

Updates on Japanese Business and Economy

Vol. 22 January 2023

< Table of Contents >

1. Policy Proposal to Rebuild International Economic Order
2. Analysis of Perception Gaps Between U.S. and Japanese Executives
3. Delegation Visit to New Jersey
4. Visits by U.S. State and Local Government Leaders
5. Meeting with Ukraine Parliament Delegation
6. Virtual Meeting with Chinese Premier Li
7. Meeting with WTO Director-General Okonjo-Iweala
8. Conference on International Taxation with OECD and BIAC

Policy Proposal to Rebuild International Economic Order

On September 13, Keidanren released its latest policy proposal on international trade and investment, "[Toward the Reconstruction of the Free and Open International Economic Order.](#)"

Amid the growing tension between the U.S. and China, concerns over world fragmentation have been expanding. Rather than standing by as the world fractures into blocs, we must take immediate action to reconstruct a free and open international economic order.

To this end, the G7 should take steps to establish a high-level trade and investment framework, namely the "Free Trade and Investment Club." The Club consists of the G7 members as its core and must be open to all countries and regions committed to meeting certain criteria within a certain period. The criteria can be like the following:

- Elimination of tariffs on substantially all industrial products;
- Prohibition of performance requirements for inward direct investment and ensuring freedom of remittance, etc.;
- Restrictions on compulsory enforcement of intellectual property rights;
- Ensuring free cross-border data transfer, prohibition of data localization requirements, and prohibition of requirements for disclosure of source code and algorithms.

Keidanren expects the Japanese government to take the lead in launching the Club, as it will chair the G7 Hiroshima Summit in May.

We also suggest the pursuit of establishing rules to realize DFFT (Data Free Flow with Trust), namely free cross-border data flow. It includes

efforts to make the moratorium on imposing tariffs on electronic transmissions permanent in the ongoing discussions under the WTO Joint Statement Initiative on E-commerce. The Indo-Pacific Economic Framework (IPEF) is also a relevant platform for rulemaking since the rules under IPEF are expected to help incorporate and connect the existing rules under CPTPP, RCEP, and the U.S.-Japan Digital Trade Agreement.

Analysis of Perception Gaps Between U.S. and Japanese Executives

On November 21, Keidanren and the Brunswick Group, a leading British strategic advisory firm, released a [report on the “Survey on Attitudes Toward the Top Management of Global U.S. and Japan Companies”](#).



The survey was based on individual interviews with the senior executives of approximately 20 leading U.S. and Japanese companies conducted from August 2021 to January 2022. Focusing on M&A and social issues, which are critical considerations for business expansion in the U.S. market, we surveyed and analyzed the commonalities and differences in Japanese and U.S. perceptions of the U.S. business environment.

The analysis indicated that, among key concepts the U.S. and Japanese executives commonly weighed, there were perception gaps in five—culture, trust, diversity, stakeholder engagement, and social issues. Analyzing the interviewed Japanese companies, we concluded that the

critical factor for better bridging the gaps would be building a system incorporating diverse experiences and perspectives into management decisions.

Delegation Visit to New Jersey

On October 13, Keidanren’s Committee on U.S. Affairs dispatched a mission to the State of New Jersey. The delegation consisted of 13 people, headed by Committee Chair Yoshiharu Ueki (Director, Chairperson, Japan Airlines Co., Ltd.). It was the first delegation visit to the U.S. since the outbreak of the COVID-19 pandemic.

The delegation visited Choose New Jersey, an organization aiming to attract investment to, and foster economic development in, the state, and met with President & CEO Wesley Mathews and senior state government officials. They had a fruitful discussion on the partnership between New Jersey and Japan, the business environment and opportunities in the state, and further cooperation in the future.



Visits by U.S. State and Local Government Leaders

During late September and early October, Keidanren’s Committee on U.S. Affairs welcomed Maryland Governor Larry Hogan, North Dakota Governor Doug Burgum, and San Antonio Mayor Ron Nirenberg, respectively.

The Committee [held a reception](#) on September 21 to welcome Governor Hogan to Japan. The Governor emphasized the firm ties between Maryland and Japan, including the fact that over 100 Japanese companies operate in the state and account for more than 6,000 local jobs. He also highlighted Maryland’s location, which is well suited to be a gateway to North America.



Governor Hogan

On October 6, the Committee held a meeting with Governor Burgum as well as state government officials and representatives of companies in North Dakota. The Governor referred to North Dakota as a large wind electricity producer and a major oil and gas exporter, and how this could enable the state to achieve carbon neutrality by 2030 by adopting innovative technologies using hydrogen and CCUS (carbon capture, utilization, and storage). He also expressed his willingness to contribute to strengthening Japan’s and other allies’ energy and food security.



Governor Burgum

On October 11, the Committee met with Mayor Nirenberg and his delegation. The delegation included Jenna Saucedo-Herrera, President & CEO of greater:SATX, a private-public nonprofit organization dedicated to growing quality jobs in the region. Mayor Nirenberg and Ms. Saucedo-Herrera explained to the Committee that San Antonio is the seventh-largest city in the U.S. with a growing population, and its business environment, supported by a good transportation network and active investment in the workforce, is excellent for Japanese companies looking to expand into the U.S.



Mayor Nirenberg



Ms. Saucedo-Herrera

Meeting with Ukraine Parliament Delegation

On October 18, Keidanren held a meeting with a delegation of the Parliament of Ukraine (Verkhovna Rada), led by Deputy Galyna Mykhailiuk, Co-Chairman of the Parliamentary Group on Inter-Parliamentary Relations with Japan.



In the meeting, the deputies expressed their gratitude for Japan's humanitarian and financial aid as well as expectations for further support and Japanese companies' participation in Ukraine's reconstruction in the future. They emphasized that Ukrainians are fighting for democracy and freedom, risking their lives and sacrificing many, and every amount of aid matters until they win peace. They told

Keidanren that they look forward to Japan’s leadership in the postwar phase and noted, in particular, Japanese companies’ experience in large-scale infrastructure construction.

Virtual Meeting with Chinese Premier Li

On September 22, Keidanren held an online meeting with Chinese Premier Li Keqiang as Japan and China marked the 50th anniversary of the normalization of diplomatic relations in 2022. It was the first time Keidanren met with Premier Li in almost three years, with the COVID-19 pandemic imposing difficulties on traveling between the two countries. From the Japanese side, 14 participants, including Keidanren Chairman Masakazu Tokura and Japan-China Economic Association Chairman Shoji Muneoka, attended the meeting. From the Chinese side, in addition to Premier Li, Ministerial-level officials from the Ministry of Foreign Affairs, the Ministry of Commerce, and the National Development and Reform Commission took part.



At the meeting, Chairman Tokura pointed out that Japan and China are critical partners and that Japanese companies have contributed to China’s economic growth over the past half century. As the

international situation is becoming increasingly unstable and complicated, he stressed the importance of communication between the two countries.

In response, Premier Li stated that decoupling is a wrong decision and that economic relations between China and Japan should be promoted no matter how the international situation changes. The Premier also firmly committed to the country's steadfast pursuit of the "reform and opening-up" policy and the creation of a favorable business environment.

To commemorate the 50th anniversary, Keidanren also co-hosted a reception in Tokyo with related organizations on September 29. Approximately 850 people from various fields attended the reception, including



Foreign Minister Yoshimasa Hayashi, former Prime Minister Yasuo Fukuda, Member of the House of Representatives/former Liberal Democratic Party Secretary General Toshihiro Nikai, and Chinese Ambassador to Japan Kong Xuanyou.

Meeting with WTO Director-General Okonjo-Iweala

On October 19, Keidanren's Committee on Trade and Investment held a meeting with Dr. Ngozi Okonjo-Iweala, Director-General of the World Trade Organization (WTO).



She stressed that the WTO is now the only international organization in which various countries and regions can reach unanimous consent, introducing agreements reached at the 12th WTO Ministerial Conference (MC12) in June in areas like fisheries subsidiaries, food security, and pandemic responses.

Regarding the dispute settlement function, the Appellate Body is currently unable to operate. The Director-General stated it diminishes predictability, and the WTO aims to restore the function by 2024. She expressed hope for Keidanren's support toward that goal by engaging in dialogues with the U.S. business community.

As to digital trade, she said the moratorium on the imposition of tariffs on electronic transmissions, which MC12 agreed to extend, should become permanent. As a response to concerns raised by some developing countries, the WTO will establish a task force to examine whether a termination of the moratorium would really lead to an increase in revenue and jobs in developing countries.

The Director-General welcomed Japan's leadership in the negotiations under the Joint Initiative on E-commerce, in which 87 members are currently involved. It is an excellent example of the "plurilateral approach," starting with efforts by a subset of members and aiming for

agreement among as many countries as possible. She pointed out capacity building is critical to gain a deep understanding of free cross-border data flow from developing countries, which is necessary to achieve an agreement.

She emphasized that trade has to provide solutions to global issues such as climate change by, for example, promoting the trade of environmental goods. In regard to the EU Carbon Border Adjustment Mechanism (CBAM), the WTO will closely monitor its operation in the future to ensure its consistency with the WTO rules. The WTO is interested in the possibility of a global approach to carbon pricing since fragmented systems being introduced in each country and region can be confusing for companies, especially those in the developing world, she added.

Nowadays, 60% of intra-Asia trade consists of intermediate goods. The Director-General stated this fact shows global supply chains support the region, and a future challenge is “re-globalization,” mainstreaming people in the peripheral into the global economy. By expanding the division of labor to Africa, Latin America, etc., countries currently providing only raw materials will become more involved in supply chains and help make them more resilient. She expressed her expectation for Japanese companies to invest even more widely across the world to that end.

Conference on International Taxation with OECD and BIAC

On October 20, Keidanren's Committee on Taxation and the 21st Century Public Policy Institute co-hosted an 8th conference on



international taxation with the OECD (Organisation for Economic Co-operation and Development) and Business at OECD (BIAC), the advisory body of the private business community to the OECD. Speakers from domestic and international multinational companies and tax authorities, including former Director Pascal Saint-Amans and former Deputy Director Grace Perez-Navarro (serving as Director from November, 2022) of the OECD Centre for Tax Policy and Administration (CTPA), discussed issues such as the tax challenges arising from the digitalization of the economy and the environment taxation. Over 200 participants from Keidanren's member companies attended the event in person and virtually.

The OECD and the G20 have been developing new international taxation rules compatible with the digitalization of the economy. These rules consist of Pillar 1, which deals with reallocating taxation rights to market jurisdictions, and Pillar 2, which sets an internationally unified minimum tax rate (15%). As the detailed system design is still being considered after the political agreement reached in October 2021, the conference offered a valuable opportunity for communication.

In the session on Pillar 1, the OECD explained the progress of the discussions on the scope to which Amount A applies, the revenue sourcing rules, which determine where profits are allocated, and the

method to eliminate double taxation. It also introduced some topics developed in 2022, such as administration related to tax filing and payment, and tax certainty, which is connected to the prevention and resolution of tax disputes. In response, Japanese companies expressed their support for simplifying the test of whether a company is in-scope, simplifying the revenue sourcing rules, eliminating double taxation in a timely and appropriate manner, ensuring tax certainty, and simplifying tax filing practices.

In the session on Pillar 2, the OECD explained that it is releasing implementation guidance around the end of 2022, aiming to support the introduction of a 15% minimum tax in each country in 2023. It also mentioned ongoing discussions on establishing safe harbors to help simplify practices and on standardized information return mechanisms. In response, Japanese companies raised expectations for various simplification measures, such as using Country-by-Country Reporting (CbCR) and reducing adjustment items in income calculation under the Global Anti-Base Erosion (GloBE) rules, as well as issues on collecting information on tax return. There were also comments calling for simplifying the design and practice of the implementation of a Qualified Domestic Minimum Top-up Tax (QDMTT) in Japan.

In the session on Taxes and Environment, the OECD introduced discussions in its Inclusive Forum on Carbon Mitigation Approaches, a multilateral framework to exchange information on efforts to reach net zero emissions. Japanese companies pointed out that, to pursue net zero, it is essential to secure resources for R&D and investment by system design to foster innovation and to create a level playing field globally.

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Editor: Keidanren USA

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