.

In short, taking action to implement meaningful structural reform is key to the success of Abenomics and heading off the risk of continued sluggishness in economic growth, wages and consumption. The USJBC therefore encourages the Abe government to set as its top priority the adoption of further structural reforms to make the Japanese economy more open externally and dynamic internally.

To this end, the USJBC further encourages the Abe government to work closely with the domestic and foreign business communities and with the public in order to maintain confidence in the government's support for realizing Japan's maximum long-term economic potential.

In the report below, the USJBC has identified a range of measures that will, if implemented fully, both contribute significantly to economic growth and send important "signals" to the domestic and foreign business communities that reform is both continuing and real. Action on these issues will raise confidence that Abenomics can achieve its goals, including Japan's transformation into a new global center for sustainable growth and opportunity.

---

## **Cross-Cutting Structural and Regulatory Reforms for New Growth**

### **Policy Complementarity and Coherence Are Critical**

As an overriding note on reform, the USJBC is increasingly mindful of the need for greater coherence in economic policy. Japan is certainly not alone in this regard, as greater coordination is also essential in the United States and other countries. But in analyzing Japan's various reform initiatives, it appears that in order to create an environment for stronger and more sustainable economic growth, the Government of Japan must adopt a more unified, coherent approach to economic and structural reform policy. Through central coordination of policies at the Kantei (Prime Minister's Office) and Cabinet Office, Japan can maximize the impact of specific reforms and, perhaps more importantly, prevent reforms pursued as the objective of one ministry from being offset or undercut by measures pursued in other ministries.

Perhaps the most prominent and illustrative example involves the life sciences industry. To its credit, the Abe government has designated life sciences as a growth sector, and has initiated several good programs (AMED, *sakigake*, etc.) that can help meet this goal. However, even as the Abe government is prioritizing life science innovation as a growth industry, there is active consideration in other parts of the government of policy measures that would completely undercut this broader initiative and goal. Specifically, proposed measures such as annual and/or *ad hoc* pricing for pharmaceutical and medical technology products, and special re-pricing for market expansion pricing for pharmaceuticals, will have an adverse effect on innovation, the availability of new therapies for Japanese patients, and the competitiveness of the industry in Japan.

There are other such cases in different industries, too numerous to mention here. To avoid this situation, the USJBC thus encourages the Government of Japan to engage with domestic and foreign companies to assess the full impact of major economic policy moves.

## **Regulatory Reform**

A sustained and concerted effort by the Abe government to continue to reduce or eliminate regulation and improve further the transparency and predictability of the regulatory system should remain a core approach to structural reform in Japan. Objectives should include increasing regulatory predictability and transparency; easing business entry/exit; lowering compliance time and costs associated with administrative requirements; and improving further the solicitation and consideration of input on proposed new regulations.

In addition, active and regular engagement between the Japanese and U.S. governments, along with input from the private sector, on a wide array of regulatory issues is highly beneficial. Cooperation not only can help address existing and new challenges in ways that reduce unnecessary barriers, it also can promote regulatory consistency in approaches by our respective governments that both achieve regulatory objectives while reducing the cost of compliance for the private sector through greater alignment in regulation. The USJBC supports the establishment of an economic and regulatory dialogue between the United States and Japan that meets these key objectives. A bilateral regulatory dialogue also would help advance further joint cooperation and leadership by both governments across a range of plurilateral and multilateral trade initiatives, including Environmental Goods Agreement (EGA), the Trade in Services Agreement (TiSA), and the Asia Pacific Economic Cooperation forum (APEC).

### Priorities:

- Strengthen Japan's Special Zones: Quick and full implementation of the National Strategic Special Zones policy should be advanced to stimulate new, innovative approaches to creating new opportunities for economic growth and serving consumer needs and tastes. Dedicating officials within key ministries, the Diet, and Cabinet Office who are tasked with ensuring timely adoption of specific measures would help accelerate the impact of these zones, as would acceleration of the nationwide adoption of successful models in these zones.
- Enhance Dialogue Between Governments and with the Private Sector: To reduce the thicket of regulations and policies that are stifling innovation and new commerce, and to enhance cooperation toward addressing emerging concerns and issues, regular engagement between our respective governments and with our private sectors should be established that addresses regulatory challenges while reducing both cross-cutting and sector-specific impediments to growth.

- Promote New Business Models: Close Japan-U.S. cooperation across plurilateral and multilateral trade initiatives in support of regulatory approaches that permit a broader range of business models, and thus new opportunities for growth, also should continue to be pursued. For example, an early and successful conclusion to the TiSA negotiations that includes provisions encouraging flexible business models of services, such as direct selling, would support new opportunities.

## **Tax Policy**

The USJBC welcomes the Abe government's continuing efforts to lower the corporate tax rate in Japan. Additional progress on this and other tax measures would support new investment and growth.

### Priorities:

- Continue to Lower Corporate Tax Rate: Bringing the corporate tax rate closer to the OECD average of 25 percent over the next few years would further improve the incentives for new business investment.
- Establish Permanent R&D Credit: Making permanent the R&D tax credit would provide certainty for companies over the long term, particularly for firms considering long-term R&D investments in Japan.
- Bring NOL Treatment to OECD Standards: Improving tax treatment as applied to net operating losses would be particularly welcome to support more start-up businesses. Japan, which currently has the shortest Net Operating Loss Carry-forward periods among major developed countries, should extend the carry-forward period to at least twenty years, the OECD average, and allow companies to apply it to existing as well as new losses.
- Rescind Estate Tax Changes: Recent estate tax changes have created a powerful disincentive for foreign residents to bring their investment capital and know-how to Japan. These changes can now result in high taxes assessed against the estates and heirs of visa-holding residents of Japan, which can be well in excess of the estate taxes assessed by their home country. These changes should promptly be rescinded if Japan is to sustain a hospitable environment for U.S. business visa holders to work in Japan and contribute to the economy and welcome foreign investment and innovations. In addition, these recent changes create potential unintended taxation of foreign nationals living outside Japan, who could be subject to Japanese inheritance or gift taxes on the receipt of inheritances or gifts from foreign national in Japan, even if they are residing in the country temporarily. Similarly, a foreign national temporarily residing in Japan is subject to Japan's inheritance tax on property located outside of Japan, even if the decedent has no connection to Japan.



## **Labor Policy**

The USJBC welcomes the Abe government's focus on labor market issues. Implementing "Womenomics" reforms, in particular, is the most immediate means of expanding the labor pool, and the USJBC urges progress toward more robust implementation of the various measures.

In addition, Japan should also pursue new ways to increase substantially the number of both skilled and less skilled workers to fill particular needs, including in technical, health care, construction, and other professions. Measures to introduce more flexibility into the labor system are also essential, including greater flexibility in hiring both permanent and temporary workers, as well as other measures. This will enable *domestic and foreign* companies to hire more workers on a full-time basis, contributing to higher overall wages – one of the keys to increasing private consumption in the economy.

### Priorities:

- Approve Amendments to Labor Standards Law: Securing passage of amendments to the Labor Standards Law currently pending in the Diet would help increase labor market flexibility and certainty regarding various categories of professional workers.
- Expand White Collar Exemption: The Abe government's proposal to ease the white collar exemption for certain categories of workers such as securities traders should be broadened to include other non-financial professions where highly-skilled office workers play a critical part in the company operations and management.
- Introduce New Voluntary Labor Contract: Introduction of a new voluntary labor contract that fixes in advance the severance to be paid if the company restructures or otherwise terminates the employment would make it easier for companies to hire more employees on a full-time basis.
- Provide More Protections for Maternity Leave: Vigorously implementing a recently enacted law, as well as introducing additional measures such as more protections to ensure job security from maternity leave, will greatly add to Japan's economic potential by encouraging greater participation by women in the workforce at all levels of business organizations in Japan.

## **Corporate Governance**

The USJBC applauds the government's emphasis on improving corporate governance in Japan. Government policies and structural reforms that create the conditions for long-term growth cannot succeed without better performance from Japanese companies, which can only come from greater efficiencies and attention to return on equity that supports the interests of shareholders.

Ultimately, the success of improvements in corporate governance requires a change in mindset. The government can provide leadership by promoting awareness, education,

and strictly enforcing related laws that underscore the fiduciary responsibilities of company management and directors, but companies also will have to embrace the underlying intent of the reform efforts and understand it is in their, and Japan's, longer-term interest.

Priorities:

- Strengthen Corporate Governance Further: The USJBC welcomes the creation by the Financial Services Agency of an advisory panel that meets monthly to follow up on implementation of corporate governance reforms. The Council encourages further efforts by the government to improve corporate governance, including continued comprehensive stock-taking of the effectiveness of recent reforms and evaluating what additional measures or incentives may be required to bring about effective change throughout all of Japan's corporate boardrooms.

---

### **Investment Policy Reforms for New Growth: Promoting Inward FDI**

Japan has long remained an outlier on virtually all measures of inward foreign direct investment (FDI), regularly recording the lowest inbound FDI stocks of any OECD economy. In this context, the Abe government's goal to double inward FDI by 2020 is very welcome, but setting a target alone will not alleviate the problem unless the right steps are taken to encourage FDI into Japan.

For Japan to come close to meeting the Abe government's target, big and bold steps that deliver fundamental changes in the regulation of major industries, the labor market, and other areas are essential. Opening new areas of the economy to potential investment through regulatory changes would also encourage foreign companies to invest.

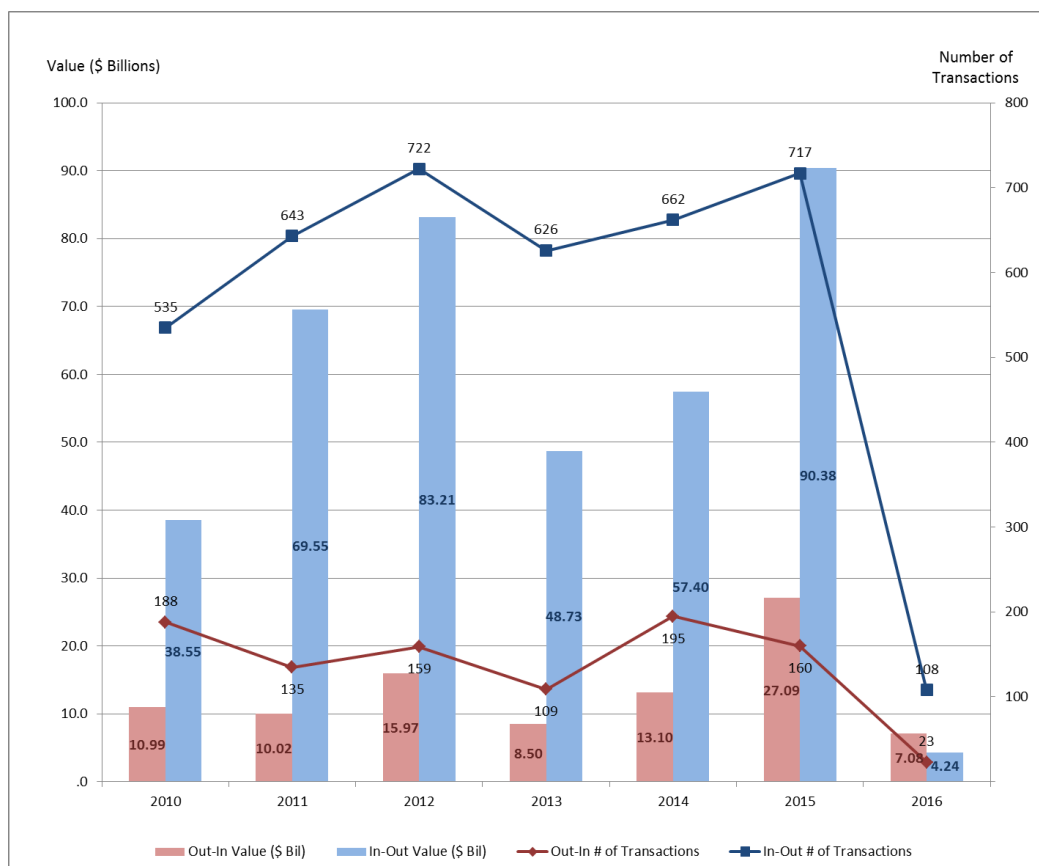
In addition, much more extensive change is necessary to improve opportunities for inward mergers and acquisitions (M&A), including improving the treatment of and financial and regulatory options available for such transactions.

Moreover, the Japanese government can also take important steps to help engineer greater receptiveness among Japanese companies to inward M&A offers. Even as greenfield and M&A investment by Japanese companies has soared in the United States and in other countries, the Japanese government continues to send very mixed messages to foreign investors – encouraging Japanese acquisitions abroad and generally welcoming foreign inward greenfield investment into Japan, yet simultaneously supporting steps that encourage Japanese companies to avoid acquisitions by foreign firms.

Such developments are especially worrisome in a mature market such as Japan, where the only practical means to invest and establish a new or expanded presence in the market is often through a merger or acquisition of a Japanese company. As a result, unless aggressive new steps are pursued that make inward mergers and acquisitions of Japanese

companies by foreign partners more feasible, it is not likely that inward FDI rates will see much improvement.

### Japanese M&A Activity 2010 – 2016\*



\*2016 data is year-to-date (January-February 2016) only.

Source: Thomson-Reuters

M&A is fundamentally a matter of corporate strategy and decision making more than government action. In this regard, continuing to advance corporate governance reforms, including the strengthening of the role of independent directors, will give further confidence that foreign acquisition offers will be based on shareholder interest and thus treated on an equivalent basis as offers from Japanese companies.

Although any cross-national investment presents difficult challenges, it is incumbent upon Japan to more directly confront both the perception and reality that foreign investment in Japan is not accorded the level of predictability, openness, and regulatory and tax treatment that has opened thousands of opportunities for Japanese firms to acquire companies overseas. In assessing whether foreign investors will be treated the same as domestic investors, the markets and worldwide financial media are closely watching the government's actions in specific cases, such as Foxconn's proposed acquisition of Sharp. Government efforts, either behind-the-scenes or otherwise, to manage acquisitions of Japanese companies is not conducive to an open, active M&A

market and stand in direct contradiction to Prime Minister Abe’s assertion that he wishes to make Japan the most open economy in the world.

Priorities:

- Improve Government Messaging: Government support for achieving a level of inward M&A activity that more closely aligns with G-7 norms would be a welcome step, as would consistent government messaging that recognizes inbound M&A is a critical part of Japan’s FDI solution.
- Enhance Tax and Legal Support for M&A: Enacting long-needed tax and legal changes, including improved tax treatment and authorization of direct stock-for-stock cross-border stock swaps, as an alternative to the convoluted triangular merger mechanism currently in place would provide investors with more direct opportunities to pursue M&A with Japanese companies.
- Open New Areas of the Economy: Opening new areas of the economy to investment through legal or regulatory changes would help improve Japan’s attractiveness for new greenfield investments. U.S. Integrated Resorts (IR) operators, for example, have indicated their willingness to invest *billions of dollars* in new resorts in Japan *if* the Diet passes enabling legislation for IRs. Other promising areas include health care (hospital services), digital services linked to cloud and mobile technology, and new “sharing economy” businesses that are rapidly expanding in popularity around the world.
- Limit Consideration of National Security Issues to Formal Investment Reviews: To the extent that Japan has national security concerns over potential foreign acquisitions, these should be addressed only through transparent application of Japan’s formal investment review procedure – and not through the use of other measures, such as the use of government-sponsored investment funds or other measures, that aim as one principle objective to maintain Japanese control or ownership. In addition, develop new criteria for formal investment review procedure decisions that make it possible for transactions to be approved with the inclusion of specific safeguards that address specific national security concerns, where necessary, as an alternative to a full rejection of a transaction.

---

## **Sector-specific Recommendations for New Growth**

### **Agriculture and Food**

To its credit, the Abe government has pursued meaningful reforms designed to increase the efficiency and competitiveness of Japan’s agricultural sector – efforts that are particularly impressive given the sizable political challenges that come with reforming agriculture. Reforms have been advanced that aim to help increase the scale of

production through land consolidation, boost productivity through the introduction of new methods and technologies, and bring new entrants into the sector through legal or regulatory changes that allow corporate entities to own and farm land.

The government is also supporting adjustments in the agricultural sector that will come from the elimination and reduction of tariffs and other barriers under the TPP agreement. Adjustments that prioritize the potential of Japan's agricultural sector to produce and export a range of high-value products will be particularly important in the coming years.

#### Priorities:

- Implement Agricultural Reforms: Continue to advance measures, including reforms of taxes on land and zoning regulations, which help increase opportunities for more efficient farming, including through land consolidation.
- Improve Productivity and Efficiency: Introduce additional measures that support efficient, cost-conscious farming as a primary means of advancing improvements in the sector as opposed to subsidies and other measures that risk perpetuating distortions in output, price, or product specialization.
- Allow Full Corporate Ownership of Japanese Farms: Given the demographics of Japan in general, and the high average age (67 years) of Japanese farmers in particular, allowing full corporate ownership of Japanese farms is one way to increase the scale and efficiency of production.
- Adopt Global Standards: Accelerate progress to bring Japan's regulatory and food safety practices into line with international standard and norms, as well as close cooperation with the United States and other governments to align requirements and establish new procedures by consistently utilizing science-based approaches, is essential to promote the development of strong safety protocols that also facilitate smooth and reliable trade in agricultural and food products. Greater alignment also is critical for Japan to be able to expand exports of its own agricultural products to foreign markets. Japan should also adopt global standards regarding pharmaceutical Good Manufacturing Practice (GMP) and dietary supplement functional claims, which will both contribute to greater two-way trade and improve health care efficiency and outcomes, especially for Japan's aging population.

### **Digital Economy and Innovation**

As the “digital economy” rapidly develops and expands, it is incumbent upon Japan to ensure that government policies or regulations do not create unnecessary or unreasonable obstacles that lead innovators to bypass Japan in favor of other markets as incubators for new technologies and services. For example, as governments tackle the challenges of privacy in the digital age, adoption of a one-size-fits-all approach may only serve to undermine Japan's position as an innovation hub. Privacy and internet security are just two of many digital economy issues and challenges that would benefit from greater



collaboration between and among both governments and private sectors to develop and promote best practices.

At home, Japan should consistently prioritize measures to facilitate the further expansion of the digital economy throughout Japan as a driver of new growth. This includes through supporting new innovations in mobile platforms, services and applications; advancing cloud-based technologies and services for corporations; embracing new technology-facilitated business models, such as in the “sharing economy,” that provide individuals diffuse new avenues for jobs and income; developing new forms of and ensuring fair competition among broadcast and internet-based media and entertainment; and promoting the development of new Internet of Things (IoT) product and services. In particular, efficient wireless spectrum allocation is critical to avert capacity constraints for new digital products and services linked to cloud, IoT, and other mobile technologies. Technology-neutral spectrum allocation, for example, will help create a climate where companies have greater incentives to compete to launch their most advanced wireless services and innovations in Japan.

#### Priorities:

- Strike Proper Balance in Privacy Requirements: As Japan prepares to implement 2015 revisions to its amended Personal Information Protection Act, or should it consider further measures to protect privacy in the digital age, it is essential that care is taken to ensure that a balance is struck whereby privacy is protected while the movement of data is not impeded in ways that effectively cut off Japanese business and consumers from the global economy and hinder innovative business models. In particular, ensuring that Japan’s approach is fully consistent with APEC Cross-Border Privacy Rules, which Japan has joined, will help ensure that this balance is preserved.
- Introduce Technology-Neutral Use of Spectrum: Introducing the principle of technology neutrality in key spectrum bands such as 5GHz will encourage operators to adopt new mobile technologies and develop innovative services to keep pace with consumer demand. Technology-neutral spectrum allocation will keep the evolution of mobile technologies going, which is an important enabler of innovation and growth for the overall economy.
- Support IoT Sector Growth: Implementing regulations and policies that will drive innovation in IoT remains critical, including: industry-driven, consensus-based international standards; no restrictions on cross-border data flow and no country-specific cloud measures; no requirements for server localization; and limits on burdensome regulations that restrict innovation or retard growth of the IoT.
- Set High-standard Rules for the Digital Economy: Securing open and fair markets for trade in digital products remains critical to developing the full growth potential of the digital economy. Japan’s leadership and support for advancing new rules that accomplish this end through the Trade in Services Agreement negotiations, as well as similar future negotiations, will help ensure that leading innovators in the digital economy will continue to help drive economic growth.

## **Energy and Environment**

The USJBC welcomes the Abe government's pursuit of an "all of the above" strategy that relies on a combination of nuclear, liquefied natural gas (LNG), crude oil, renewables, and energy efficiency measures to enhance Japan's national energy security. An affordable and predictable energy supply is critical for companies in all sectors and for Japan's long-term growth prospects.

### Priorities:

- Ensure Nuclear Baseload: Continuing to include nuclear energy as one key component of Japan's baseload energy mix should remain a high priority, and the USJBC commends the Abe government for proceeding to re-establish nuclear power in a careful, deliberate manner that puts enhanced safety at the center of this effort. Nuclear energy both adds to affordable and predictable base-load electricity while reducing greenhouse gas emissions.
- Diversify Sources of LNG: Continue work through the U.S.-Japan energy dialogue to encourage the diversification of Japan's LNG imports and promote new supply opportunities from alternative sources. LNG has become an important part of Japan's national energy mix, serving as a stable and affordable input into electric power generation and as a cleaner alternative to other fossil fuels. However, over-reliance on a single region, such as the Middle East, for the majority of imports makes Japan vulnerable to potential supply disruptions. As a result, expanding imports of LNG from sources from outside of the Middle East, particularly from Japanese allies such as the United States and Australia where new production is dominating the wave of new LNG capacity coming into the market, will complement Japan's traditional sources of supply and enhance its energy security.
- Smart Promotion of Renewables: Promoting the adoption and installation of renewable energy technologies across Japan should remain a high priority. New measures to promote wind, solar, and other such technologies, including those available outside of Japan, should be pursued, including realistic Feed-in-Tariffs for solar and wind; utilizing global standards for renewable energy technologies so that foreign companies may participate fully in the market; and equal application of governmental subsidies and incentives to foreign and domestic producers alike.

## **Financial Services**

In an increasingly global financial regulatory environment, both the United States and Japan have embarked on far-reaching reforms to enhance financial stability under a global framework led by the G20 and Financial Stability Board (FSB). In this context, the USJBC urges the two countries to continue engaging proactively in global regulatory discussions and exploring avenues for bilateral cooperation.

As regulatory transparency and practice by Japan's financial sector regulators has improved significantly in recent years, the USJBC remains encouraged that with further efforts, Japan will continue to make progress toward becoming a more attractive financial hub within Asia. Establishing a level playing field in this sector should be one core principle for strengthening financial and capital markets and avoiding market inefficiencies and competitive distortions in the markets; doing so means making further progress to ensure a level playing field for like products and services between private sector firms with cooperatives (*kyosai*) and government-affiliated Japan Post.

Priorities:

- Incentivize and Provide Greater Flexibility for Retirement Savings: Introduce new measures that support and relieve the burdens on public retirement programs through the allowance of more flexible retirement income solutions that, accompanied by strong efforts to boost financial literacy among the public, enable Japanese citizens to better tailor their retirement strategies and needs. Specific measures should include:
  - Maximizing targeted individual retirement savings opportunities, including expanding the use of NISA savings accounts through extension of preferential tax treatment beyond current term limits; capping annual limits only on annual yen contributions and raising those limits; and allowing greater flexibility for individuals to manage risk through permitting sales and reinvestments of stock within their own NISA account.
  - Expanding tax breaks on the accumulation and decumulation of private pension plans, including doubling tax-free allowances on contributions and eliminating taxes on annuity payments from private pension products.
  - Allowing employees to contribute more than their employer to defined contribution retirement plans in the event employers do not contribute the maximum allowed amount, and introduce tax and other measures to encourage SMEs to participate in defined contribution plans for their employees.
  - Instituting measures that both incentivize and allow greater flexibility by individuals to save for their retirement, including lifting overall limits on personal tax-deductible contribution limits for retirement accounts, providing greater allowances for penalty-free early withdrawal from individual retirement accounts for primary housing, education, or hardship reasons, and introducing a new post-tax retirement savings accounts similar to the U.S. Roth IRA system.
- Strengthen Regulatory Oversight of *Kyosai*: In light of the large proportion of financial assets held by Japan's mutual aid insurance cooperatives (*kyosai*) and the systemic risks that insufficient regulation of these cooperatives pose for financial market stability, the USJBC urges the establishment of a level playing field between all mutual aid cooperatives (*kyosai*) and Financial Services Agency (FSA)-regulated private sector financial service providers by placing all financial services providers under FSA supervision.

- Japan Post Privatization: The USJBC welcomes the Abe administration's clear vision regarding postal reform as the government continues to take steps to create a level playing field between the postal financial institutions and the private sector. In light of the Government of Japan's decision to privatize Japan Post, the successful initial public offerings on a public stock exchange represent an important step towards introducing market discipline, promoting transparency and good governance, and bringing about a level playing field. As market discipline is increasingly introduced to the Japan Post entities, it is essential that any business expansion be considered in the context of the existing legal requirements and take place commensurate with progress in the privatization process. In addition, greater utilization of post offices as a distribution channel for private company financial service products will further maximize the economic value the government derives from the sale of future shares, and provide a greater range of services to customers.
- Expand Options for Securing Individual Financial Security: Faster and more flexible product approvals for insurance products and services would help promote more competition and innovation in the insurance sector for the benefit of Japanese consumers.
- Explore Opportunities for U.S.-Japan Cooperation in Global Financial Regulation: The USJBC urges the Japanese and U.S. governments to continue working through the G7, G20, the Financial Stability Board, and other global standards-setting bodies in the development of global financial regulations, 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 USJBC believes that regularized bilateral Japan-U.S. government-to-government consultations would facilitate joint Japan-U.S. leadership in the financial regulatory process.

## **Health Care Innovation and Life Sciences**

The government's priority on developing a robust, innovative and competitive life-science industry has the potential to serve at least two critical goals – improved outcomes for Japanese patients, and tremendous new growth potential for the economy. Strictly in terms of economic effects, benefits to growth come from both traditional new R&D and investments in this sector as well as from the investments that are made in maximizing the productivity of Japan's rapidly aging workforce.

Investments in health that reduce down-time for Japanese patients and their caregivers in particular have enormous up-side potential for the economy, given that the Japanese economy is estimated to lose 4.2% of its GDP annually to absenteeism and reduced productivity from non-communicable disease. This amount is expected to rise to 4.6% of GDP by 2030, assuming the current trajectory is not fundamentally altered.<sup>2</sup>

---

<sup>2</sup> Sweeny, K., Rasmussen, B., and Sheehan, P. *The Impact of Health on Worker Attendance and Productivity in Twelve Countries*. Melbourne: Victoria Institute of Strategic Economic Studies, 2015.

Japan has the opportunity to harness greater productivity over the coming years through policies that invest in innovative healthcare products that reduce illness within Japan's workforce while improving the efficiency of healthcare spending. To accomplish this successfully, it is also necessary to provide a more stable, predictable environment in policies and rules affecting drug and medical device reimbursement calculations. Frequent changes to these policies in recent years, such as those most recently made to medical device reimbursement, significantly complicate the ability of innovative businesses to serve Japanese patients.

Priorities:

- Make Innovative Medicines Premium Program Permanent: The introduction in 2010 of a trial basis of a new reimbursement policy to reward innovative medicines has benefited Japanese patients and worker productivity by encouraging investment in the development and accelerating the introduction of highly innovative drugs into Japan. Making this system permanent would foster the degree of predictability that companies need in order to continue to invest in bringing new medicines to Japan.
- Ensure Stability and Predictability in Pricing: The introduction of an annual repricing system, or *ad hoc* revisions, would undercut recent progress made to promote access to innovative drugs and devices by undermining the predictability and stability of the system. *Ad-hoc* or annual reductions in prices would undermine the incentives to risk the large investment costs needed to bring highly innovative products to the Japanese market, thus delaying access by Japanese patients to new, life-saving innovations into Japan. Annual, or *ad hoc*, repricing also would further accelerate the movement of R&D and investments in advanced healthcare technologies outside of Japan, thus further shrinking the potential that this key industry has to drive new growth and employment. It is critical that the government does not pursue an off-cycle revision in 2017 in conjunction with the scheduled consumption tax increase. Furthermore, use of "special repricing for market expansion" or "huge seller repricing" should be abandoned because it punishes the most successful and useful products.

In short, the USJBC urges the Government of Japan to adopt reimbursement approaches that are predictable and that recognize the true value of innovative drugs and devices to the overall healthcare system, as well as a contributor to increased productivity of the workforce. Needed budgetary savings in healthcare should be achieved through alternative cost-saving strategies, such as greater utilization of generics and the implementation of measures to improve efficiencies in healthcare delivery.

- Eliminate Foreign Average Price for Medical Device Evaluation: Additional incentives to encourage investment and export growth in the medical device sector, including the elimination of the Foreign Average Price rule for medical devices, would strengthen investment and the contributions of this sector to the economy and to public health.



- Promote Prevention through Improvements in the Transparency and Predictability of the Public Vaccination Program: Further efforts are needed by the Government of Japan to promote preventative healthcare by making essential, innovative vaccines that have been widely studied and recommended around the world, such as those aimed at preventing cervical cancer and adult pneumonia, promptly available to Japanese citizens under the national immunization program. To this end, improvements in the clarity on data required from companies to make decisions on promoting and/or providing specific vaccines, and establishing and adhering to clear time frames for evaluation, are important procedural steps that will support an effective public vaccination program. Vaccines pay enormous dividends in reducing illness and associated healthcare costs over the long term.
- Abolish the 14-Day Prescription Rule: Japan is the only advanced country that imposes a 14-day limitation on prescriptions of new medicines during the first year on the market. This rule not only does not contribute to improved patient safety, but perversely negatively impacts access by Japanese patients to innovative medicines. As such many organizations over the years have recommended that it be abolished. As recently as last year, the Council on Economic and Fiscal Policy recommended abolition of this rule. Unfortunately, their proposal was rejected by Japan's Central Social Insurance Medical Council. Japan should abolish the 14-day prescription rule and thus improve access to life-saving medicines for Japanese patients.
- Strengthen Consultative Processes between Industry and Japanese Policymakers: Improve Japan's various processes for dialogue between healthcare policymakers and industry representatives by introducing new, more robust consultative approaches and mechanisms with industry that consistently ensure open dialogue, sufficient time for a meaningful exchange of views, and follow-up mechanisms that promote accountability and transparency.

## **Travel and Tourism**

The sudden surge in visitors in Japan in 2015 underscores the potential that Japan's travel and tourism (T&T) holds as a new engine for economic growth. Even with this surge, however, the contribution of the T&T industry to Japan's economy is still not as large as it is for other, and much smaller, economies in Asia. There is much further room for sustainable growth not tied to favorable fluctuations in the Japanese Yen.

In particular, Japan's tourism industry ranks low in some critical areas, including tourism infrastructure, clear English-language signage, price competitiveness, availability of electronic payments networks, availability of qualified labor, relatively low per person tourism expenditure, and relatively high prices for accommodations and other amenities necessary for a strong tourism sector. Although the 2020 Olympics and Paralympics will contribute to new growth in this sector, addressing these and other issues can help put this sector on a stronger footing for growth well past 2020.

Priorities:

- Approve Integrated Resort Legislation: The most immediate measure Japan can take to greatly expand its long-term travel and tourism potential is passage by the Diet of still-pending legislation that would permit the introduction of Integrated Resorts (IRs) in Japan. Using conservative assumptions, estimates by Oxford Econometrics of the beneficial economic impacts from the construction of just two such resorts (one each in the Tokyo and Osaka regions) include: economic gains in excess totaling 0.46% of Japan's GDP, support for over 175,000 jobs, and approximately 4.9 million additional international visitor days to Japan annually.
- Improve Airport Infrastructure and Expand Flight Slots: Continue to open new slots at Haneda and Narita airports, as well as access to regional airports during main hours, to enable Japan to handle more tourists and improve access to major business and tourism centers. Improving customs and immigration at major airports by drastically reducing processing times for arriving tourists and businesspeople is also necessary to encourage more repeat visitors to Japan.
- Upgrade Electronic Payments Networks and Usage: Improvements to Japan's acceptance of international electronic payments, including credit cards, are urgently needed, as visitors continue to cite limited acceptance of overseas-issued ATM and credit cards as a major inconvenience in Japan.