

**Report and Recommendations**  
**of the**  
**Private Sector Participants**  
**in the**  
**2003 U.S.-Japan Private Sector/Government Commission**  
**to the**  
**Governments of Japan and the United States**

**April 2003**

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The U.S.-Japan Private Sector/Government Commission was established under the U.S.- Japan Economic Partnership for Growth, announced by President Bush and Prime Minister Koizumi in June 2001, with the primary objective of promoting sustainable growth in both countries. The Commission's role is to provide private sector input directly to government officials in both countries in support of this goal. The 2003 Commission (the second to be empanelled under the Economic Partnership) consists of 16 prominent leaders from the Japanese and U.S. business communities and 16 participants representing the Japanese and U.S. governments. Taizo Nishimuro, Chairman of Toshiba, Mark Norbom, President and CEO of General Electric Japan and Robert G. Scott, President and COO of Morgan Stanley, were named private sector Co-Chairmen. Gary R. Edson, Deputy Assistant to the President and Deputy National Security Advisor for International Economic Affairs, and Ichiro Fujisaki, Deputy Minister for Foreign Affairs, serve as government Co-Chairmen. A list of the private sector and government participants in the 2003 Commission is attached.

Specifically, the private sector participants in the 2003 Commission engaged in research and discussion on policies and measures to:

- Increase productivity and enhance competitiveness of our respective economies by facilitating corporate revitalization and optimal allocation of human, capital and other resources;
- Promote an investment and business environment conducive to the development of knowledge-based industries in order to stimulate economic growth and improve standards of living in economies with shifting demographics;
- Identify and implement best practices and principles of corporate governance, based on practical experience in the two countries; and
- Address the changes in the trade and investment environment in the era of globalization.

On April 14, 2003, in Washington, DC, the private sector participants in the Commission met with officials at the Deputy Vice Ministerial level from the key economic agencies and ministries of both governments, to continue this discussion and to provide advice and recommendations on these topics.

There was broad agreement among the Commission's private sector participants that legal and institutional reforms to promote the more efficient operation of markets would accelerate private sector innovation, investment, and productivity, which is required for sustainable economic growth in both economies. Such reforms include measures to facilitate corporate restructuring, accelerate deregulation and eliminate barriers to cross-border trade and investment. At the same time, the Commission's private sector participants agreed that the strengthening of transparency and independence in corporate governance was necessary to assure investor and public confidence in the accountability and integrity of private sector firms. The formal recommendations of the private sector participants in the Commission on each of the four above topics follow.

The Commission will meet again, in Tokyo, in the fall of 2003 to evaluate progress and set further goals.

## **2003 US-Japan Private Sector/Government Commission**

### **Japanese Private Sector Commission Participants**

Taizo Nishimuro  
Chairman of the Board, Toshiba Corporation, Co-Chair

Fujio Cho  
President, Toyota Motor Corporation

Nobuyuki Koga  
President & CEO, Nomura Holdings, Inc.

Masayuki Oku  
Sr. Managing Director, Sumitomo Mitsui Financial Group

Motoastu Sakurai  
President & CEO, Mitsubishi International Corporation

Koichi Suzuki  
President & CEO, Internet Initiative Japan Inc.

Kunio Takeda  
President & CEO, Takeda Chemical Industries, Ltd.

Shosaku Yasui  
Chairman, Teijin, Ltd.

**2003 US-Japan Private Sector/Government Commission**

**US Private Sector  
Commission Participants**

Mark Norbom  
President & CEO, General Electric Japan Ltd., Co-Chair

Robert G. Scott  
President & COO, Morgan Stanley, Co-Chair

Timothy C. Collins  
CEO, Ripplewood Holdings LLC

Stanley Fischer  
Vice Chairman, Citigroup; President, Citigroup International

Karen Katen  
President, Pfizer Global Pharmaceuticals

Edward J. Ludwig  
Chairman, President & CEO, Becton, Dickinson & Co.

Michael Rawding  
President, Microsoft Asia, Ltd.

T. Timothy Ryan,  
Managing Director, J.P. Morgan Chase & Co.

## **2003 US-Japan Private Sector/Government Commission**

### **Government of Japan Commission Participants**

#### Ministry of Foreign Affairs

Ichiro Fujisaki, Deputy Minister for Foreign Affairs, Co-Chair

#### Cabinet Office

Shunichiro Ushijima, Vice President, Economic and Social Research Institute  
International Economic Adviser to the Minister of State for Economic and Fiscal  
Policy

#### Financial Services Agency

Makoto Hosomi, Deputy Commissioner for International Affairs

#### Ministry of Public Management, Home Affairs, Posts and Telecommunications

Shinichi Nabekura, Vice-Minister for Policy Coordination

#### Ministry of Finance

Zembei Mizoguchi, Vice-Minister of Finance for International Affairs

#### Ministry of Health, Labour and Welfare

Yoshiharu Otsuka, Vice-Minister for Policy Coordination

#### Ministry of Economy, Trade and Industry

Tadakatsu Sano, Vice-Minister for International Affairs

#### Ministry of Land, Infrastructure and Transport

Satoshi Iwamura, Vice-Minister for Transport and International Affairs

**2003 US-Japan Private Sector/Government Commission**

**United States Government  
Commission Participants**

National Security Council

Gary R. Edson, Deputy National Security Advisor, Co-Chair

Department of Commerce

Grant D. Aldonas, Under Secretary for International Trade

Department of State

Alan P. Larson, Under Secretary for Economic, Business, and Agricultural Affairs

Department of the Treasury

John B. Taylor, Under Secretary for International Affairs

U.S. Trade Representative

John K. Veroneau, General Counsel

Council of Economic Advisors

Randall S. Kroszner, Member

Embassy of Japan

Michael W. Michalak, Minister-Counselor, Economic Affairs

## **2003 U.S.-Japan Private Sector/Government Commission**

### **Recommendations of the Private Sector Participants in the 2003 U.S.-Japan Private Sector/Government Commission to the U.S. and Japanese Governments on Restructuring and Financial Issues**

- The Takenaka Plan of October 2002 represents a very significant step forward in the resolution of the non-performing loan (NPL) problem.
- Maintaining political and regulatory momentum for the Takenaka Plan is important, particularly with regard to the disposal of NPLs.
- A consistent and aggressive approach with regard to strict and clear assessment of loan assets and the inspection of banks should be maintained.
- Actions to improve the profitability and risk/return profile of Japanese banks should be recognized and encouraged.
  
- The Industrial Revitalization Corporation of Japan (IRCJ) can be a powerful tool for restructuring.
- There should be no preconceived idea of what size company, what sector or what type company to be eligible for IRCJ restructuring.
- The key is to have successful IRCJ restructuring and revitalization of distressed companies in the very near future.
- We support Minister Tanigaki's efforts to use disclosure actively as a method to make IRCJ decisions transparent and accountable.
- All ministries and agencies in the public sector and entities in the private sector should cooperate to ensure IRCJ success.
  
- Reduce the role of public-sector financial institutions in order to provide a level playing field for private sector institutions.
- Productivity and competitiveness of US and Japanese economies and corporations can be enhanced through positive utilization and support of IT industry. However, considering lessons learned from the burst of IT bubbles, development of new technology and appropriate assessment by investors is important for the growth of such emerging industries.
- The availability of risk capital to emerging industries is limited. The government and private sector should make efforts to further promote allocation of capital to those industries.

## 2003 U.S.-Japan Private Sector/Government Commission

### Recommendations of the Private Sector Participants in the 2003 U.S.-Japan Private Sector/Government Commission to the U.S. and Japanese Governments on Health Care Innovation

- Both U.S. and Japanese governments need to recognize the fact that Japan has a rapidly aging population and that the U.S. will face a similar situation in the near future. Both governments should explore ways to maintain an aging population that remains healthy, active, and productive. There is an urgent need for Japanese government to implement countermeasures to utilize the elderly, foreigners and women in the workforce.
- The ability to develop new products and therapies that can save and enhance lives, shorten hospital stays, and reduce costs, is a fundamental part of maintaining a healthy aging population. Health care industries serve as an engine of economic growth as they expand. And the multiplier effect for the broader economy is substantial, creating high-valued added jobs and enhancing economic growth.
- Both the U.S. and Japanese governments need to promote strongly research in basic science, taking into consideration that biotechnology can be core basic science across industries in the 21st century. Promotion of knowledge-based, high value-added industries is especially important now for Japan, given its highly educated population and the relative lack of natural resources. We encourage the Japanese Government to accelerate the measures outlined by the Ministry of Health, Labor & Welfare, so that its “Outline of a Vision of the Industry”, especially “Action Plan for Period of Intensive Promotion of Innovation (up to 5 years)”, can be implemented ahead of the current schedule. This would help to attract the private venture capital that is needed.
- Health insurance, reimbursement and regulatory policies impact patient access to healthcare and new medical technologies. We encourage the use of the following principles to guide Government policies:
  - (1) Regulatory reform to ensure that:
    - I. Meaningful public-private research collaborations can take place,
    - II. The transparent pricing system for the National Health Insurance rewards innovation,
    - III. New product applications are reviewed in a timely manner, and
    - IV. Reforms facilitate the acceptance of foreign medical doctors and researchers;
  - (2) Establishment of clinical trials infrastructure;
  - (3) Adoption of global practices for approving new medical devices;
  - (4) Avoidance of regulations that penalize successful medical innovations, such as the pharmaceutical Repricing Rule for market expansion;
  - (5) Pricing that provides globally competitive returns over the life of the patent or product;
  - (6) Recognition of the ability of a therapy to reduce costs elsewhere in the health care system, such as a home health care test which can deliver results in minutes without a visit to the hospital or family physician, and
  - (7) Tax reform to encourage R&D investment in Japan.
- While the patent system generally affords good protection in Japan, further consideration should be given to providing adequate data protection for the proprietary data developed over an extended time during the clinical trial and review process. We ask both governments to work together around the world to harmonize strong Intellectual Property Protection and enforcement, including addressing the problem of counterfeit products.

## 2003 U.S.-Japan Private Sector/Government Commission

### Recommendations of the Private Sector Participants in the 2003 U.S.-Japan Private Sector/Government Commission to the U.S. and Japanese Governments on Health Care Innovation (continued)

- In the United States, we viewed with concern the continuing high number of people without health care insurance. The US Government is urged to make efforts to improve the situation of the high number of people without health insurance. We also noted that the escalating cost of medical malpractice insurance was a significant driver in the recent rise in health insurance premiums in the United States. This problem of legal liability goes beyond healthcare and affects all industries.
- The Japanese government should explore ways to maintain and further improve the quality of universal medical care provided to the Japanese people. The health care system should be based on efficient and high quality care, patient choice, and support for preventive treatment. The health care system should be adequately resourced. We encourage the use of the following principles in this regard: greater transparency in the disclosure of medical information, standardization of medical care, expansion of activities for health control and prevention of diseases, introduction of indirect taxation to fund services, health care expenditure control and expansion of treatment options through the introduction of combination of uninsured and insured treatments. A broader payment unit as envisioned in the new DPC system could be useful to encourage hospital efficiency, but needs to be supplemented by treatment guidelines and a thorough quality measurement system to ensure high standards to care.

## 2003 U.S.-Japan Private Sector/Government Commission

### Recommendations of the Private Sector Participants in the 2003 U.S.-Japan Private Sector/Government Commission to the U.S. and Japanese Governments on Corporate Governance

- Corporate Governance involves the accountability, transparency and independence of corporate decision-making to meet the expectations of all stakeholders. Good progress in strengthening corporate governance, both in law and in practice, has been made in the US and Japan over the past year. These include the Sarbanes-Oxley legislation and related stock exchange regulations in the US, and the amendment of the commercial code in Japan, which strengthens the statutory auditor system and establishes a new committee system of corporate governance. In addition, many firms in the US and Japan have adopted internal practices going beyond these legal requirements.
- With increasing globalization, the trend toward convergence in standards of corporate governance will continue. There are, in principle, many different models of corporate governance that exhibit the needed qualities of accountability, transparency, and independence of corporate decision making. Differing approaches can continue to reflect the divergent history, culture and legal frameworks of our two countries – so long as they meet the necessary standards. In this regard, the addition of independent directors, advisors, and auditors, is crucial to achieve this goal and should be strongly encouraged – although the roles and numbers of these participants may vary by country and even by firm.
- How best to integrate the roles of inside and outside auditors and inside and outside directors – to assure both accountability to stakeholders and deep understanding of the business of the company-- is a challenge for both U.S. and Japanese firms. Despite cultural and legal differences, firms in both countries could benefit from further exchanges of best practices in this area.
- The role of the government, on the other hand, is to provide a practical and efficient legal framework which supports and enhances various efforts by corporations to strengthen corporate governance.
- Strengthening corporate governance can contribute to sustainable growth by increasing public and investor confidence in corporate management and thereby promoting corporate restructuring and revitalizing capital markets as a source of corporate financing.

## **2003 U.S.-Japan Private Sector/Government Commission**

### **Recommendations of the Private Sector Participants in the 2003 U.S.-Japan Private Sector/Government Commission to the U.S. and Japanese Governments on Trade and Investment**

#### **Trade Liberalization**

The U.S. and Japanese governments should actively support the promotion of trade liberalization through a timely resolution of the WTO Doha Development Agenda, as well as through flexible regional and bilateral trade agreements. In addition, both governments should:

- Renew efforts to break the deadlock with respect to WTO agriculture negotiations.
- Take into account the interests of both developed and developing countries in the rules that comprise trade regimes, including consideration of the need for certain industries in developed countries and appropriate transitions for certain industries in developing countries to work towards the common good.
- Recognizing that electronic commerce can play a catalytic role in trade promotion, strive to become model users and providers of e-government services and respect the protection of intellectual property rights, privacy and security fully in the on-line and off-line environments;
- Actively and aggressively encourage other governments to sign on to the WTO Government Procurement Agreement and otherwise promote national treatment in the public procurement of goods and services.

#### **Trade and Investment in China**

The U.S. and Japanese governments should provide capacity building assistance, including technical support, to encourage the Chinese government to comply with its WTO obligations with respect to the liberalization of trade and investment. To this end, the U.S. and Japanese governments and private sectors must work together closely. We recommend the U.S. and Japanese governments:

- Strive to create a trilateral “dialogue” with the Commission by including, to the extent possible, the Chinese government and private sector in their efforts towards trade liberalization;
- Provide a briefing for the Commission on China’s progress/compliance with WTO obligations within the next 3-4 months. At its fall meeting, we will present our policy concerns with respect to market access and other issues relating to doing business in China.

#### **Foreign Direct Investment (FDI)**

Recognizing that the relative level of FDI in Japan relative to other industrial countries remains very low, and that future FDI will play a critical role in the revitalization of the Japanese economy, we endorse the proposals of the Invest Japan Forum (“IJF”) and urge the Japanese government to implement policies reflecting the IJF’s proposals. Furthermore, we suggest that the U.S. and Japanese governments have an interim meeting within the next 3-4 months to evaluate the results of such implementation. To further facilitate FDI, we recommend that Japan:

- Create a senior/Cabinet-level position responsible for programs and actions aimed at fostering FDI;
- Place top-level priority on reducing intangible barriers to doing business in Japan, such as barriers created by the suspicion of foreign investors and their motives for investment.