

# U.S.-Japan Investment Initiative 2002-2003



**President Bush and Prime Minister Koizumi**

**"Rather than seeing foreign investment as a threat, we will take measures to present Japan as an attractive destination for foreign firms with the aim of doubling the cumulative amount of investment in five years."**

**Prime Minister Junichiro Koizumi, January 31, 2003**

**"Over the past few years, Americans have increased our investments in Japan, further binding our nations and showing confidence in your future."**

**President George W. Bush, February 19, 2002**

## What is the Investment Initiative?

President George W. Bush and Prime Minister Junichiro Koizumi established the Investment Initiative in June 2001 as part of the *U.S.-Japan Economic Partnership for Growth*. Under the chairmanship of Alan Larson, Under Secretary of State for Economic Affairs, and Tadakatsu Sano, Vice Minister for International Affairs, Ministry of Economy, Trade and Industry (METI), the group met for high-level talks in March 2003 and at the working level in November 2002 and April 2003. Both governments place great importance on these talks because they believe that foreign direct investment (FDI) is an important form of economic activity for both the investing and receiving countries. For the investor, FDI allows rapid access to foreign markets. For recipients, it can transform management, promote efficiencies, and encourage use of new technologies and business models. FDI not only plays a vital role in creating jobs, generating demand, and supplying risk capital, but also leads to deeper political and social understanding and cooperation between the two nations.

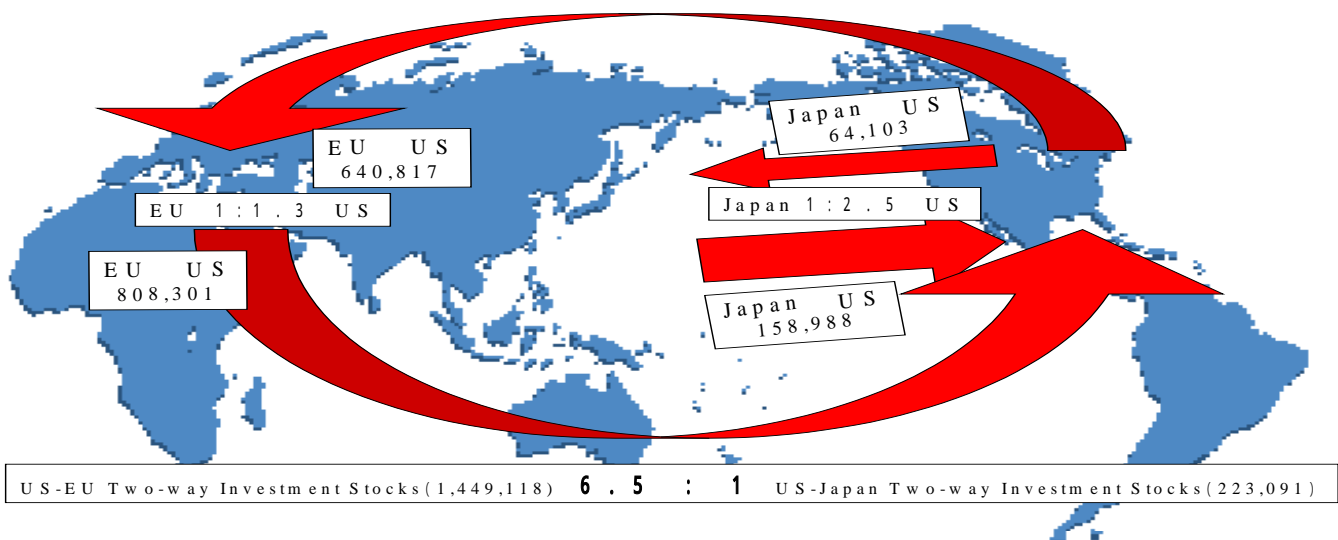
In addition to exploring policy options, the Investment Initiative has held programs to create a deeper understanding of FDI and provide information on investment opportunities, including the Investment Initiative Seminars held in Osaka and Sapporo in April and symposia on investment in Japan to be held in Chicago on June 24 and San Francisco on June 26.

## The Investment Situation in Japan and the U.S. Today

In recent years, changes in Japan have created unprecedented opportunities for foreign firms to invest in the Japanese economy. Regulatory reforms in financial, telecommunications, and distribution sectors have accelerated entry into these sectors by foreign firms. In addition, revisions of the corporate, bankruptcy, and accounting laws have facilitated M&As in Japan. Between 1997 and 2001, U.S. direct investment stocks in Japan have increased by 36 percent. Through these investments, foreign investment is creating and maintaining employment, introducing U.S. management methods, and stimulating the revival of the Japanese economy.

There is considerable potential for further increases. In the U.S. total FDI stocks from all sources amount to approximately 25.1% of GDP and support roughly six million jobs. On the other hand, total FDI stocks in Japan amount to approximately 1.2% of GDP and provide about 330,000 jobs. Furthermore, the two-way investment between the U.S. and Japan remains considerably lower than the levels of those between the U.S. and the EU. The U.S.-Japan Investment Initiative expects that its work will result in increased and more balanced investment flows between our two countries that will allow Japan and the U.S. to realize the full benefit from robust investment.

FDI stocks of US - Japan and US - EU (as of the end of 2001)



Source: Bureau of Economic Analysis, Department of Commerce Unit: Millions USD  
 Note: the proportions are comparison of FDI stocks between two countries.

## Japan and the United States Welcome FDI

Japan sees FDI as critical for its economic revitalization. Prime Minister Koizumi committed in his General Policy Speech on January 31, 2003, to take measures to make Japan an attractive destination for foreign firms in order to double the cumulative amount of investment in five years. In response to the speech, the Japan Investment Council (JIC) issued a report on March 2003 on measures to achieve the government's goal. The following chart provides a summary of the program for promoting FDI from the JIC Report.

<b>The Program for Promoting FDI: 5 Priorities, 74 Measures</b>
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(1) Reviewing Administrative Procedures

- Make the administrative procedures simpler, faster and clearer; clarify legal interpretation.

(2) Improve business environment

- Facilitate cross-border M&As; effectively utilize debt-equity swaps responding to the nature of the target of the purchase; secure transparency and reliability of corporate information, improve corporate governance; Increase entry by the private sector to public services.

(3) Improve employment and living environments

- Meet the needs of diverse ways of working; improve systems related to entry and residence of foreign nationals; make donations to qualified international schools tax deductible.

(4) Development of local and national framework

- Support local governments' autonomous efforts to attract FDI; utilize special zones for structural reform system; utilize the Office of the trade and investment Ombudsman (OTO); provide information and support procedures by JETRO.

(5) Disseminate information within Japan and abroad

- Promotion by the leaders, diplomatic missions abroad, foreign press etc; PR on the attractiveness of Japan and success stories of foreign firms in Japan, and the "Program for the Promotion of Foreign Direct Investment in Japan"

Similarly, the United States with its open economy has traditionally taken steps to welcome all investment. For both nations, FDI remains a key to promoting economic growth.

## Exploring Further Policy Options

Building on progress made in the past, the U.S. and Japan want to continue to improve their environments for foreign direct investment. The Investment Initiative provides a forum in which the U.S. and Japanese Governments discuss how to improve the investment climate.

### Topics on investment in Japan raised by the U.S. Government

- *Remove restrictions on foreign companies' use of mergers and acquisitions tools.*
- *Promote foreign investments in the education and medical services sector.*
- *Continue progress in improving accounting standards in Japan and in making due diligence easier for foreign investors.*
- *Enhance Japanese perception of FDI.*
- *Increase the pool of assets available for purchase.*
- *Increase land liquidity and promote transparent pricing.*
- *Ensure that defined contribution pension plans are widely used and provide clear guidelines for dismissal of workers.*
- *Increase the number of skilled attorneys and accountants.*

### Topics on investment in the U.S. raised by the Japanese Government

- *Examine how implementation of the Sarbanes-Oxley Act can take account of Japanese corporate governance and auditor systems.*
- *Improve timeliness of visa decisions for foreign investors and employees.*
- *Improve procedures to take out driver's licenses for non-working visa holders.*
- *Ensure that new security rules on cargo manifests do not impede investment.*
- *Resolve issues arising from the West Coast port lockout.*
- *Examine ways to lower legal system costs.*
- *Minimize any overly burdensome or duplicative reporting and data requirements for foreign companies in the United States.*
- *Ensure transparency and clarity in foreign investment review by federal authorities of acquisitions, mergers, or takeovers by foreign firms.*

## Success Stories

### **PFIZER PHARMACEUTICALS JAPAN**

Pfizer established operations in Japan 50 years ago, and has been one of the fastest growing pharmaceutical companies in Japan. With continuous, sustained investment, it is expected to become Japan's prescription pharmaceutical industry leader in 2003. Pfizer is also an industry leader in Animal Health products, and a major producer of over-the-counter Consumer Health Care products in Japan. Pfizer now employs over 6,000 persons locally and almost all of these highly skilled jobs are filled by Japanese. About 700 are research scientists, many working in Aichi prefecture where Pfizer just invested an additional US\$83 million (10 billion yen) in a new research building. The Pfizer site in Aichi prefecture also has a large high-tech manufacturing and packaging facility. Pfizer has also been investing heavily in development of its people in Japan and has one of the industry's biggest and most sophisticated training and educational facilities centered in Ota-ku, Tokyo. In spite of Japan's economic difficulties and a drug market which has been stagnant for the past decade, Japan remains the world's second biggest single-country pharmaceutical market after the U.S., and has an excellent science base. Pfizer is committed to continuing its investment and making a growing contribution to the Japanese economy. Based on a presentation by the company at an Investment Initiative seminar.

### **GENERAL ELECTRIC JAPAN**

GE has been in Japan for more than 100 years, supplying power generation equipment since the Meiji era. In fact, GE's founder Thomas Edison sourced the filament for one of his first light bulbs from a bamboo forest near Kyoto. GE now has over \$30 billion invested in Japan and intends to expand its businesses to fully serve its customers' product, service and technology needs. GE's history is grounded on solid partnerships with some of Japan's best companies, including Hitachi, Toshiba, Yokogawa, Mitsui, Nikkei, Fanuc, ANA, JAL, and IHI. Since 1995 GE's workforce has grown from 3,000 to 14,000+ Japanese employees.

GE has made significant investments in commercial leasing, life insurance, real estate, auto leasing, consumer financing and restructuring non-performing loans--creating a win/win for GE and Japan. These businesses have created new jobs, expanded Japan's GDP and tax base, and introduced new global technologies, capabilities and best practices. A great example of a win/win business model is our joint venture with Nissen, a leading mail-order and catalog sales firm. GE-Nissen has benefited from the complementary skills of both parents and grown 40+% annually, such that the value of each partner's fraction alone is worth significantly more than the original platform--clearly a win for everyone. Based on a presentation by the company at an Investment Initiative

### **TOYOTA MOTOR CORPORATION**

Toyota Motor Corporation has expanded local production in the U.S. since starting production in 1986 at New United Motor Manufacturing (NUMMI) in California, a Toyota/General Motors joint venture. As a result of the expansion, local production reached 990,000 units, and North America-made vehicles accounted for 59.2% of their U.S. sales in 2002. It contributed to the U.S. economy and employment, as well as to improvement of production efficiency in the U.S. automobile industry through introduction of the Toyota production system, such as the concept of "Kaizen." Their cumulative U.S. investment has reached \$12 billion and they directly employ 30,000 workers.

Moreover, in February 2003 they announced a plan to construct a fourth U.S. vehicle assembly plant (for pickup trucks) in San Antonio, Texas by 2006. After beginning operation of the plant in 2006, their production capacity in the U.S. will reach 1.35 million units, their cumulative U.S. investment will become \$13 billion, and they will employ 32,000 workers. In addition to the fact that Texas is the top U.S. truck market, an enthusiastic welcome from state and local governments contributed to the decision to construct of the plant in Texas. The state and local governments coordinated the initiative to assemble a package of state and local financial incentives to attract the plant. The Governor also publicly pledged to seek a budget for rail construction for the plant. Based on press releases and a presentation by the company at a Working Group Meeting on Nov. 2002.

**For more information on the Investment Initiative and to view the complete 2003 Joint Investment Initiative Report, please look at [usembassy.state.gov/tokyo](http://usembassy.state.gov/tokyo) or [www.meti.go.jp](http://www.meti.go.jp). You may also wish to contact:**

**JETRO, METI, Department of State**