

# Digital Economy



The U.S.-Japan Business Council and the Japan-U.S. Business Council (“the Councils”) believe that it is essential for industries in both the U.S. and Japan to expand the digital economy by creating value through economic activity, while improving the business environment and creating business opportunities that continue to contribute to global economic growth. The Councils also believe that the U.S. and Japanese governments, as well as industries in both countries, need to pursue even closer cooperation and further demonstrate leadership to achieve a fair, just, safe, and secure society, putting an end to the digital divide and improving people’s well-being despite the increasingly diverse and complex set of global issues facing both countries. With this in mind, we present the following medium- to long-term recommendations to both governments.

## 1. Strengthen and promote a rules-based global trading system.

Given the need to reinforce the democratic values underpinning global trade and security amid ongoing global crises, the Councils believe that combatting protectionism is a key way to expand the global digital economy. To this end, the Councils call on the U.S. and Japanese governments to further demonstrate leadership in strengthening the rules-based global trading system.

We continue to support the United States rejoining the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (“CPTPP”), thereby establishing an expansive value chain with the participation of many Asia-Pacific countries, including those in the Global South, based on a mutual respect for diverse values and cultures, while recognizing that, politically, U.S. accession to the CPTPP is currently not achievable. We welcomed the launch of Indo-Pacific Economic Framework (“IPEF”) talks as a way to re-engage the region and believe it has the potential to promote shared prosperity in the region and uphold a free and open international economic order. To this end, we urge both governments to use the IPEF to deliver meaningful strategic and commercial outcomes that advance U.S. and Japanese interests in the region. The U.S. and Japan should demonstrate their leadership on rulemaking for the digital economy, and setting comprehensive, high-standard rules on digital trade will be critical to this effort. We therefore urge the negotiators to use the text of the U.S.-Japan Digital Trade Agreement as a floor. With respect to the strengthening of supply chains, we look forward to seeing the implementation and early introduction of systems aimed at mitigating risks and bolstering resilience among the member countries.

The Councils also encourage both governments to cooperate on efforts at the World Trade Organization (“WTO”) to reform its negotiating and dispute settlement processes and procedures to strengthen the rules-based global trading system. Accordingly, we urge the governments to reach substantial agreements at or ahead of the upcoming ministerial conference.

## 2. Advance digital transformation (“DX”) through closer U.S.-Japan cooperation.

The Councils believe that the acceleration of DX will be the foundation for a virtuous cycle consisting of the creation of new products and services, the promotion of green transformation (“GX”) and of economic security, the resolution of social issues, higher productivity, greater investment, improvement of healthcare, and the acceleration of innovation. Digitalization is key to resilient and efficient social and industrial infrastructures. In addition, increased utilization of data has the potential to change every aspect of economy and society. To achieve this, we believe that the U.S. and Japan should cooperate more closely, especially in the following areas:

## A. Foster investment in key technologies and supply chain resilience.

The Councils believe that the U.S. and Japanese governments should promote policies that encourage greater investment, particularly in domestic and overseas R&D, to eliminate critical dependencies on certain countries while strengthening global supply chains. Deconcentration and diversification of supply chains should be the order of the day. Reinforcing the supply chain for critical technologies, such as semiconductors, is especially essential to support the digital infrastructure needed for high-volume and high-speed information processing. Further, we welcome the implementation of the Japanese Economic Security Promotion Bill and the U.S. CHIPS and Science Act. We also recognize the importance of public-private collaboration in the semiconductor field to develop strategies to identify and nurture the areas and technologies that can provide a competitive edge into the future.

## B. Promote the free flow of data across borders.

We appreciate the efforts by both governments to promote policy frameworks that facilitate cross-border data flows for all services and financial services sectors, including through the Data Free Flow with Trust (“DFFT”) concept and robust digital trade disciplines, such as the U.S.-Japan Digital Trade Agreement. The Councils also welcome the G7 leaders’ endorsement of the outcome of the G7 Digital and Tech Ministers’ Meeting, i.e., “Annex on G7 Vision for Operationalizing DFFT and its Priorities” and the establishment of the Institutional Arrangement for Partnership (“IAP”) to operationalize DFFT at the G7 Hiroshima Summit. We urge the early implementation of these commitments to deliver substantive outcomes. The IAP in particular, as a principles-based, solutions-oriented, multi-stakeholder initiative, will provide a forum for international public-private collaboration with the goal of removing or reducing barriers to the cross-border transfer of data, including for financial services.

We strongly encourage the two governments to continue working closely together to promote the free flow of data in other multilateral fora, such as the G20, OECD, APEC and the WTO. We encourage both governments to embrace high-standard privacy protection and open digital markets in multilateral fora. We also urge the U.S. and Japan to promote these principles through established mechanisms, such as the APEC Cross-Border Privacy Rules (“CBPR”) System, the Global CBPR Forum, and the OECD’s discussions on government access to personal data.

## 3. Develop and promote a safe and reliable next-generation information and communications technology (“ICT”) infrastructure.

The Councils believe that secure and trusted next-generation telecommunications infrastructure will enable innovation and new opportunities across all industries by accelerating digitalization of social infrastructure. We also believe that an open, interoperable architecture is key to enhancing economic security by expanding options for selecting trusted vendors and diversifying supply chains. Based on the U.S.-Japan Global Digital Connectivity Partnership launched in May 2021, we urge both governments to continue to establish clear, secure, and trusted information and communications technology (“ICT”) 5G technology public policies to accelerate development and voluntary adoption, as well as the use of virtual, open, interoperable, and standards-based radio access networks (“RANs”), technologies, and solutions both domestically and internationally. We encourage the two governments to take initiative in accelerating the adoption of these technologies by implementing their commitments to invest in research, development, testing and deployment. We recognize that it is important to develop, build, and maintain a multi-layered network consisting of not only terrestrial networks, but also non-terrestrial networks and submarine cables among others, to bolster the reliability and strength of the overall information and communications network. From this viewpoint, we call on both governments to continuously strive to further collaborate with like-minded partners, including those in the Global South, to build a highly reliable and strong network by leveraging the international communications infrastructure (such as transoceanic submarine cables), thus bolstering global connectivity.

## 4. Accelerate the initiative to promote the use of artificial intelligence (“AI”).

The Councils anticipate that AI technology will greatly contribute to global socioeconomic development in the future and recognize that its technological advancement incurs a variety of risks. Based on this perspective, we need to ensure that the development of governance keeps up with the rapid pace of technological innovation as seen in generative AI today, in accordance with the concept of agile governance acknowledged at the G7 Digital

and Tech Ministers' Meeting in April 2023. To this end, we welcome the G7 leaders' directive to establish the Hiroshima AI Process by the end of this year, which could include the consideration of themes such as human-centric governance, the protection of copyright and other intellectual property rights, promotion of transparency, response to information manipulation by other countries (including disinformation), and the responsible use of these technologies, as described in the G7 Hiroshima Leaders' Statement, as well as the Action Plan for promoting the global interoperability of AI governance from the G7 Digital and Tech Ministerial Meeting. We encourage both governments to implement concrete policies at an early stage to achieve these objectives.

As discussions for legislation of AI-related laws and regulations are progressing in various countries and regions including in the U.S., Japan and the EU, the Councils understand that it is critical to ensure interoperability of rules and standards to properly utilize and operate AI on a global scale. We urge the two governments to demonstrate leadership in achieving those goals while strengthening cooperation with relevant stakeholders, including industry, based on the spirit of the Ministerial Declaration of the 2023 G7 Digital and Tech Ministers' Meeting.

Additionally, to ensure the responsible development and use of AI, it is essential to endorse transparent, multi-stakeholder approaches to AI governance. This includes developing voluntary standards, frameworks, and codes of practice that can bridge the gap between AI principles and implementation. Multi-stakeholder initiatives have the greatest potential to identify gaps and mobilize AI actors to address them. The United States' National Institute of Standards and Technology's ("NIST") Artificial Intelligence Risk Management Framework ("AI RMF") and Japan's AI Governance Framework offer a good basis to coordinate on bilateral interoperability of AI governance, given their shared emphasis on agile governance, a risk-based approach, promoting safety, transparency, and accountability while fostering innovation, making both suitable models for broader inspiration and adoption. On the other hand, we believe that careful consideration is needed to ensure that the regulations related to misinformation/disinformation and ethics do not impede innovation.

Moreover, we believe that improvements in the energy consumption and processing capabilities of systems are important from the standpoint of green transformation, considering that massive amounts of data are utilized, and huge amounts of electricity are consumed through using AI. The mass production of advanced semiconductors, critical to achieving these goals, should also be promoted concurrently. As the importance of DX promotion grows to attain economic development and resolve social issues, the Councils encourage the U.S. and Japanese governments to assert leadership in striking a balance between the semiconductor and digital industry strategy and green growth strategy, thereby creating a virtuous cycle, a high global-level perspective, and collaboration.

## 5. Strengthen U.S.-Japan leadership in promoting the use of emerging technologies.

### A. Deepen bilateral and multilateral cooperation on quantum technology.

We urge the two governments to accelerate the implementation of cutting-edge solutions, such as the development of quantum technology in the areas of quantum computers, quantum-safe cryptography and quantum networking, through the implementation of demonstration schemes and joint development based on the U.S.-Japan Competitiveness and Resilience ("CoRe") Partnership.

We support the intent of both governments to conduct joint research and development projects of these critical and emerging technologies foreseeing the potential future acquisition and utilization of such technologies, not only between the two countries but also together with like-minded countries.

In addition, it is critical that both countries identify and protect fair and rules-based standards development processes and implement approaches to bolster the participation and capacity of industry in key standards-setting processes for emerging and critical technologies, such as in areas of quantum technology.

### B. Continue public-private dialogue on immersive technologies.

The Councils support the idea agreed to at the G7 Hiroshima Summit that the governance of the digital economy, including immersive technologies, should be continually updated in line with democratic values.

Furthermore, to promote responsible innovation and implementation of technologies while upholding online safety and rights to security and privacy, discussions at relevant multistakeholder fora, including at the OECD, should continue, in close consultation and collaboration with technology companies and other relevant stakeholders.

We recognize that immersive technologies will likely give rise to many innovative opportunities across various fields and use cases, such as healthcare. In the face of structural changes, such as demographic shifts, including the aging society, and as the need to promote higher productivity and secure sufficient labor force participation increases, we call on both governments to implement robust policies designed to improve the efficacy and efficiency of healthcare and to equip individuals with capabilities such as digital reskilling and upskilling to keep pace with the digital transformation.

### C. Promote an open, interoperable, and secure Internet through globally recognized cyber risk management frameworks.

The Councils recognize that securing the governance and reliability of the Internet in line with democratic values, exemplified by fairness, accountability, transparency, safety, protection from harassment, hate, and abuse, respect for privacy and human rights, fundamental freedoms, and the protection of personal data on technologies and platforms, is essential for the development of the digital society. To this end, the Councils welcome the “G7 Action Plan for Open, Free, Global, Interoperable, Reliable, and Secure Internet” from the Digital and Tech Ministers’ Meeting and urge the early implementation of concrete policies to achieve the outlined objectives.

The Councils recognize that cybersecurity risk management, especially regarding critical infrastructure, is essential to U.S. and Japanese economic and national security and is important for our bilateral partnership on digital trade. Given the evolution of cybersecurity threats and their increased frequency, use of digital technologies to bolster infrastructure resilience will be key to managing risks. Moreover, the Councils recognize that a risk-based approach is more effective for managing cyber risk than prescriptive regulation.

Approaches to cybersecurity should adhere to internationally recognized cyber risk management frameworks that are relevant across sectors that businesses can utilize to enhance their security over time. Allowing industry to combat evolving cyber threats with evolving best practices and globally recognized standards permits a more flexible, current, and risk-based cybersecurity approach. A more aligned international approach to cyber policymaking also streamlines the process for SMEs that need to strengthen their cybersecurity capabilities to integrate into global supply chains.

We encourage the two governments to include the U.S.-Japan Digital Trade Agreement’s cybersecurity provisions in future trade agreements, including the WTO joint initiative on e-commerce and IPEF.