U.S.-Japan
Investment Initiative
2003-2004

Office of the Cabinet Public Relations, Cabinet Secretariat

President Bush and Prime Minister Koizumi

"Foreign direct investment into Japan is steadily making progress… We will make Japan an attractive market for foreign companies in order to achieve the goal of doubling the amount of investment within the next five years."

Prime Minister Junichiro Koizumi, January 19, 2004

"Foreign companies recognize the quality of American workers, and that is one of the reasons why so many have chosen to locate plants in our country."

President George W. Bush, March 10, 2004

What is the Investment Initiative?

In June 2001, President George W. Bush and Prime Minister Junichiro Koizumi established the Investment Initiative as a forum for exchanging views on how to improve the investment climate in the two countries 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 held high-level talks in March 2004 and working level meetings in November 2003 and April 2004. Representatives from companies and business associations in both the United States and Japan also participated in the November 2003 session, and have played a constructive advisory role to both governments.

Both Governments place great importance on these talks because they believe that foreign direct investment (FDI) offers important economic benefits for both investing and receiving countries. For the investor, FDI allows quick access to foreign markets. For recipients, it can transform management, promote efficiency, 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, it also leads to deeper political and social understanding and cooperation between the two nations.

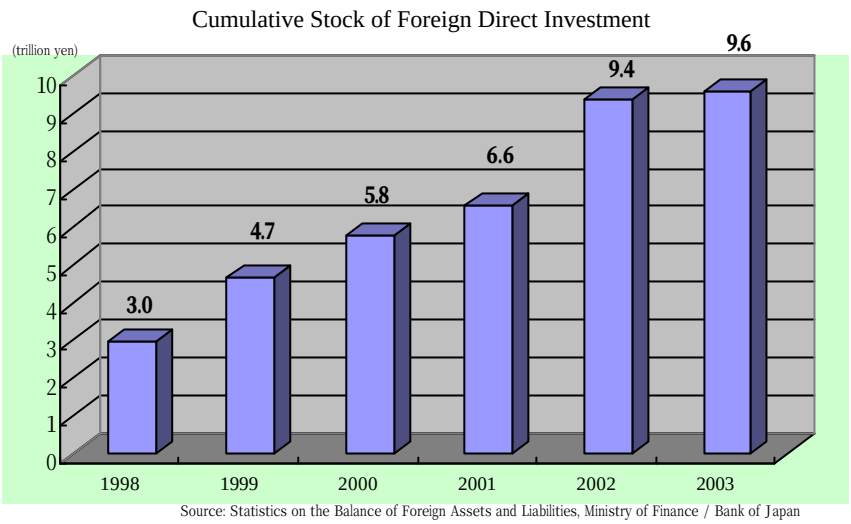
Activities of the U.S.-Japan Investment Initiative, 2003-2004

In the Initiative, the U.S. and Japanese Governments discussed issues related to improving the investment environment, including eliminating restrictions on foreign companies' use of cross-border M&A tools in Japan; promoting investment in the education and medical service sectors; and ensuring that new security measures related to the movement of cargo and people are taken in a way that facilitates trade and investment.

In addition to exploring policy options, the Investment Initiative has held public outreach programs to promote a deeper understanding of FDI and provide information on investment opportunities. Investment Initiative Seminars took place in Kitakyushu and Kyoto in April 2004. Symposia on investment in Japan will be held in Atlanta and Los Angeles in October 2004.

Japan's FDI Stock Showing Steady Growth

Japan's inward FDI has soared since the mid-1990s. Reforms in the financial, communications and distribution sectors have encouraged foreign investment into these sectors. Furthermore, improvements in corporate law, bankruptcy law and accounting principles helped attract foreign capital to Japanese companies, as shown by recent trends for FDI into Japan. As of the end of 2002, FDI in Japan totaled 9.4 trillion yen (approximately $78 billion at the 2002 end-of-year rate of 119.9 yen/dollar), an increase of 41.3% over the previous year. According to current figures, FDI stock rose to 9.6 trillion yen in 2003, up 2.6% over 2002.



Japan and the United States Welcome Foreign Direct Investment

Facilitating FDI in Japan: Realizing the Goal

In January 2003, Prime Minister Koizumi announced the target of doubling the stock of FDI in Japan over the next five years. In March 2003, the Prime Minister's Japan Investment Council formulated a "Program for the Promotion of Foreign Direct Investment into Japan" consisting of five priorities and 74 measures. The Japanese Government, recognizing the importance of FDI as a catalyst for Japan's economic revitalization and structural reform, has made considerable progress in implementing the Council's recommendations.

In May 2003, the Invest Japan Business Support Center was established in the Japan External Trade Organization (JETRO) as a one-stop service center to provide information and support to foreign companies wishing to enter the Japanese market. At the same time, Invest Japan offices were established at all government agencies, ministries and in the Cabinet Office to help clarify, simplify, and expedite administrative procedures for investors. As a result, between May 2003 and the end of March 2004, Japan received 93 new investments from foreign sources

Japan: High FDI Potential and Growing Business Opportunities

Japan ranks twelfth out of 140 countries on UNCTAD's Inward FDI Potential Index. Its strengths include a huge domestic market that accounts for about 15% of global GDP, skilled human resources and advanced technological capabilities, a safe and comfortable living environment, and the potential to function as a business hub for the entire Asian market. As an investment destination, Japan provides outstanding reliability, security, and predictability. It has an excellent business and economic infrastructure that includes a high level of protection for intellectual property rights.

Japan's GDP has showed positive growth for eight consecutive quarters since the first quarter of 2002. In the first quarter of 2004, Japan's GDP grew at an annualized rate of 5.6%. The Japanese economy continues to show steady growth in personal consumption, recovery in capital investment and in other areas. Business earnings were up in both the manufacturing and non-manufacturing sectors. These are signs that the

Japanese economy is emerging from its prolonged economic slowdown. This upturn in the Japanese economy further raises the potential for new business opportunities and sends a positive message to businesses interested in entering the Japanese market.

The United States: FDI Contributes to the Economy

The United States attracts significant FDI inflows from countries around the world. The investment climate in the United States, based on strong legal institutions, an open economy, an educated and productive workforce, and a welcoming attitude to foreign investment, has made the United States' success in attracting FDI possible. Foreign capital makes an important contribution to the U.S. economy. U.S. affiliates of foreign companies currently account for 6.4 million jobs and 6.5% of private sector GDP; investment by Japanese companies accounts for 800,000 jobs and about 1% of GDP.

Recent Examples of U.S. Business Expansion in Japan (both FDI and investment by U.S. affiliates)

(1) Investments by U.S. Companies under the Revised Industrial Revitalization Law

· Carlyle Japan Holdings and Kito Corporation

Carlyle Japan Holdings Three Co., Ltd. acquired stock in Kito Corporation, a manufacturer of industrial machinery, from both owner shareholders and ordinary shareholders, strengthening its management. After the takeover bid, an equity swap/merger was conducted under the terms of the Industrial Revitalization Law, making Kito Corporation a wholly owned subsidiary. The Carlyle Group plans to use Kito's management resources to improve Kito's productivity and financial stability.

· Kodak Japan and Chinon Industries

The Kodak Japan Digital Product Development Company, Ltd. - a wholly owned subsidiary of Kodak (U.S.) – acquired Chinon Industries Inc. as a wholly owned subsidiary by means of an equity swap under the Industrial Revitalization Law. Kodak's R&D Center was merged with Chinon's to improve the company's competitiveness. Kodak Japan plans to increase the staff at its Chinon subsidiary from 203 to 303 employees.

· Colony Capital and Daiei's Fukuoka operations

In an effort to recover from its financial difficulties, Daiei Inc. has been consolidating its management resources in retail – its main line of business - and associated areas. As part of this process, Daiei sold its entire interest in the Fukuoka Dome baseball stadium and neighboring Sea Hawk Hotel and Resort to a company affiliated with Colony Capital LLC, a U.S. investment firm. Colony Capital plans to expand the customer base and increase sales by re furbishing the hotel, expanding the shopping mall, and promoting the resort to families as well as baseball fans.

(2) Examples of FDI with Support from the Invest Japan Business Support Center (IBSC) of the Japan External Trade Organization (JETRO)

· RCS Japan

RCS is a software company based in New York which produces software for automated music selection at radio stations. Music is automatically selected according to the tastes of the radio station's listeners, and listener reactions are analyzed by software. This software is currently used at over 5,000 radio stations worldwide, with a global share of more than 80%. RCS opened a branch office in Tokyo in January 2004 to seek customers in Japan. The branch office was initially located at IBSC. JETRO provided advice on legal affairs, taxation, and labor, and provided other assistance such as interviews with accountants.

· Advanced Analogic Technology, Inc.

A Silicon Valley manufacturer of semiconductors for LED controls used in cell phones, Advanced Analogic Technology (AAT) opened a Japanese subsidiary in July 2003 to improve its sales and customer service in Japan. JETRO supported the company in various ways, including providing technical information on ways to remit the funds needed to establish its Japanese subsidiary.

(3) A Recent Investment without Government Support

· Merck & Co. and Banyu Pharmaceutical

In response to changes in the global pharmaceutical market, Banyu Pharmaceutical Co., Ltd. has become a wholly owned subsidiary of Merck & Co., Inc., with which it previously had a cooperative arrangement. This has enabled Banyu to fully exploit the global network and management resources of Merck & Co., further strengthening its R&D, manufacturing, marketing, and sales activities. Merck & Co. plans to use the R&D capabilities of Banyu Pharmaceutical Co. to expand its business in Japan, the second largest pharmaceutical market in the world.

* Based on press releases and other sources.

For more information on the Investment Initiative and to view the complete 2003-2004 U.S.-Japan Investment Initiative Report, please check http://tokyo.usembassy.gov/ or www.meti.go.jp.
You may also wish to contact: METI or the United States Department of State

(METI, State Dept symbols here)