

**Chapter 5 The Global Economy as an Opportunity to Stimulate the Japanese Economy**

A. Contribution to the Japanese Economy of Inward Foreign Direct Investment (FDI)

1. Highest-ever inward FDI

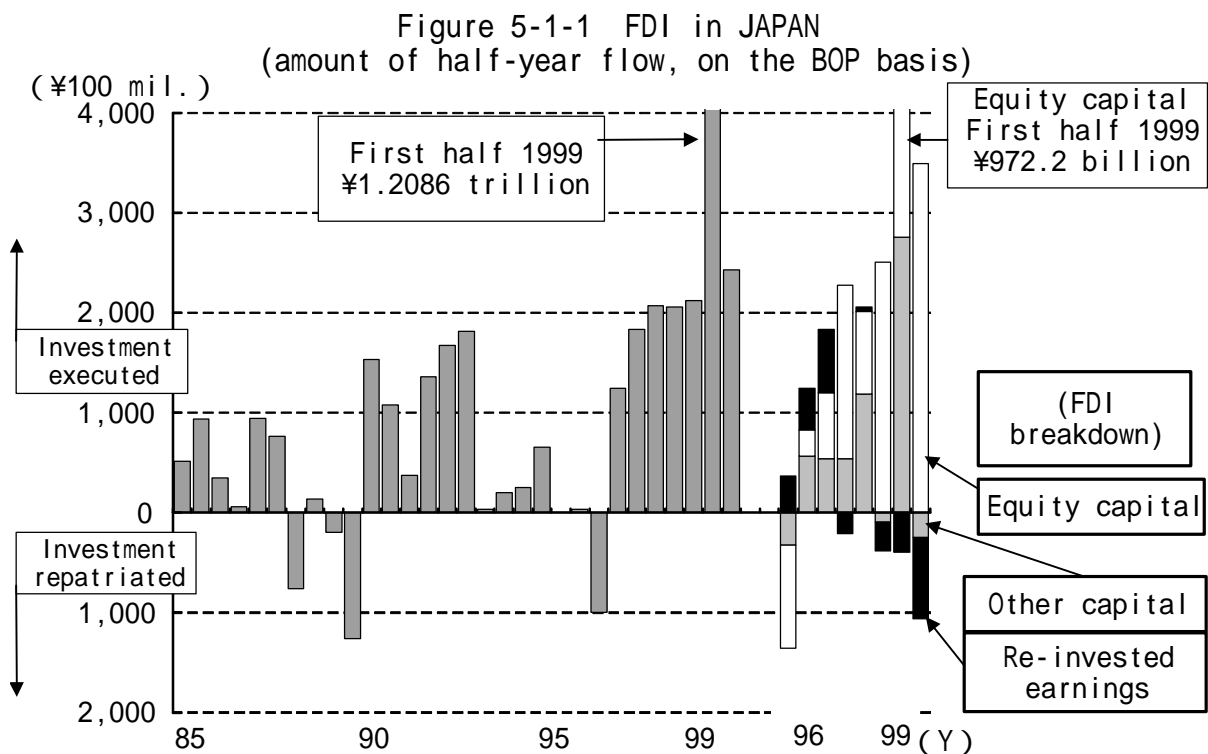
FDI in Japan increased in the late 1990s, reaching a record high in 1999. Recent characteristics include a spurt in corporate M&A (merger and acquisition), with foreign partners beginning to play an active role in corporate management.

2. Introduction of foreign capital by Japanese companies

Foreign affiliates generally show profitability high revenues, and also help to stimulate the Japanese economy through the new technologies and management know-how which they inject. And foreign capital in Japanese companies is useful in terms of strengthening their global business, improving the financial condition of them and improving their corporate governance.

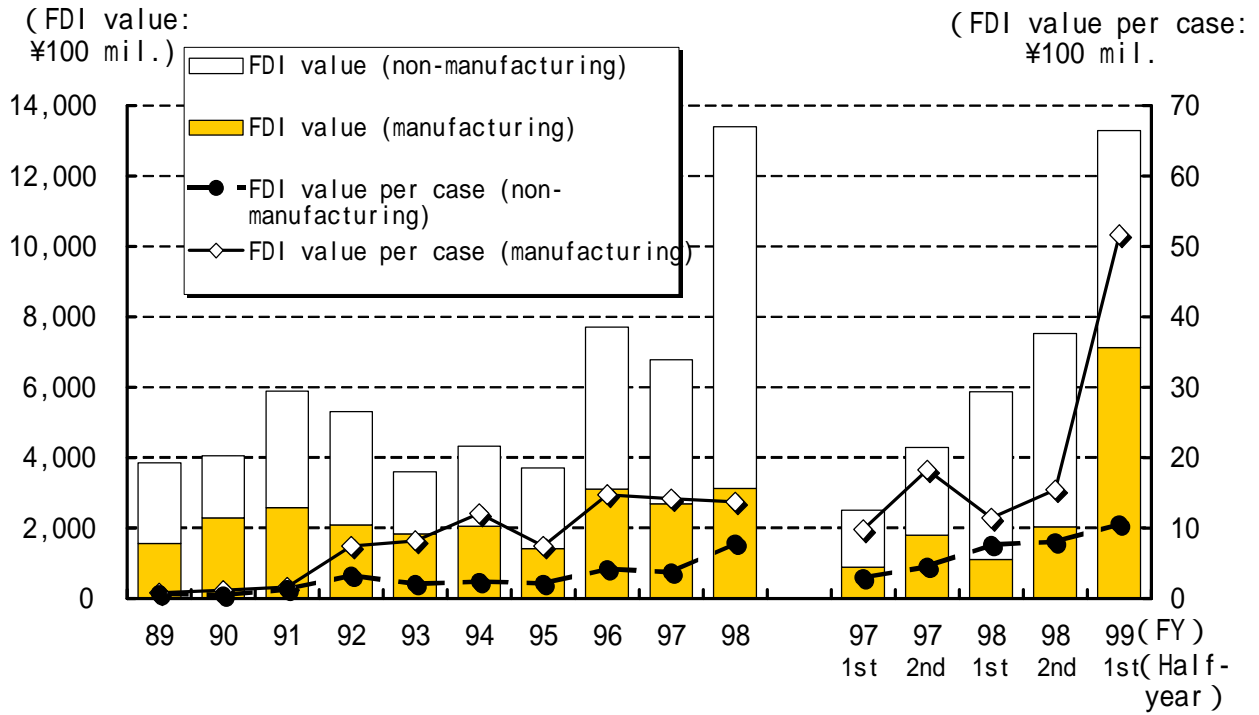
3. Developing an investment environment conducive to inward FDI

Japan is making steady progress in improving its investment environment, including corporate law and accounting standards, and these efforts have been recognized by foreign affiliates, which are, however, calling for further improvements. The Japanese government has continued to indicate clearly that it welcomes FDI in Japan.



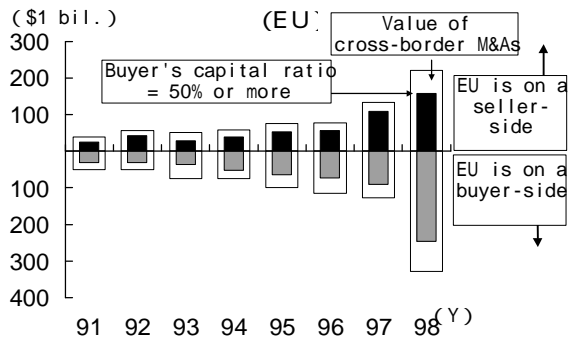
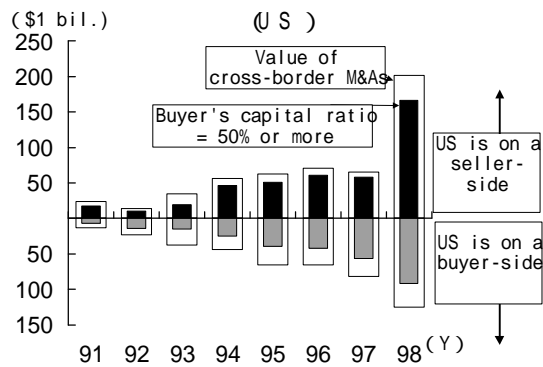
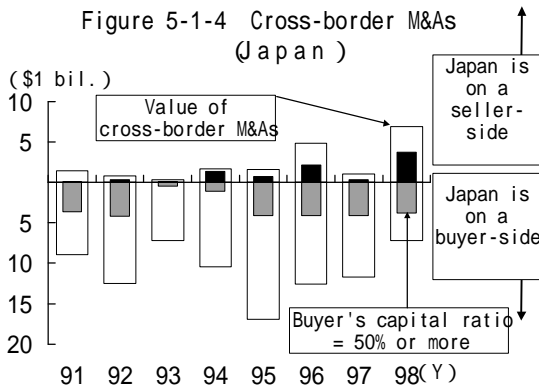
Source: Balance of payments monthly, The Bank of Japan

Figure 5-1-2 FDI in Japan (on a report/notification basis)



Note: Before 1991, a prior notification system applied; from January 1992, in principle, an ex post facto report system.  
 Source: Inward FDI report, Ministry of Finance

Figure 5-1-4 Cross-border M&As (Japan)



Source: World Investment Report, UNCTAD

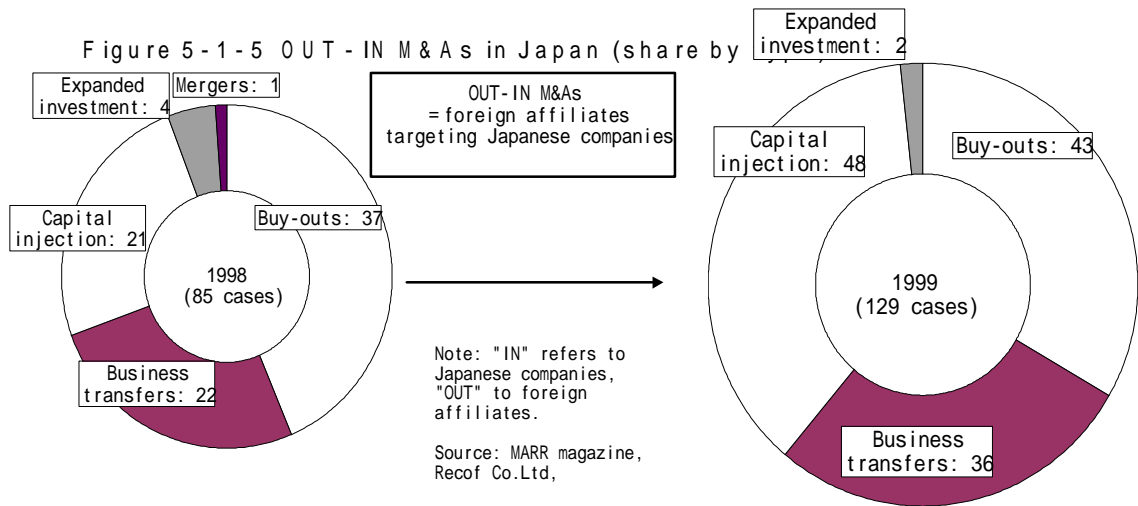
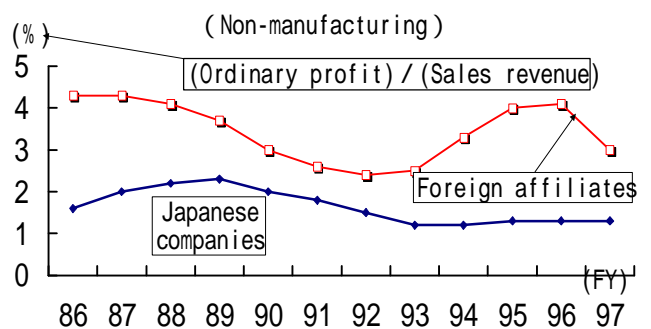
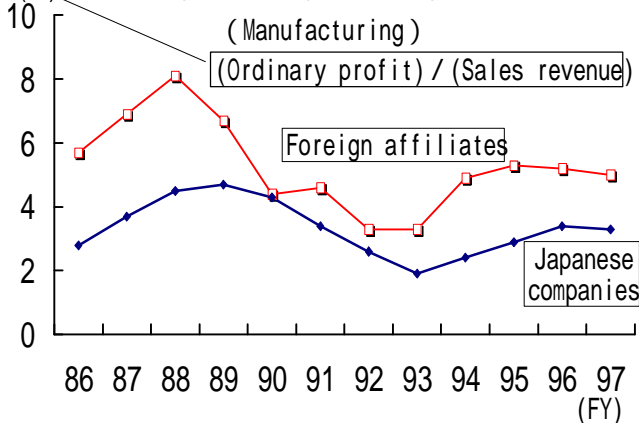
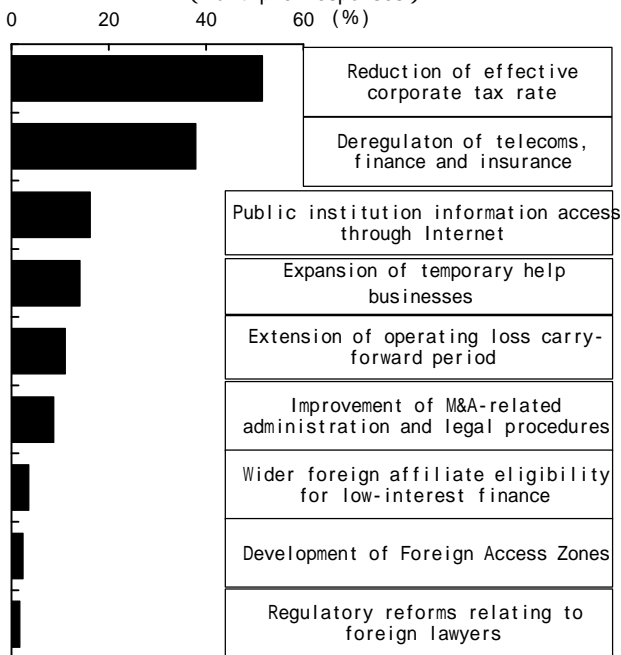


Figure 5-1-6 Profitability of foreign affiliates in Japan and Japanese companies



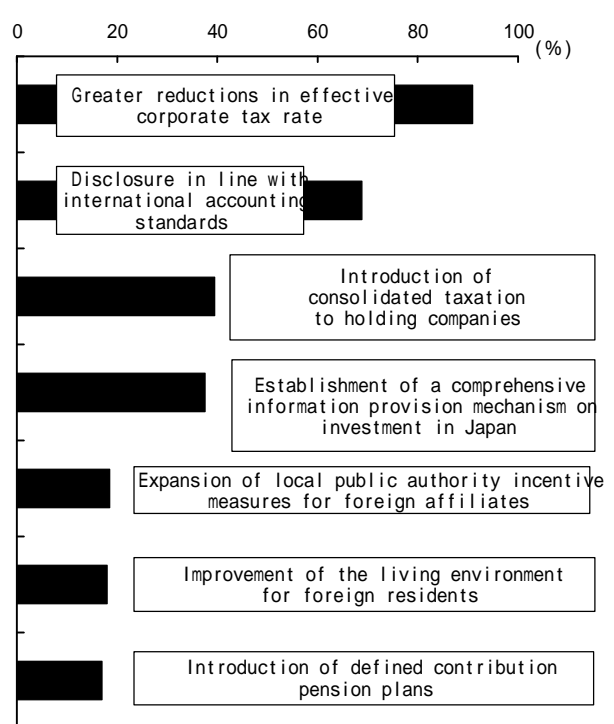
Note: Data on foreign affiliates is based on the corporate data provided in response to the source survey by MITI. Data on Japanese companies is based on the source survey by MOF. Sources: Survey of Trends in Business Activities of Foreign Affiliates (MITI), Corporate Statistics (Ministry of Finance)

Figure 5-1-11 Measures which have been effective in improving Japan's investment environment (multiple responses)



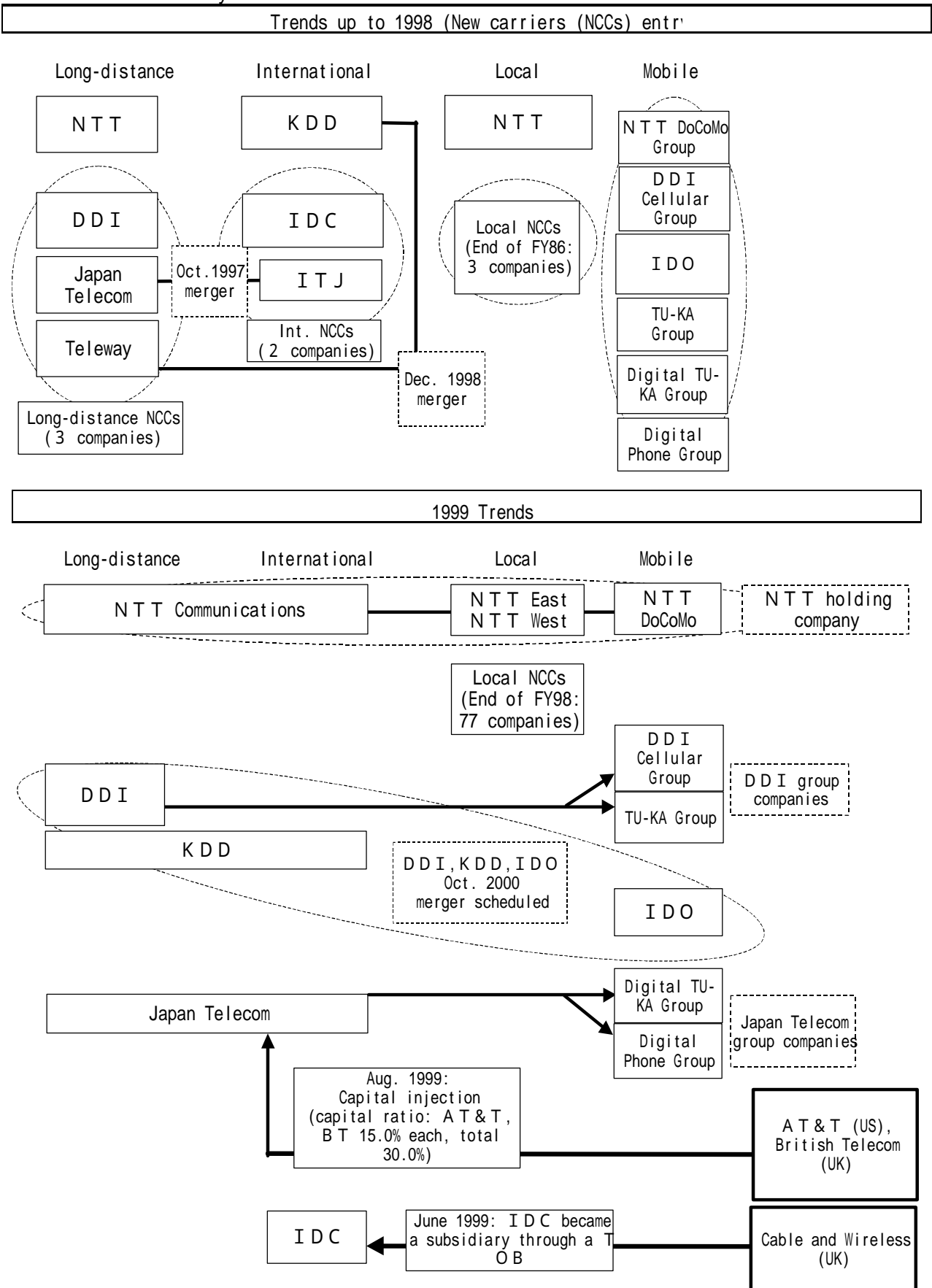
Note: Measures gauged as effective by the 450 companies which replied that the current business environment was improving. Source: Survey on Foreign Affiliate Perceptions concerning FDI in Japan, JETRO(Oct.1999)

Figure 5-1-12 Measures to improve the Japan's investment environment which foreign affiliates hope to see taken (multiple responses)



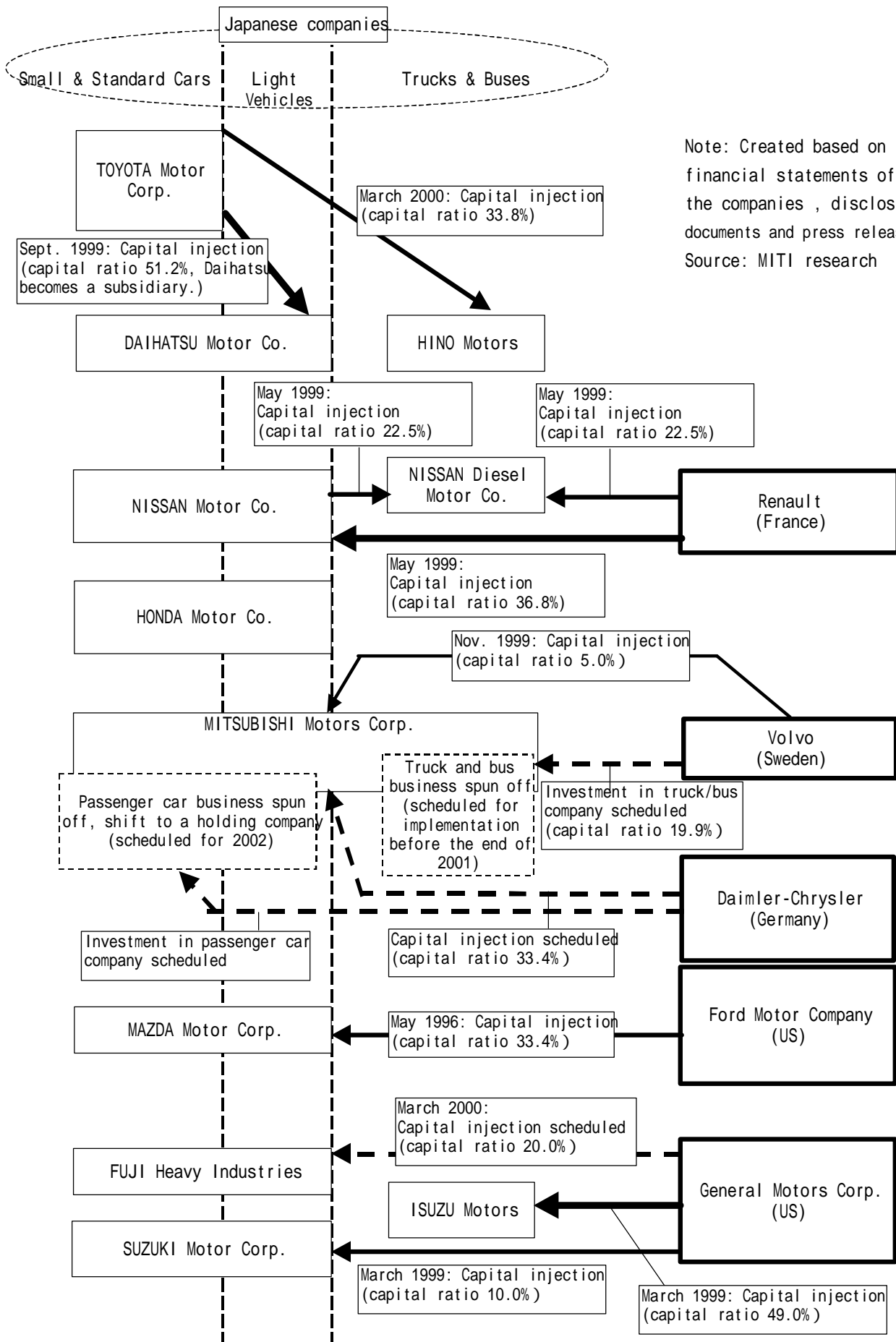
Source: Survey on Foreign Affiliate Perceptions concerning FDI in Japan, JETRO(Oct.1999)

Figure 5-1-8 Inter-company reorganization and foreign investment in Japanese telecoms industry



Note: In some cases, capital ties, etc., are not indicated.  
 Created based on the financial statements of the companies, disclosure documents and press release,  
 Source: MITI research

Figure 5-1-7 Inter-company reorganization and foreign investment in Japan's car industry



## B. Growing international competition among systems— Health care and educational systems

Economic globalization has brought about greater pressure for systemic reform, which could be described as “international competition among systems”.

A certain synchronicity and resonance is beginning to develop among countries’ reform efforts in the medical and educational areas too, and such competition will be accelerated still further by the evolution of economic globalization and information technology (IT).

### 1. Assessment of other countries’ health care service reforms and their significance for Japan

#### (a) Introduction of competition into US and UK health care services

US health care service reforms are spearheaded by Health Maintenance Organizations (HMOs), service providers which link patients and medical institutions, and these have worked to cut costs. In the United Kingdom, reforms undertaken in 1990 have attempted to introduce a competition element into the public services traditionally provided through the National Health Service.

#### (b) Improving service transparency and establishing assessment mechanisms

In introducing competition into health care services, transparency of services is necessary in order to compensate users for the asymmetry of information. The US and the UK are making progress in the HTA (Health Technology Assessment), as well as in assessments by third-party institutions and disclosure of that information.

#### (c) Health care informatization proceeding in parallel with reform

Reforms have been accompanied by the EDI (electronic data interchange) of clinical data and other patients’ information, contributing greatly to the provision of efficient health care services.

#### (d) Issues remaining in US and UK health care service reforms

While reforms have brought down costs, individual choice has become often limited, and service quality has not always improved. Another issue yet to be resolved is the lack of a universal medical insurance system in the US.

#### (e) Significance to Japan’s health care service reforms

While Japan’s health care services are adequate in terms of aspects such as the number of beds, medical staff are in short supply, and efficient service provision will be essential in dealing with the aging of society. In handling these issues, Japan must make use of other countries’ health care service reform experiences.

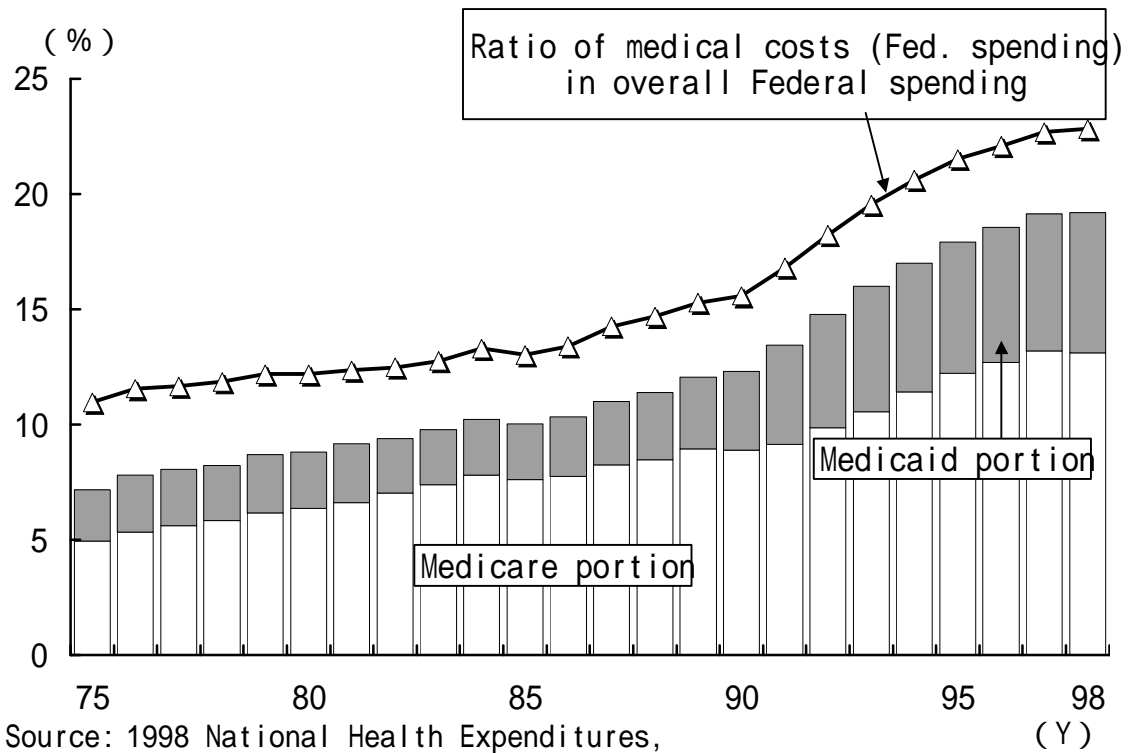
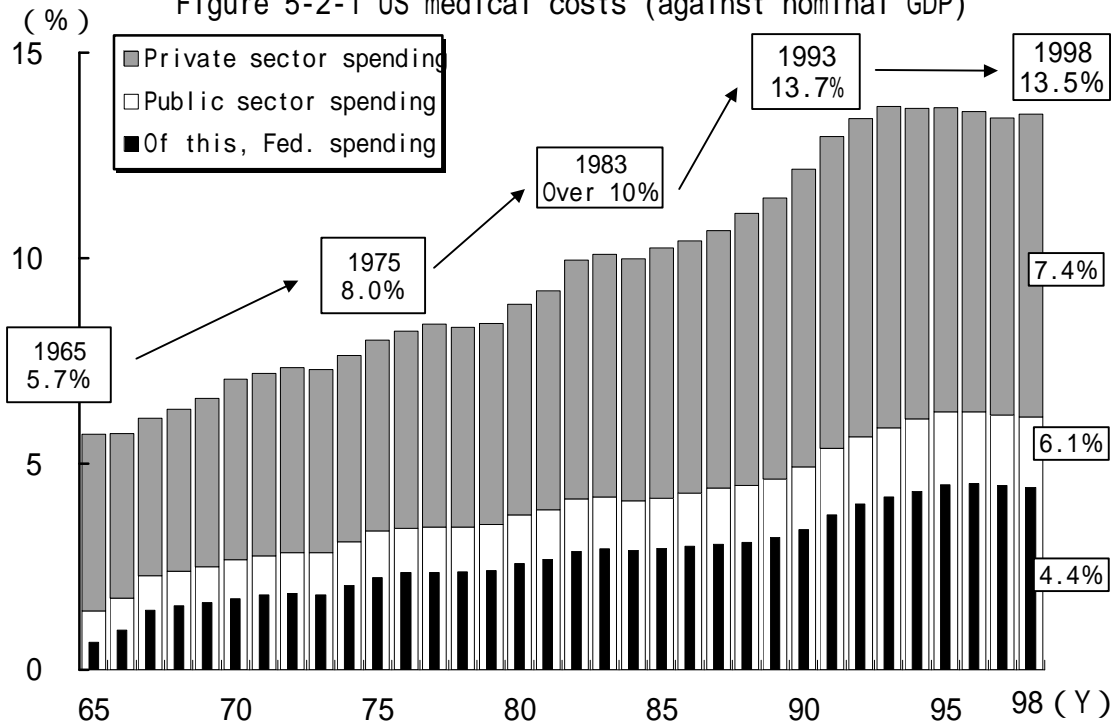
Appended Fig. 5-2-1 US and UK reforms toward effective medical services

Efforts to reduce medical costs	Efforts to improve medical service quality
<b>【United States】</b>	
<p>* 1973 : Establishment of Federal HMO Act to reduce medical costs through prior payment system (strongly opposed by doctors, HMO membership grows only slowly up until early 80s)</p> <p>* 1983 : Introduction of DRG/PPS system into in-patient care of Medicare system (DRG/PPS= Diagnostic related groups/ Prospective payment system)</p> <p>* 1985 : Medicare HMO program launched (Federally-approved HMOs made payments to medical institutions)</p> <p>* 1988 : Amendment of Federal HMO Act, introduction of mechanism allowing HMOs to invite subscription from companies (employees choose between traditional private or HMO medical insurance)</p> <p>* 1980s-90s: Many M&amp;As targeting medical institutions</p> <p>* Same: Institutions providing low-charge health care emerge (long-term nursing, home-care institutions)</p> <p>* 1997 : Introduction of DRG/PPS system into out-patient care of Medicare system</p>	<p>&lt;Medical services assessment system&gt;</p> <p>* 1951: Joint Commission on Accreditation of Healthcare Organizations (JCAHO) launched (JCAHO accreditation a requirement for Medicare and Medicaid coverage, medical institutions forced to acquire this)</p> <p>* 1994 : JCAHO starts providing general public access to accreditation reports on individual medical institutions</p> <p>&lt;Health technology assessment (HTA)&gt;</p> <p>* Significance of HTA: Creation of standard medical procedures, basis for judgement of appropriateness of new technology</p> <p>* 1989: Agency for Health Care Policy Research (AHCPR) established (conducts HTAs)</p> <p>* 1997: Joint Project Center (=Evidence-based practice center) set up between AHCPR and medical institutions (development of Evidence-based medicine (EBM), and clinical guidelines, etc.)</p>
<b>【United Kingdom】</b>	
<p>* 1990 : NHS Service and Community Care Act passed (designed to encourage competition between medical institutions, medical institution selection function given to Fund-Holding GPs)</p> <p>* 1997 : Fund-Holding GP system abolished, Primary Care Group (PCG) system introduced (Designed to exclude the problems of the Fund-Holding GPs system while retaining the medical institution selection function, ensuring effective medical services in each region)</p>	<p>* 1991: Announcement of Patients Charter (UK citizens guaranteed the right to hospitalization within two years of hospital registration)</p> <p>* 1992: Cochran Project launched (development of Evidence-based medicine (EBM), and database as "Cochran Library")</p> <p>* 1999: National Institute for Clinical Excellence (NICE) established (creates and disseminates clinical guidelines)</p>

Note: While the various reforms contain elements both for cost-cutting and for improving quality, here they have been divided into one of the two categories.

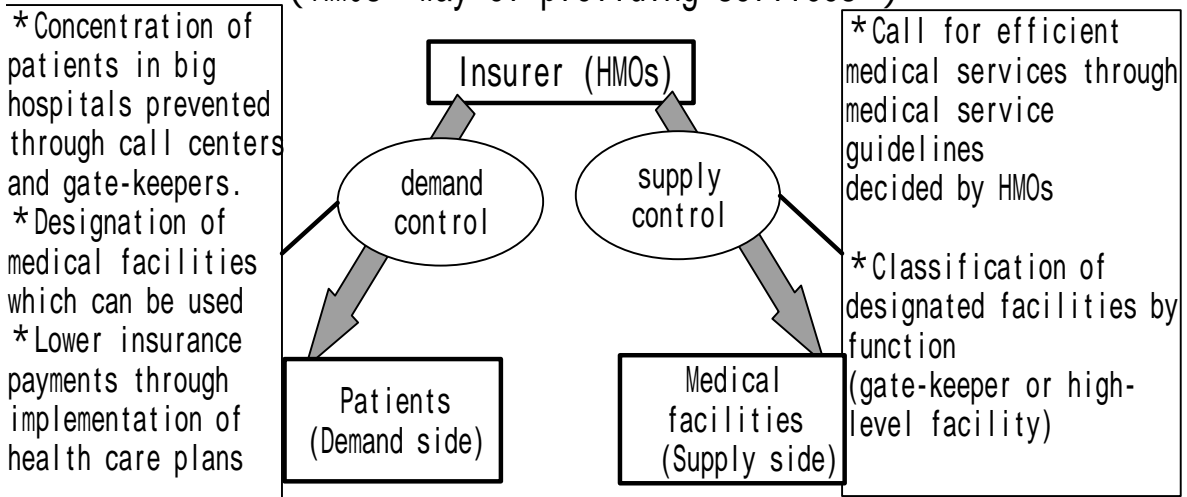
Source: MITI research

Figure 5-2-1 US medical costs (against nominal GDP)



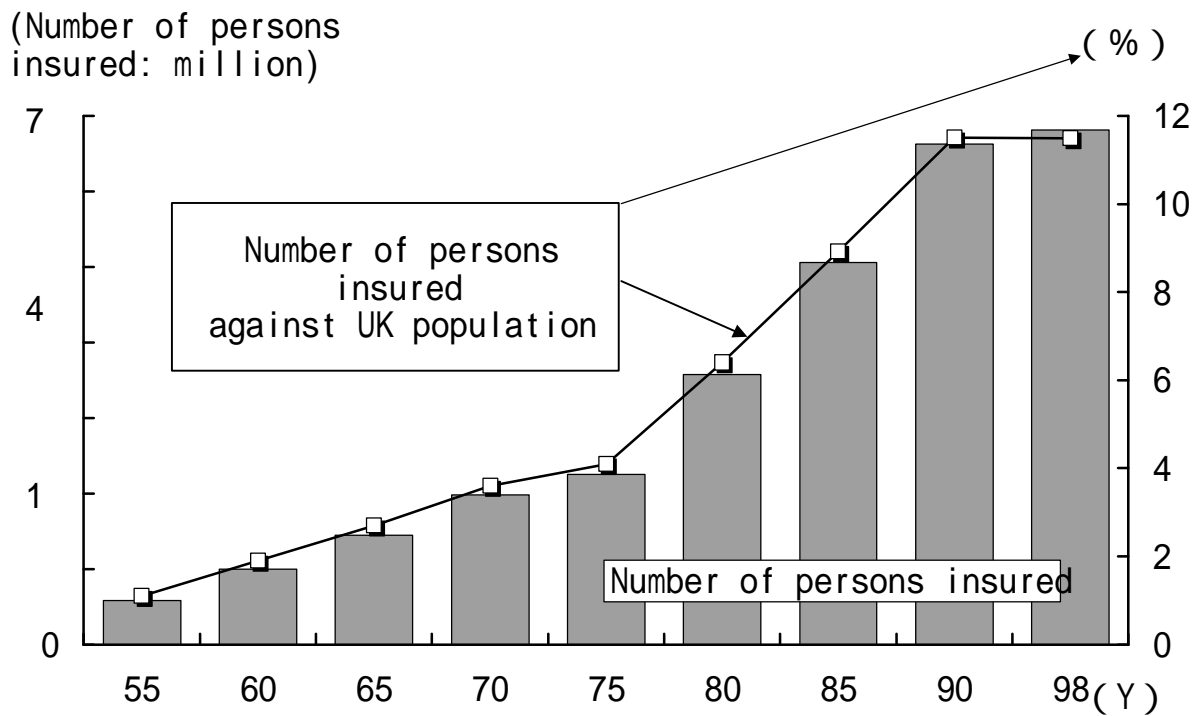
Source: 1998 National Health Expenditures, Health Care Financing Administration

Figure 5-2-2 US Managed Care-based medical services  
(HMOs' way of providing services)

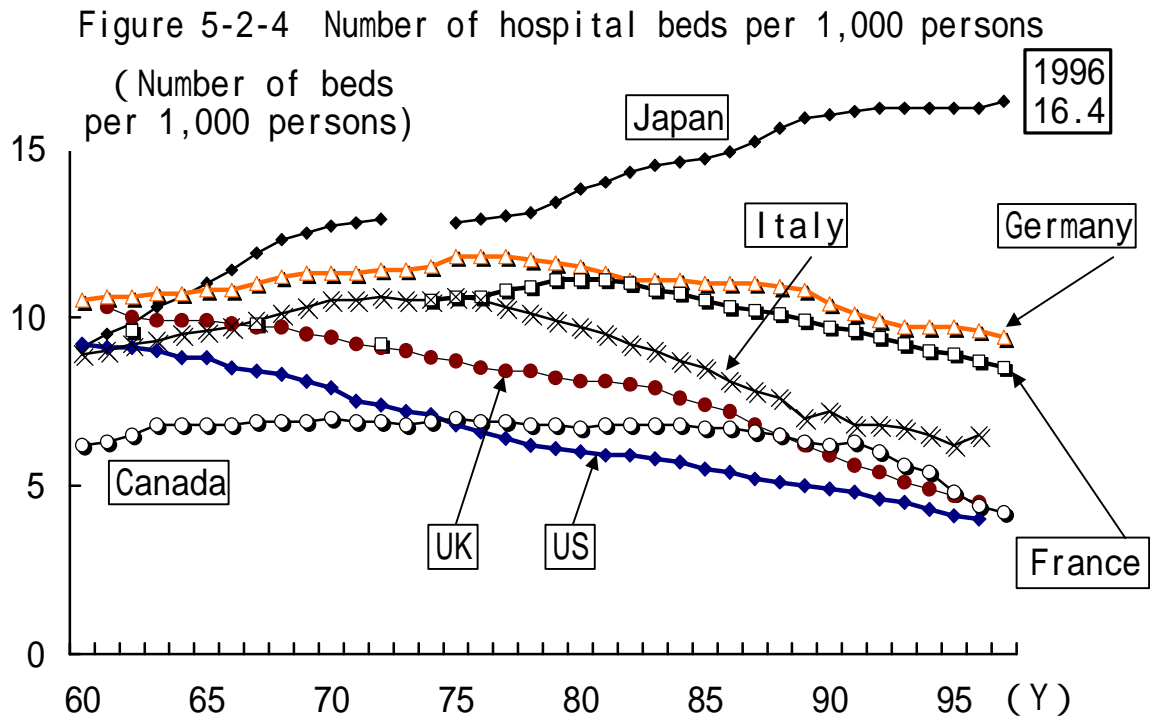


Note: Gate-keepers are doctors who must make the first examination of patients who are HMO. They determine the subsequent course of treatment according to the patient's condition.  
 Source: NTT Data Institute of Management Consulting (1999), "US medical service model and Japan's Big Bang in the medical service"

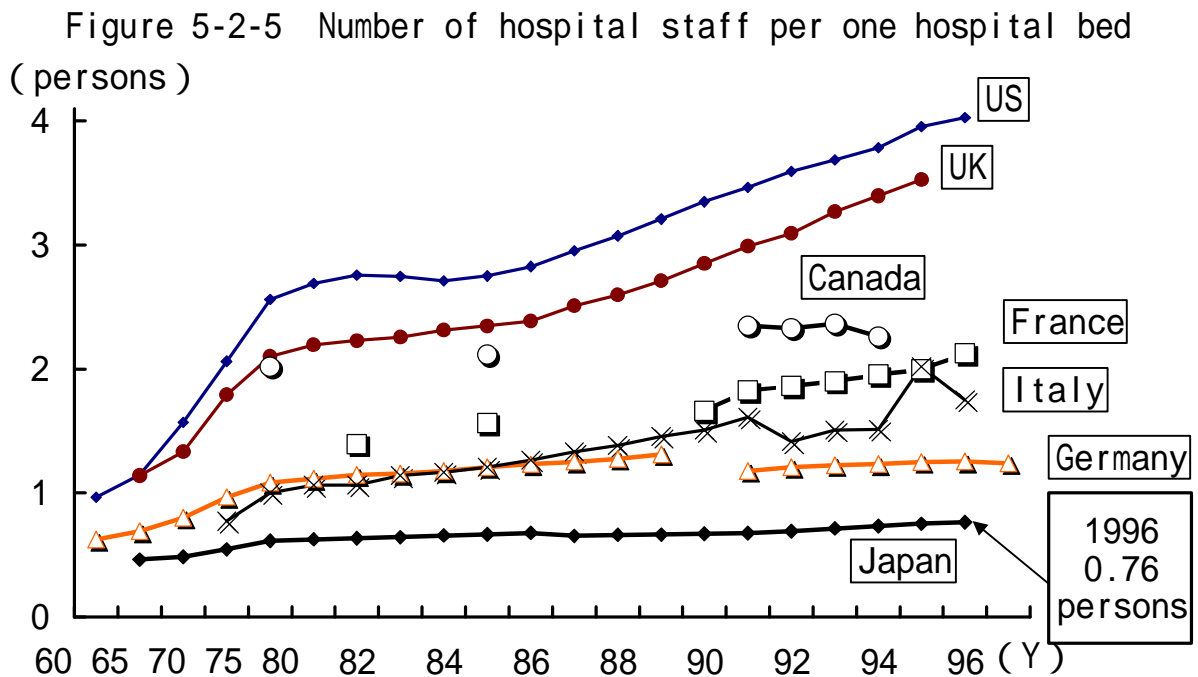
Figure 5-2-3 UK private medical insurance



Source: Lee Donaldson Associates, Laing and Buisson

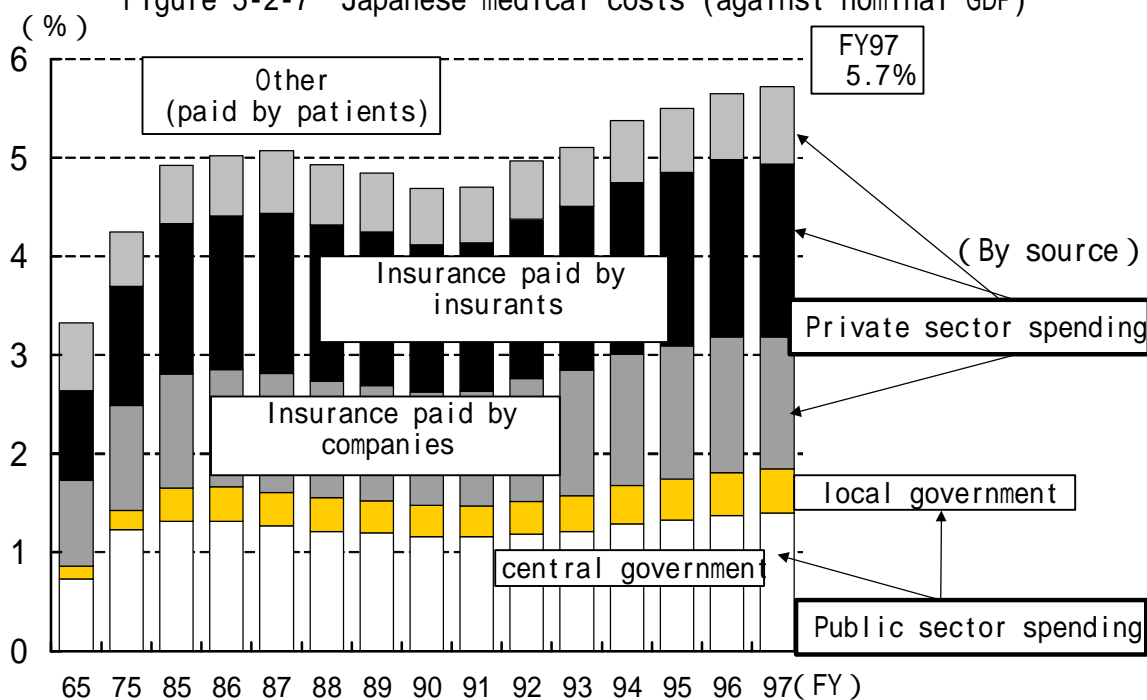


Note: Hospital beds refers to in-patient care beds.  
Source: Health Data 99, OECD



Note: Hospital beds refers to in-patient care beds.  
Source: Health Data 99, OECD

Figure 5-2-7 Japanese medical costs (against nominal GDP)



Sources: Overview of FY97 National Medical Costs ,  
Ministry of Health and Welfare

## 2. Assessment of other countries' educational service reforms and their significance for Japan

### (a) The US and UK educational service reforms --- toward higher quality education

In the US and UK, third-party institutions conduct education appraisals and provide information on universities and colleges, helping to promote competition toward higher quality education.

### (b) IT improves distance-learning programs

With the advance of IT (information technology), universities have become able to offer wide-ranging distance-learning programs, and these could well take on an even greater role in the future in terms of cross-border service utilization and as a means of responding to the learning needs of working adults.

### (c) Diverse reform trials towards greater choices and school accountability

Various local reform trials are being made in the US to offer parents greater choices in elementary and secondary education and to strengthen school accountability.

### (d) Significance to Japan's educational service reforms

Educational issues faced by Japan include English language capability and access to IT in schools, and a National Conference on Educational Reform has been launched in March 2000. In handling education service reform issues, Japan must make use of other countries' experiences.

Figure 5-2-10 US and UK university appraisal systems

	【US】	【UK】 Research appraisal	【UK】 Education appraisal
Timing of appraisal introduction	* Long in use (Middle States Association established in 1887, university appraisals added in 1919)	* Launched 1986, since conducted in 1989, 1992 and 1996	* Launched 1993, since held 4 times (1993-95, 95-97, 96-98, 98-2000)
Appraisal body	* Associations for accreditation (a) 6 major regional associations Middle States, New England, etc. (Regional associations have 3 divisions for university, secondary and elementary education)  (b) Specialized associations (Appraise and accredit specialized courses such as medicine and law)	* Higher Education Funding Councils	* Quality Assessment Agency (commissioned by HEFCs)
Appraisal process	* Combination of self-appraisal (internal appraisal) and external appraisal * External appraisal through peer review		
Appraisal results	* Accreditation announced in a yes-no formula  * No announcement of detailed results (no points or ratings)	* 7-level appraisal (No subsidies where appraisal is: "1"(lowest) or "2"(second lowest)	* 4-level appraisal (appraisal based on goals and objectives set by universities themselves)
Significance of appraisals	* Accreditation system used to guarantee that university meets minimum standard: (system necessary because university establishment standards differ in different states) * Standard for public actions (eligibility for Federal subsidies and scholarships, etc.) * Standard for companies and for students in choosing a university (because some associations are publicly recognized)	* Clear appraisal results released	
		* Appraisal results linked to part of subsidy allocation allowing concentration of funds in outstanding research <Problem area> * Immediate research results needed	* Contributes to maintaining and improving quality of educational services
Mechanisms ensuring appraisal system effectiveness	<Major associations> * Appraisal sunsets established (initially 5 years, later 10 years) * Re-investigation possible even before sunset	* Appraisal results linked to part of subsidy allocation	* Universities receiving HEFCs subsidies are legally required to undergo appraisal

Source: Additions to A.Tachi (1995), "Mechanism of US higher education"  
and A.Tachi (1999), "Methods of appraisal by third-parties"

Figure 5-2-11 Distance education at US higher education

		(Undergraduate)	(Graduate, first -professional)
Total number of institutions (a)	5,010	4,510	1,860
Offered any distance education courses (b)	1,680	1,620	750
(b) / (a) (%)	33.5	35.9	40.3
Total number of enrollments in all distance education courses	1,661,100	1,082,380 (***)	281,300 (***)

Note: (\*\*\*) Number of enrollments in college-level, credit-granting distance education courses

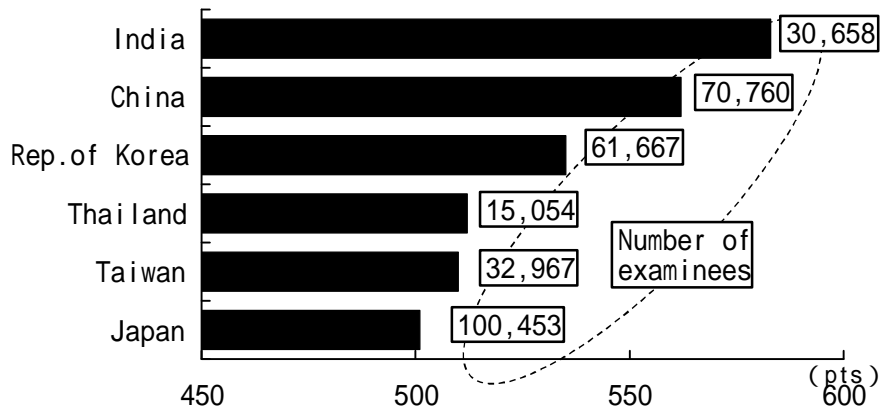
Source: Distance Education at Postsecondary Education Institutions, US National Center for Education Statistics (Dec.1999)

Figure 5-2-15 US educational reforms providing greater choices at elementary and secondary education

	Charter schools	Education voucher system
Degree of option	* Entrance possible regardless of school district (All charter schools public)	* Entrance possible regardless of school district (only for public and private schools authorized by the state)
School management rights	* Schools in charge of personnel, budget allocation and curriculum	* Still held by local education committees
Cases of application	* 1,050 schools in 28 states (As in 1998)	* Milwaukee school zone, Wisconsin; Cleveland school zone, Ohio; Florida (In all cases, vouchers are only provided to those from poor households and to those attending schools whose services are of poor quality.)
Accountability of schools	* Where educational goals are not achieved within the contracted time, management is terminated	

Source: Additions to T.Nakatome (1999) "Strategy in school management reforms"

Figure 5-2-17 English language capability based on TOEFL scores (Asia)



Note: Data from Asian countries or area with at least 10,000 examinees (July 1998 ~ June 1999)  
 Source: TOEFL Test and Score Data Summary , Educational Testing Service

Figure 5 - 2 - 18 Computers in Japanese public schools (1999)

Grade	Number of schools with computers (a)	Percentage of schools with computers (%)	Number of computers (b)	Number of computers per school (b) / (a)
1st-6th	23,140	97.7	297,845	12.9
7th-9th	10,426	99.9	334,213	32.1
10th-12th	4,161	100.0	317,886	76.4
Total	37,727	98.6	949,944	25.2

Grade	Number of students (c)	Number of students per computer (c) / (b)
1st-6th	7,385,066	24.8
7th-9th	3,972,116	11.9
10th-12th	2,954,346	9.3
Total	14,311,528	15.1

Sources: MITI calculations from Survey on Education for Information Literacy in schools (March 1999, Ministry of Education) and Basic Survey on schools FY99 (May 1999, Ministry of Education)

Figure 5-2-19 Comparison of Internet access in Japan-US schools

Year	94	95	96	97	98	99
US	35	50	65	78	89	95
Japan	-	-	-	-	19	36
Breakdown for Japan				1st-6th	14	27
				7th-9th	23	43
				10th-12th	37	64
				Grade		

(Unit: %)

Note: All data for public schools. Japan's figures for 98 and 99 from March survey.

Sources: Survey on Education for Information Literacy in schools, Ministry of Education  
 Internet Access in Public Schools and Classrooms, US National Center for Education Statistics

### C. Judicial system reforms in line with economic globalization

#### 1. Economic significance of judicial system reforms

The judicial system is expected to play a significant role in assisting the Japanese economy in the direction in which economic reform is pointing. Legal services are important as the cornerstone of Japanese economic competitiveness. The Japanese Cabinet has initiated consideration of judicial system reforms.

#### 2. Provision of high-quality and abundant legal services

Japan's legal services lag far behind other countries in terms of volume. Reasons include the restrictiveness of the bar examination, wide range of business restrictions and other regulation-based limitations on user options. Expanding the number of legal professionals and introducing the principle of competition will allow the provision of services in line with user needs.

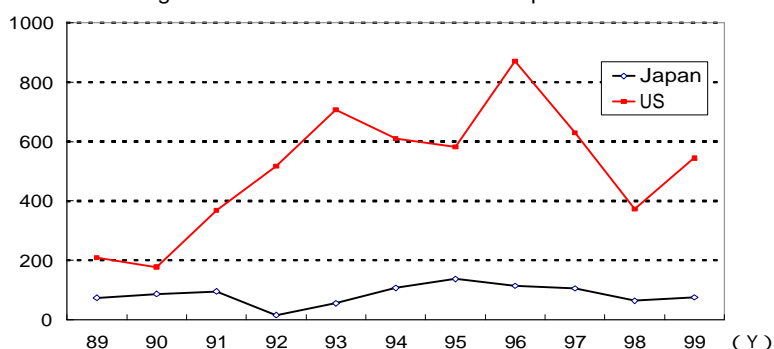
#### 3. Transparent and accessible legal services

In the United States and other countries, the improvement of access to information on legal services has been underway since the late 1970s. Since US courts decided to lift the ban on advertising (*Bates v. State of Arizona*, 97 S. Ct. 2691), lawyers have been free to advertise to the extent that their advertisements are not false or misleading.

The US permits wide-ranging access to and searches of case information on-line or over the phone, and a full range of private sector services is also available. Japan too provides highly convenient digital access to all Patent Bureau decisions. (As of March 1999, the Patent Office has provided free public access to the Industrial Property Digital Library.)

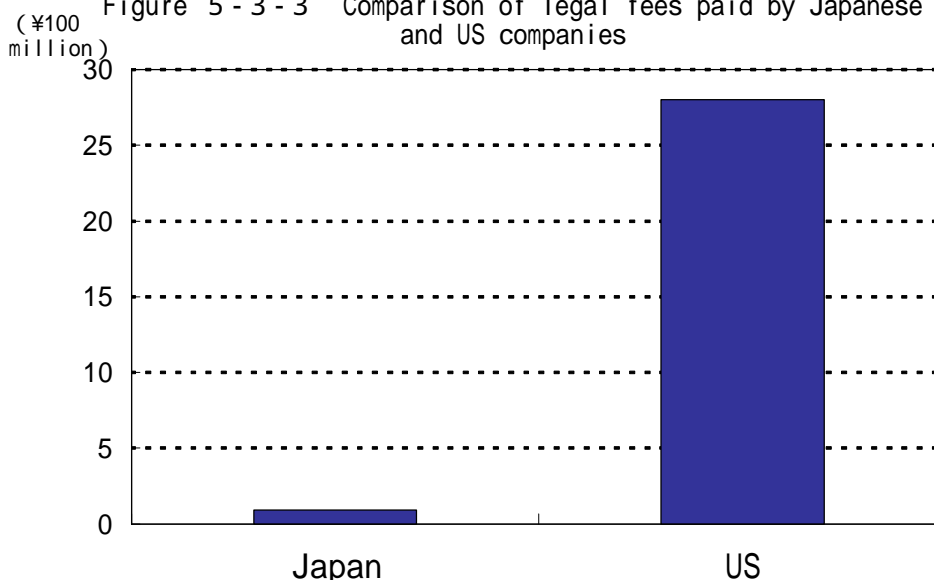
In Japan, the cost of using court proceedings is considerable, including lawyers' fees, the court cost burden and the cost of instituting a suit. Since US courts decided to liberalize lawyers' fees (*Goldfarb v. Virginia State Bar*, 95 S Ct. 2004), lawyers' fees have declined. Decisions have since been made prohibiting anti-competitive behavior such as fee regulations established by lawyers' associations in other areas in the US.

Figure 5-3-2 No. of IPOs in Japan and US



Sources: US: Venture Economics & National Venture Capital Association (NVCA); Japan: Securities Dealers Association of Japan

Figure 5-3-3 Comparison of legal fees paid by Japanese and US companies



Source: Drawn from Price Waterhouse Coopers for the US, the average of companies responding to a Nikkei Shimbun questionnaire (October 1999) for Japan

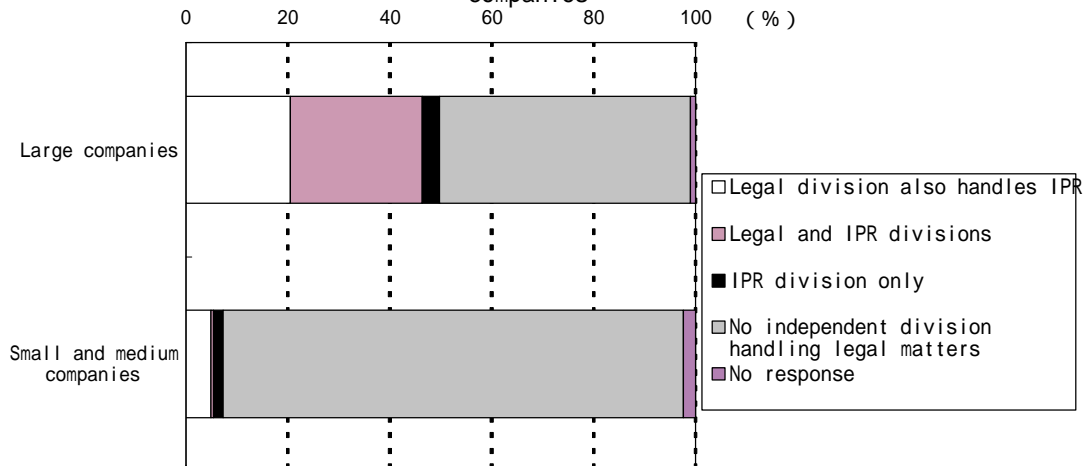
Table 5-3-4 Comparison of average investigation duration for IPR suits

	Japan	US	UK	France	Germany	ROK
Average investigation	25.7	8	12	16.4	6 to 12	12

Notes: Japan: Average investigation duration in first trials for IPR suits. 1998 figures.  
 US: Federal District Court figures for patent cases. For cases resulting in trials, 27 months. 1997 figures.  
 UK: 1998 High Court figures.  
 France: Average values for all Tribunals de grande instance 1990-95.  
 Germany: Average figures for first trials in state courts.  
 Republic of Korea: Figures for first trials in general courts.

Source: Supreme Court

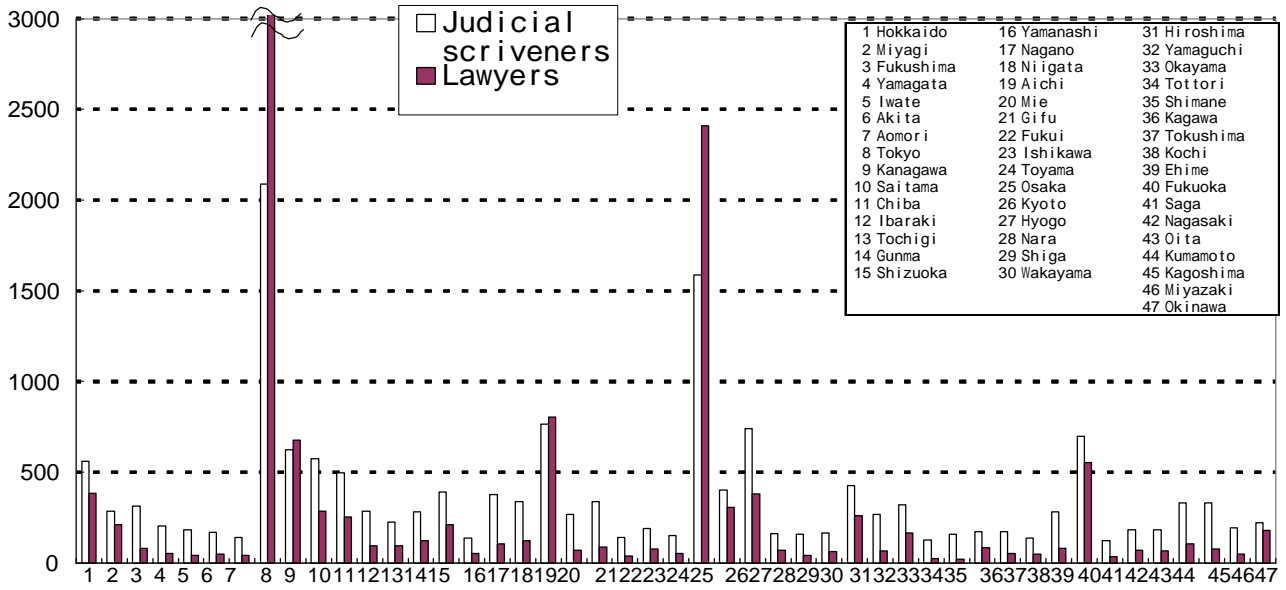
Figure 5-3-5 Establishment of legal divisions in Japanese companies



Note: Postal survey (delivered by post, filled in by company and returned by post) sent to large companies (random sample from all listed companies of 1,099 large companies with at least 300 employees) and small and medium-sized companies (random sample from all listed companies of 484 medium-sized companies with less than 300 employees). 5221 responses from large companies, 206 from medium-sized companies.

Source: International Comparison of Legal Systems (Tokyo Foundation)

Figure 5-3-6 Regional disparities in distribution of lawyers and judicial scriveners in Japan



Note: Figures for scriveners are as at 1 February 2000, for lawyers 28 February 2000. Sources: Scriveners: Japan Federation of Judicial Scriveners; lawyers: Japan Federation of Bar Associations

Table 5-3-7 Comparison of judicial persons (1997)

	US	UK	Germany	France	Japan
No. of judicial persons	940,508	82,653	111,315	35,695	21,458 (19,733)
Per 100,000 population	352.5	158.3	135.7	61.3	17.0 (15.7)
No. of lawyers	906,611	80,868	85,105	29,395	16,398
Per 100,000 population	339.87	154.89	103.77	50.15	13
No. of judges	30,888	3,170	20,999	4,900	2,899 (2,093)
Per 100,000 population	11.6	6.07	25.6	8.4	2.3 (1.7)

- Notes: 1. Bracketed figures for judicial persons exclude summary court judges and deputy prosecutors. US figures show intermediate value for 1995 (890,172) and 1999 (984,843).  
 2. The figure for US lawyers subtracts the number of judges and prosecutors from the overall total (996,270). UK figures are the total of barristers (9,231) and solicitors (71,637). French figures are the total of lawyers, appellate court lawyers, Conseil d'Etat and court lawyers.  
 3. The figure for Japanese judges is the standard number in 1997. The bracketed figure excludes summary court judges. US figures are for the 50 states and Washington DC. UK figures are the number of judges with judicial qualifications in England and Wales. Figures for Germany are the number of judges with judicial qualifications.

Source: The Judicial System in the 21st Century: Basic Approach of the Court to the Judicial System(Supreme Court)

Table 5-3-9 Comparison of Success Rate of Bar Examination

	Japan	U.S.	U.K.	France	Germany
Success Rate	around 3 % (1999FY)	around 70% (1989)	around 70% (1989)	around 10% (1994) (*)	around 70% (1985)

Notes: France: Success rate of judicial officer examination  
 (\*): the year of NBL(no.540) publication

Sources: Ministry of Justice, NBL(Commercial Law Center. Inc.(R)) no.512,522,5.

Table 5 - 3 - 10 US case information access

Title	Content and scope	Charge and means of access
U.S. Supreme Court Electronic Bulletin Board System	<ul style="list-style-type: none"> <li>• Supreme Court case files, dockets, orders, preliminary reports on judgements, decisions, lawyer qualification forms, orders on conducting suits, orders to appear in court, announcements, etc. Preliminary judgements and decisions up in 2, 3 days.</li> </ul>	<ul style="list-style-type: none"> <li>• Online access available</li> <li>• Free access</li> </ul>
U.S. Supreme Court Clerk's Automated Response Systems (CARS)	<ul style="list-style-type: none"> <li>• Supreme Court case files, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Provided through a voice-response phone system.</li> <li>• Free access</li> </ul>
Appellate Bulletin Board System (ABBS)	<ul style="list-style-type: none"> <li>• Appellate Court preliminary decisions and case files, dockets, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Online access and downloading</li> <li>• In many circuit areas, users are charged 6 cents/min. in line with US Federal Judiciary policy .</li> <li>• Prior registration necessary.</li> </ul>
PACER (Public Access to Court Electronic Records)	<ul style="list-style-type: none"> <li>• District and Bankruptcy Court preliminary decisions, casefiles, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Online access available</li> <li>• 6 cents/min. or 7 cents/page charged in line with US Federal Judiciary policy.</li> <li>• Prior registration necessary.</li> </ul>
U.S. Party/Case Index	<ul style="list-style-type: none"> <li>• Index for District, Bankruptcy and Appellate Courts. Searches can be made from anywhere in the US on parties involved in Federal suits.</li> <li>• For bankruptcies, searches can be made using the parties' names or social security numbers; in the civil index, the parties' names or the type of case; and in the criminal and appeals index, the parties' names.</li> <li>• Search results also provide a case number list, case registration location and time and date of registration.</li> </ul>	<ul style="list-style-type: none"> <li>• Internet access available (dial-up)</li> <li>• 6 cents/min. or 7 cents/page charged in line with US Federal Judiciary policy.</li> <li>• Prior registration necessary.</li> </ul>
ECF (Electronic Case Files Service)	<ul style="list-style-type: none"> <li>• Federal Court case files can be accessed through the Internet.</li> <li>• This system was introduced in 1996, allowing lawyers and parties to the case to take litigation procedures through the Internet.</li> </ul>	<ul style="list-style-type: none"> <li>• Information provided free</li> </ul>
VCIS (Voice Case Information System) and AVIS (Appellate Voice Information System)	<ul style="list-style-type: none"> <li>• Information on Bankruptcy and Appellate Court cases.</li> </ul>	<ul style="list-style-type: none"> <li>• Provided through a voice-response phone system.</li> <li>• Free access</li> </ul>

Source: Administrative Office of the U.S. Courts

