

# JAPAN ECONOMIC CURRENTS

A COMMENTARY ON ECONOMIC AND BUSINESS TRENDS

## Japan's Business Views On a WTO New Round—After Doha

by Kazuyuki Kinbara, Keidanren

### Was Doha a good start?

As a whole, the Japanese business community was enormously relieved that the 142 WTO member countries managed to avoid in Doha a repetition of the “Seattle debacle” of two years ago, and more importantly, that a new round of comprehensive trade negotiations were launched. The Keidanren – the chief representative of Japan's business community – has long been a staunch supporter for the GATT (General Agreement on Tariffs and Trade), and now its successor organization, the WTO (World Trade Organization).

Protecting and maintaining the free trade regime should be the direct concern of all Japanese multinational companies. It should not be forgotten that Japan, along with China and South Korea, are among

the very few countries that are totally out of the global web of bilateral or regional free trade agreements.

### Priorities for Japanese Businesses

The Keidanren's Committee on Trade and Investment – comprising of some 300 senior executives of leading companies of various industrial sectors in Japan – held a series of intensive meetings prior to the Doha Ministerial in an effort to establish common positions and to present policy proposals regarding the WTO Ministerial and a new round. These discussions, coupled with a survey of member companies, resulted in the formal approval by the Keidanren Board of Directors of the July 17 “Basic Position and Recommendations for the WTO Doha Ministerial Conference and a New Round of Negotiations” position paper.

(For more information refer to: [www.keidanren.or.jp/english/policy/2001/033.html](http://www.keidanren.or.jp/english/policy/2001/033.html))

We identified seven top priorities of the Japanese industries and strongly urged their inclusion in the new round's agenda. They are: Built-In Agenda (Trade in Services, Trade in Agricultural Products), Industrial Tariff Reductions, Investment, Anti-dumping, Electronic Commerce, Intellectual Property Rights and

Trade Facilitation. Of these top priorities, the Keidanren attached the greatest importance to investment rule making and the review of the 1994 GATT antidumping agreement – issues which the US had strongly resisted.

The US, the traditional user of antidumping measures, has become increasingly been the target in a recent surge of antidumping abuse mainly by developed countries. The US now ranks second, after China, in being targeted for antidumping investigations by other countries. The number of cases against the US between 1995-99 totaled 77, while the US initiated antidumping investigations in 52 cases (excluding steel-related cases). It is highly appreciated that the US has finally agreed to include a review of the antidumping agreement in the new round's agenda.

Despite the stinging criticism by the US Trade Representative Robert Zoellick, Japan was not the “the bad guy” in Doha by refusing to put agriculture on the table. Regardless of Japan's position, negotiations on agriculture were already underway last year as a part of the “built-in agenda” under Article 20 of the Agreement on Agriculture. Indeed, it was not Japan, but rather the EU

Currently No.14 November 2001

**The Future of Entrepreneurship and Innovation in Japan: An Open Question** 4  
by Mike Snyder, American Association of the Advancement of Science

**Investing in America: The Powerful and Growing Role of Foreign Companies** 7  
by Todd M. Malan

## Japan's Business Views On a WTO New Round— After Doha

that was isolated in the very final stage of negotiations in Doha, in its demand on farm export subsidies in the very final wording of the draft Ministerial Declaration. Moreover, the US joined the EU in delaying the

ment as a new issue for trade negotiations. For this reason, Japanese businesses were unhappy with the decision in Doha to essentially postpone the actual start of negotiations on investment. Instead, Japan

posals by any international business standard. For instance, minimum stipulation of clear requirements and adequate compensation for expropriation, and the freedom of overseas remittances is definitely needed for investment protection. The need for transparency for host government measures and regulations related to investment is also an indisputable fact. The argument that MFN treatment, which is a very basic GATT principle, should be applied to foreign direct investment seems generally acceptable, too.

Many countries are lukewarm about WTO negotiations on investment for two reasons: First, the countries which have enacted some of the 1,857 bilateral investment

“Despite the stinging criticism by the US Trade Representative Robert Zoellick, Japan was not the “the bad guy” in Doha by refusing to put agriculture on the table.”

final agreement of the Ministerial Declaration in Doha by showing inflexibility regarding implementation-related issues of the Agreement on Textiles.

### Investment as a New Issue

The discussions on investment focused on rule making. Every country – developed or developing – understands the growing importance of cross-border investment. For individual firms, multilateral efforts to enhance the stability and predictability of the international business environment through multilateral investment rule making would definitely be helpful for making new or further investment.

Some WTO member countries have doubts about whether investment issues should be on the agenda of the new round. But Japan's position is clear: This is the right time for the WTO to take up invest-

ment as a new issue for trade negotiations. For this reason, Japanese businesses were unhappy with the decision in Doha to essentially postpone the actual start of negotiations on investment. Instead, Japan

“Japan believes that WTO member countries should make a clear commitment to the start of negotiations for investment rule making immediately after the next WTO Ministerial Conference, which is to take place in two years' time.”

The Keidanren proposed six specific areas where rules should be developed for foreign direct investment: (1) investment protection; (2) transparency; (3) most-favored-nation (MFN) treatment; (4) national treatment; (5) market access; and (6) dispute treatment. These are reasonable and well-balanced pro-

treaties aimed at the promotion and protection of foreign investment, may have less interest in establishing broad-based WTO investment rules. But as trade and investment are increasingly interwoven in a borderless economy, the crafting of coordinated multilateral rules – rather than

a patchwork of bilateral arrangements – are better in the long run.

Furthermore, some developing countries, notably India and Malaysia, do not want to lose autonomy in shaping their econom-

“...there is no alternative for Japan, except to use this competitive challenge as a positive factor to accelerate its own domestic structural reforms.”

ic development policies. They fear multilateral investment rules would undermine or impede their own development strategy. From their point of view, investment incentives or performance requirements, such as compelling foreign companies to use local parts, can be useful tools for developing their national economies.

### **Developing countries as important partners**

The Keidanren is fully aware of these concerns on the part of developing countries and therefore are prepared to show flexibility. The great majority of the 142 WTO member countries (not including China and Taiwan) are still developing. As decision making in the WTO is consensus-based, nothing substantive can be decided without the approval of developing countries. And many developing countries are still bitter that the previous Uruguay Round favored richer countries. The

legacy of Uruguay Round lingered over Doha. This was the fundamental reason for developing countries' skepticism about the launch of a new round.

As a result, during the preparation for the Doha Ministerial, WTO officials and governments of Japan and the EU devoted enormous energies to negotiations with developing countries on so-called “implementation” issues. As the OECD's leading donor of foreign aid (Overseas Development Assistance, or ODA) over the last decade, Japan is expected to play a key role in providing developing countries with technical assistance in order to help them implement their Doha commitments.

Another major issue on the Doha agenda was the accession of China and Taiwan to the WTO – a very welcome development indeed. First of all, China's integration into the community of multilateral trade rules was good for all countries, from a long-term point of view. Second, the liberalization of China's market of 1.3 billion consumers will provide huge business opportunities.

Some have argued that a more competitive China, after securing full WTO membership, will pose a serious threat to some industrial sectors in Japan. But, there is no alternative for Japan, except to use this competitive challenge as a positive factor to accelerate its own domestic structural reforms. That is the best choice for Japan and the global economic prosperity. ■

Kazuyuki Kinbara,  
Deputy Director,  
International Economic  
Affairs Bureau,  
Keidanren

## The Future of Entrepreneurship and Innovation in Japan: An Open Question

by Michael G. Snyder, American Association of the Advancement of Science

Long before the September 11th terrorist attacks, many Japan-watchers openly wondered if key players in Japan were ready to sustain the hardship of macroeconomic restructuring. Now that many experts forecast global economic growth at less than 1 percent in the wake of the attacks, Japan's leaders might as well begin administering the reform medicine immediately, rather than later.

According to a recent statement released by the National Venture Capital Association, venture capitalists are "preparing for an extremely difficult economic environment." The release goes on to say that "despite the short-term concerns, there is consensus in the industry that venture capital will continue to play a strong and critical role in the nation's economic growth. The nature of venture capital investment is long term and the industry will continue to return to its fundamental roots and move away from the unsustainable investment pace of 2000." It seems clear that funding future growth via venture investment and entrepreneurship, all components of the investment cycle – from raising capital to initial public offering – have been impacted by the attacks. While it might be tough for the U.S. in the

short and medium run, things are much more severe in Japan.

What does this suggest for the world's second largest economy? Although it enjoys a world-class technology base, Japan is in the process of exploring how best to reconfigure its intellectual infrastructure supporting future technological innovation. Unfortunately, it comes at a time when Tokyo is confronting daunting uncertainties. Given the uncertainty since September 11, it is more important than ever for Japan to address the challenges of cultivating entrepreneurship and innovation, particularly at the grass roots level. After all, the long-term wealth of a nation resides in the heads and hands of its people.

In fiscal year 1998, 279 venture enterprises originated at American universities, while only 10 originated at Japanese universities. In a speech at AAAS on Sept. 6, Minister Omi asserted that the "knowledge intensity" of applied R&D results is not keeping pace. For example, he noted that in fiscal year 1998, U.S. patent filings submitted by Japanese institutions and inventors cited 0.5 research papers each, on average. By contrast, during the same period, patent filings submitted by U.S. institutions and inventors cited an average of three

research papers each. Japanese universities, which should serve as the key element of the nation's intellectual infrastructure supporting innovation, are commonly charged with advancing the frontiers of knowledge through research and education, and helping to put that knowledge to work in partnership with industry. What will be their role in Japan's future?

In examining the state of academic research and education in Japan, particularly at the grass roots level, transition and crisis are apparent. In the near future, public universities – by far the majority in Japan – have been warned to expect mergers and outright closures of their institutions as a result of structural reforms. Just as important, university research and teaching in Japan is in crisis because of the system of academic professorship ("Koza"), which is hierarchical, which tends to stifle the creativity and innovation of young, aspiring researchers and teachers. Consequently, university scientists and graduate students are unlikely to initiate revolutionary new ideas and develop early ties to the world's leading research communities. Although government funding of academic research is steadily increasing in Japan, the Koza system threatens to reduce the productivity of that investment.

Reforms from Kasumigaseki will need to address these issues and find ways to help create a new university R&D culture in Japan, similar to the incubator environment of California's Silicon Valley and around Boston. This rich culture would benefit both the industrial application of academic science and support academic science in Japan because both work best when they are symbiotic in nature.

The American university R&D culture provides a critical mass of professors and students and a legal path toward commercializing science and engineering advantages. Moreover, educational programs in the U.S. have multiplied at schools of business, engineering, and other faculties in higher education. In the March 2001 issue of *Asia Perspectives*, MIT scholar Lester Thurow described his son's favorite class in an engineering program at Stanford University. The class, entitled "Left Handed Thinking," focused on how to engage greater creativity in problem solving. If this kind of class (or way of thinking) does not exist as yet in Japan, it should very soon.

Without reforms, Japan's brightest researchers will simply leave the country. One case dramatically illustrates the stakes. Shuji Nakamura, Japan's highly lauded blue laser pioneer, left Japan to take an academic

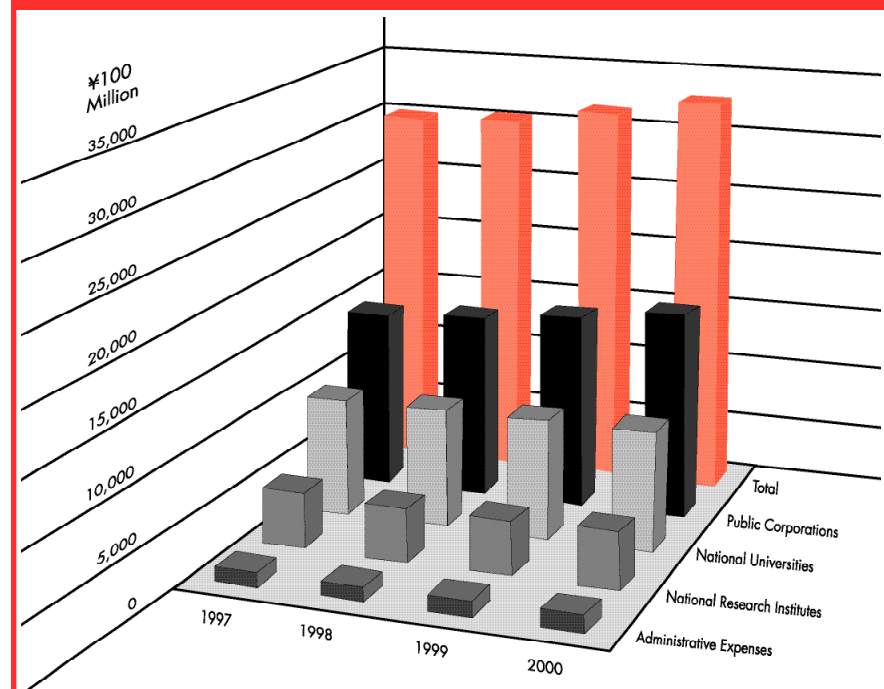
position at the University of California, Santa Barbara. Blue lasers hold enormous potential in the electronics industry, yet Dr. Nakamura left Japan and is suing his former employer over the patent rights and consequent payments. It seems likely that the benefits of his future work will accrue to an American university because of unfavorable circumstances in Japan.

Some signs of hope exist, however. Potential for academic-industry collaboration is emerging, although slowly. Hoping to stimulate the

research capability of Japan's academic research, the Diet passed the 1998 "Law Concerning the Promotion of Transfer of the Research Outcomes at Universities, etc. to the Private Sector." To encourage technology-sharing relationships between academic researchers and companies, as well as to encourage spin-offs, restrictions on the activities of university professors have recently been relaxed by the Japanese Ministry of Education,

Continued on page 6

**FIGURE 1: BUDGET FOR S&T RELATED ACTIVITIES**



SOURCE: COUNCIL FOR SCIENCE AND TECHNOLOGY POLICY, 2001

## The Future of Entrepreneurship and Innovation in Japan: An Open Question

Culture, Sports, Science and Technology.

A landmark 1997 study found that in general, each U.S. dollar spent on basic research adds fifty cents or more to annual national output – outperforming the permanent gains from increases in ordinary business investment. It is manifestly clear that to produce more and better science, entrepreneurial talent and management capability must be cultivated. Universities, with their teaching classrooms and R&D laboratories, should be at the heart of this equation in Japan.

Entrepreneurial roots in many cultures run deep. In Japan, individual and team-oriented entrepreneurship embodied in firms such as Sony, Honda Motor, Omron, Matsushita, Kyocera and others have been the result of a uniquely Japanese approach toward innovation and the beginning of a new enterprise.

Despite these successes, however, entrepreneurship suffers in Japan in a number of ways. The focus on credit, instead of capital, as the main method of financing growth has stifled the development of private equity investing in Japan. Moreover, the growth of large corporate bureaucracies coupled with a philosophy of lifetime employment commitments has retarded the

development of a dynamic pool of researchers, engineers, and entrepreneurs.

There are numerous cultural barriers as well. In Japan, one's reputation can be compromised by even a single business failure. It is not easy to change jobs – often, when workers transfer to another company, they can't bring their pensions along. Therefore, the risk-taking required for entrepreneurship is scarce. For innovation and entrepreneurship to bear fruit in the future, long term investment in intellectual and human capital should be coupled with an awareness of the opportunities presented by Japan's unique culture. The value of Japan's emergent web of relationships for gathering business resources, for example, seems to be the right foundation for building a vibrant community of technology development, sourcing, and entrepreneurship.

It is certainly possible, especially if Japan explores its history for success stories that spark debate about how to cultivate new initiatives, to stimulate creativity, share risks, and learn from the inevitable failures. Encouraging these attributes through public-private partnerships will be the key to balancing the chaos of creation with the order required to put cre-

ativity to work, in Japan or elsewhere. ■

---

Michael G. Snyder,  
Director, Pacific Rim Initiative,  
Directorate for International  
Programs; American Association  
for the Advancement of Science

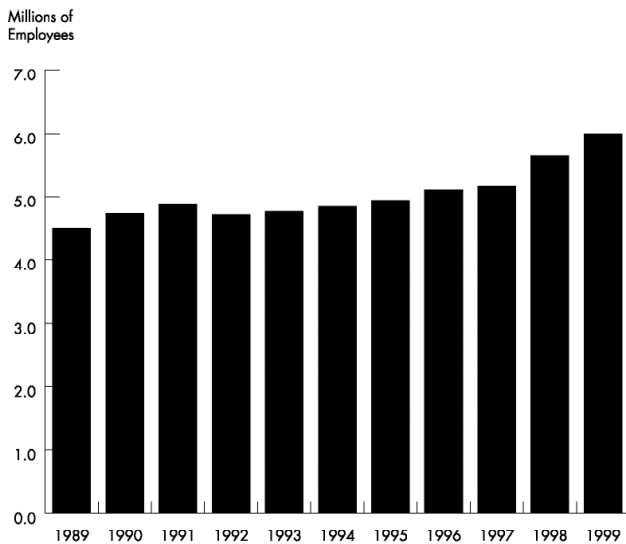
Note: Venture Capital (VC) funding typically undertakes high risk, long-term private equity investment supporting technology start-ups. For all of 2000, VC investment in start-ups in the U.S. totaled approximately \$100 billion. During 2001, the flow of VC investment is expected to drop to around \$55 billion, owing in large part to the burst of the dot.com bubble.

# Investing in America: The Powerful and Growing Role of Foreign Companies

by Todd M. Malan, Organization for International Investment

JAPAN  
ECONOMIC  
CURRENTS

## EMPLOYMENT AT U.S. SUBSIDIARIES OF FOREIGN COMPANIES



SOURCE: BUREAU OF ECONOMIC ANALYSIS,  
U.S. DEPARTMENT OF COMMERCE

All indications are that the US economy, which was already experiencing a slow-down, is slipping into recession as a result of the terrorist attacks on September 11th. But history shows that even through tough economic times, foreign companies' presence in America remains steady.

After the recession in the early 1990's, foreign investment in the US surged to new record levels just a few years later. And, while US economic growth slowed in 2000, foreign companies continued their rapid pace of investment here. According to a June 2001 US Department of Commerce report, foreign companies spent \$321 billion in 2000 – a new record – an

increase of 17 percent over the \$275 billion registered in 1999.

increase of 17 percent over the \$275 billion registered in 1999.

According to recent US government statistics, US subsidiaries of foreign-owned companies employ 6 million Americans, an increase of 24 percent over the last five years.

Furthermore, US subsidiaries reinvested 35 percent of what they earned in the United States back into their American operations. Over the last five years, US subsidiaries have doubled their annual spending on new plant & equipment to \$136 billion. An additional \$23 billion was spent on research & development, up almost \$8 billion from five years earlier. And, somewhat counter-intuitively, US subsidiaries accounted for 22 percent of all goods exported from America.

As foreign investors have increased their stake in the US economy, American investors have increased their stake in these very

same companies. A new study by the Organization for International Investment (OFII) examined the symbiotic relationship between foreign companies investing in the US and US investment in those companies. The report found that US investors own more than 20 percent of the total stock of the 100 biggest foreign companies in America (based on US revenue). The study named this group of firms the "Reciprocal 100," reflecting the back-and-forth capital and business revenue flow between the US and the rest of the world.

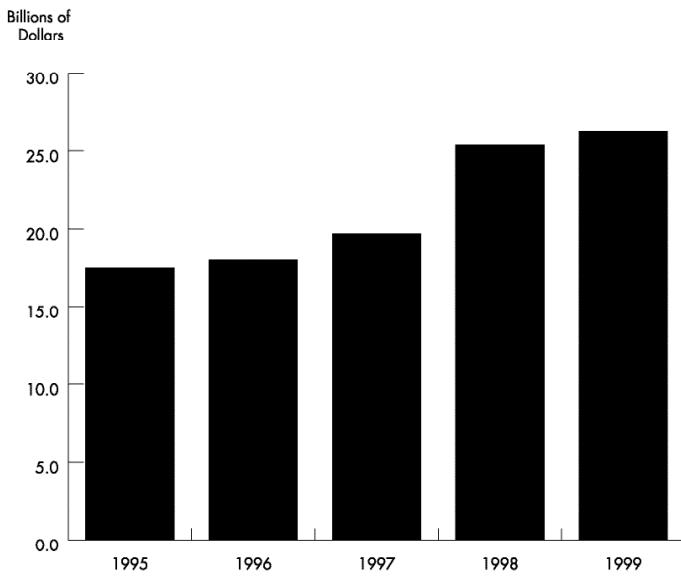
### Why so much US ownership? International companies are more and more visible in the US marketplace.

Doing business in the US and selling shares in the US are closely linked. Higher visibility in each realm helps the other. Not surprisingly, as Sony has sold more televisions and computers to American consumers, it has also sold more shares of stock to American investors. And it is now much easier for US investors to translate that familiarity into stock ownership, thanks to the boom in American depositary receipts, or certificates that represent ownership of non-US companies' shares.

Continued on page 8

## Investing in America: The Powerful and Growing Role of Foreign Companies

### R&D SPENDING BY U.S. SUBSIDIARIES



SOURCE: BUREAU OF ECONOMIC ANALYSIS,  
U.S. DEPARTMENT OF COMMERCE

In addition, one of the most interesting conclusions of the OFII study is that the returns of the stocks of non-US companies that do a great deal of business in the United States, have dramatically outstripped the returns of other non-US firms, and have decisively beaten the US benchmark as well.

Indeed, over the last five years, the stocks of the Reciprocal 100 companies produced, in the aggregate, returns of 143.21 percent. This return is favorably compared with just 33.97 percent for the MSCI WORLD ex-USA Index and 114.36 percent for the Standard & Poor's 500 Index. In other words, investors in the Reciprocal 100 earned one-

fourth more than investors in the broad US benchmark.

Over the next year, some Members of Congress will need to be reminded of the benefits of international trade and investment, especially because the tragic events of September 11th may prompt

some to look inward and rely on "domestic" companies more. With some education, policymakers should recognize that global business is becoming so intertwined that it is becoming more irrelevant to draw distinctions between which companies are "domestic" and which are "foreign." ■

*The Organization for International Investment is a Washington, D.C.-based association representing U.S. subsidiaries of foreign companies. For more information, go to [www.ofii.org](http://www.ofii.org).*

Next Japan Business Dialogue: KKC,  
December 6, 2001 - 12:00 noon

JBIC and ODA  
Toru Tokuhisa,  
Chief Representative,

Japan Bank for  
International Cooperation  
Washington, DC

Publisher, Keizai Koho Center

Director, Hideaki Tanaka  
[kkc1@kkc-usa.org](mailto:kkc1@kkc-usa.org)

1900 K Street NW  
Suite 1075  
Washington D.C. 20006  
202 293-8430

[www.kkc.or.jp](http://www.kkc.or.jp)

Keizai Koho Center (KKC) is an independent, non-profit organization designed to promote the understanding of Japan's economy and society at home and abroad. Its financial resources are derived entirely from the private sector.

KKC fosters a deeper understanding of Japan's basic social structure. Furthermore, it conducts public affairs activities to improve the Japanese people's recognition of Japan's global role.

The views expressed in this newsletter are of the contributors and do not necessarily represent those of the Keizai Koho Center.