

Japan's Policy on FTAs / EPAs

March 2005



Ministry of Economy,
Trade and Industry

What is an EPA (Economic Partnership Agreement)

EPA: Economic Partnership Agreement

Bilateral or multilateral agreement among states to eliminate customs and domestic regulations other import/export regulations, to harmonize economic systems, and to facilitate the free movement of natural persons, goods, and capital within a region.

FTA: Free Trade Agreement

An agreement, within a region or states, to reduce or to eliminate tariffs on goods and other barriers on trade in services; a major component of an EPA

Relationship between WTO and FTAs

FTA

Eliminating tariffs exclusively within a certain region

= No preferential treatment for non-participating states

Exceptions, depending on region

For the WTO,
Liberalization of “substantially all trade”
is a requirement

- Condition seen in EU scheme
 - 90% of all trade by volume
 - Not excluding certain areas
- Inform WTO of content
= publish proportion of exceptions

WTO

Applying customs duties equally to all member states

MFN (Most Favored Nation Treatment) principle

EPA is the key to energizing economies

**Promoting EPAs is
the key to energizing
economies**

Improving supply-side

- Removing regulations on investment, setting up business environment
- Lowering production costs by eliminating duties on raw materials and parts

More attractive as a place to invest destination

Growth in percentage of all inbound FDI received, world-wide

| | | |
|---------|--------|--------|
| · NAFTA | 20% | 35% |
| | (1991) | (1999) |
| · EU | 40% | 50% |
| | (1986) | (2000) |

Expanding trade

- Eliminating tariffs
Expanding market access
- Rules of origin
Expanding in-region procurement

Shift of exports

| | | | |
|---------|-----------------|--------|--------|
| · NAFTA | Canada, Mexico: | 70% | 90% |
| | USA | : 30% | 40% |
| | | (1990) | (1999) |
| · EU | | 60% | 80% |
| | | (1986) | (2000) |

Basic Policy on Further Promotion of Economic Partnership Agreements

Criteria for Identifying Countries/Regions to negotiate with on FTAs/EPAs
(21Dec. 2004: The Council of the Ministers on the Promotion of Economic Partnership)

【Creation of international environment beneficial to our country】

- Community building and stability and prosperity in East Asia
- Strengthen our economic power and tackle political and diplomatic challenges
- Reinforce Japan's position at international society, including the WTO talks, through partnership and cooperation with related countries/regions

Basic Policy on Further Promotion of Economic Partnership Agreements

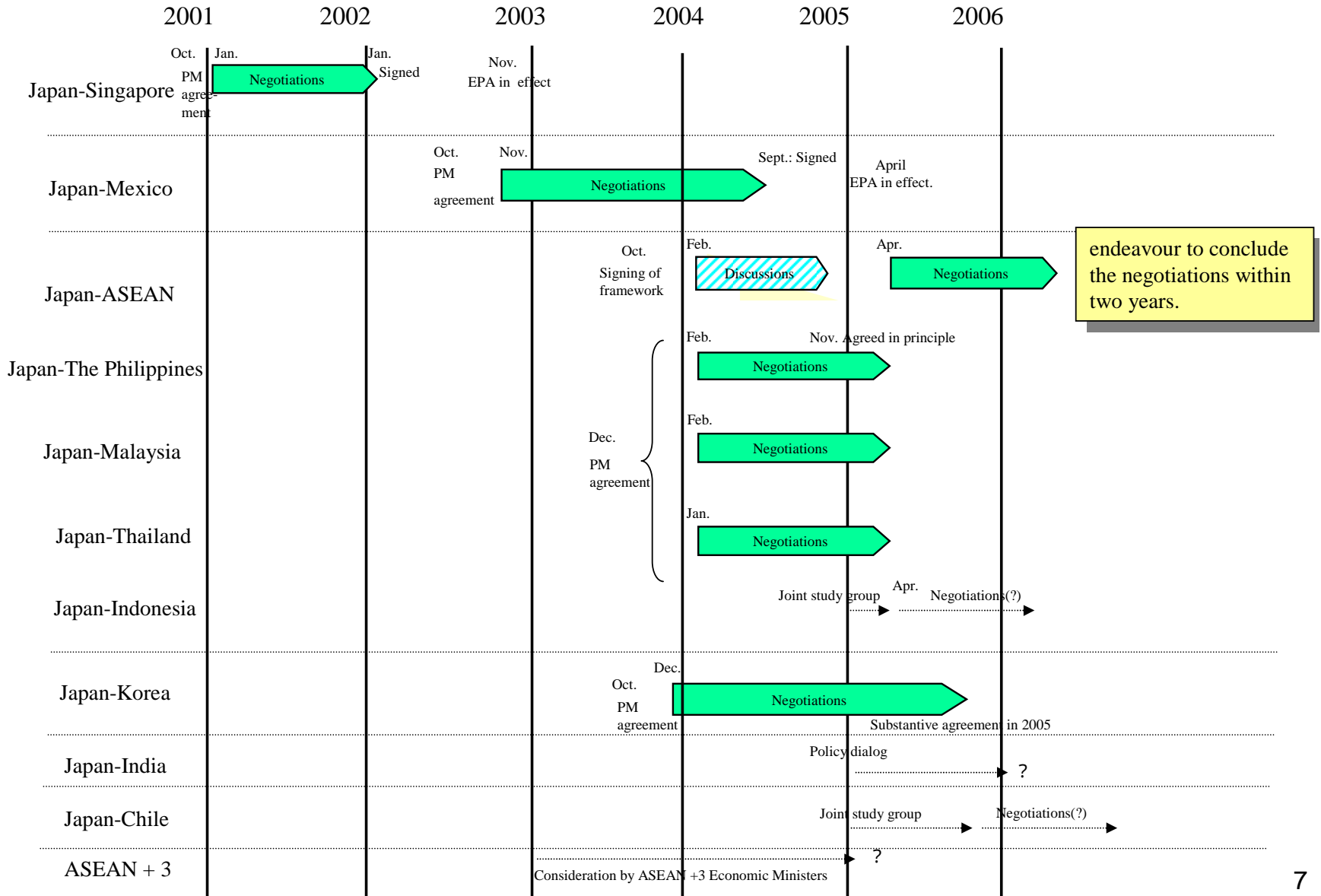
【Attainment of economic interests of Japan as a whole】

- Substantially expand and facilitate trade in goods and services as well as investment
- Eliminate economic disadvantages caused by absence of EPA/FTA.
- Promote stable import of natural resources and safe food, and diversification of suppliers.
- Promote Japan's economic and social structural reforms.
- Promote acceptance of specialized and skilled workers.

【Situation of partner countries/regions and feasibility of realizing FTA/EPA】

- Friction or problems with other countries/regions which might be affected in the field of trade and investment
- Capability of implementing the commitments under the WTO and FTA/EPA.
- Whether Tariff elimination is the best means of economic partnership with the countries/regions concerned
- Consideration for products which are difficult to liberalize.

EPA Schedule



endeavour to conclude the negotiations within two years.

Efforts to build economic partnerships in East Asia

Japan-ASEAN

Discussions began in February, 2004 on rules of origin, etc. At the Japan-ASEAN Summit, the Leaders agreed that Japan-ASEAN CEP Comprehensive Economic Partnership (CEP) Agreement negotiation should commence in April 2005, and took note of the Economic Ministers' commitment to endeavour to conclude the negotiation within two years from that day.

Japan-Singapore

Both heads of state signed an EPA in January, 2002; it went into effect in November, 2002.

Japan-The Philippines

Began negotiations in February, 2004; have met five times so far. Both parties agreed in principle at the Japan-Philippines Summit in November 2004.

Japan-Malaysia

Began negotiations in January, 2004; have met six times so far and aim to achieve a substantive agreement as soon as possible.

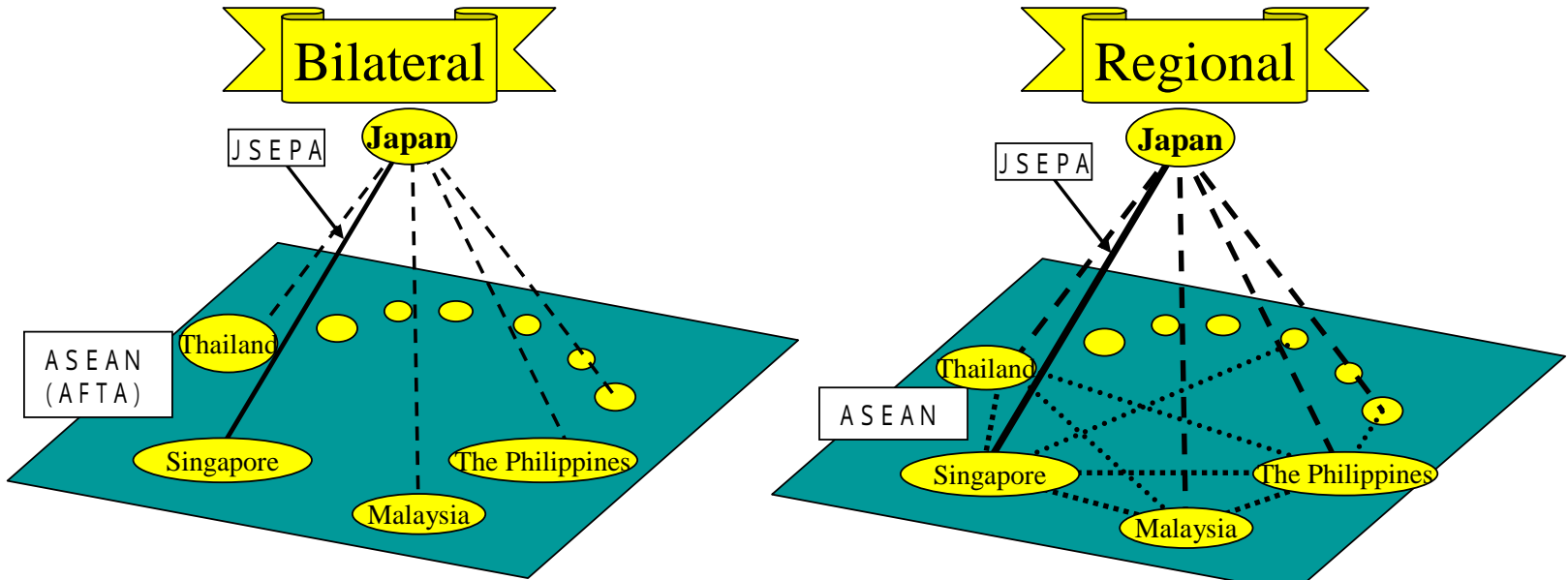
Japan-Thailand

Began negotiations in February, 2004; have met six times so far and aim to achieving a substantive agreement as soon as possible.

Japan-Korea

Began negotiations in December, 2003; have met six times so far and aim to achieve a substantive agreement in 2005.

Images of Japan-ASEAN Comprehensive Economic Partnership



< Points >

The Japan-ASEAN Comprehensive Economic Partnership (CEP) Agreement would contain bilateral agreements which Japan had already concluded with ASEAN countries, would clarify the stages of AFTA, and would increase items to be targeted for liberalization.

The Japan-ASEAN Cumulative Rules of Origin would enable companies located in the Japan-ASEAN region to do business with no tariffs.

The Effect of a Japan-ASEAN CEP

The impact of a Japan-ASEAN CEP on the Japanese economy.
(GTAP (Global Trade Analysis Project) model analysis)

- GDP Growth

1.1 trillion yen

* 1

~

2 trillion yen

* 2

* 1) Ken Itakura and Thomas W. Hertel.

* 2) Kenichi Kawasaki (RIETI)

(note) There are various effects other than the effects incorporated in these models.
Economic effects are expected to be increased by considering the vitalization of the economy through the improvement of efficiency of enterprises.

(Reference)

GDP growth by 1.1 trillion yen ~ two trillion yen creates

about 150 thousands ~ 260 thousands employment.

(METI)

Outline and effect of the EPA Negotiation between Japan and Singapore

January-October, 2001 Negotiating the EPA

January, 2002

Signed, during Prime Minister Koizumi's visit to Singapore

November, 2002

Went into effect

1. Main trade effects (2003)

1. Trade trends after the EPA went into effect

Despite Japanese economic stagnation, SARS, and terrorism, trade volume was sustained at the previous year's level.

- Japanese exports to Singapore: ¥1,720 billion (-3.2%, YoY)
- Singaporean exports to Japan: ¥630 billion (+1.2%, YoY)

2. Trade trends in main items on which tariffs were eliminated

1. Exports from Singapore

- Plastic products (Tariff cut from max. 6.5% to 0%): Increased 53%, value base, YoY
- Gasoline (Tariff cut from max of ¥2,336/KL to 0%): Increased 83%, value base, YoY

2. Exports from Japan

- Beer (Tariff cut from max of 1.7 Singapore dollars/L to 0%): Increased 7% on value base, YoY
(Note: Asahi Breweries moved its production base for exports to Singapore from China to Japan in response to the EPA)

2. Main non-trade effects

Promoting investment (Business Support Office)

In August, 2003, International Enterprise Singapore (IE Singapore) opened a Business Support Office in Tokyo; three companies are already using it.

On the Japan side, JETRO had already opened its Business Support Center in Singapore in October, 2001. As of December, 2003, 19 companies were using it, and 16 had begun doing business in Singapore.

Outline and effect of the EPA Negotiations between Japan and The Philippines

| | |
|----------------|--|
| February, 2004 | First negotiation meeting was held. (5 negotiation meetings have been held so far.) |
| November, 2004 | Both parties agreed in principle. |

1. Trade in goods

Tariffs on industrial products and agriculture, forestry, and fishery products will be eliminated or reduced comprehensively. The major elements in those sectors are in the attached paper.

2. Investment

The Agreement will include provisions concerning National Treatment, Most Favored Nation Treatment and Performance Requirement Prohibitions for the liberalization of investment, and enhance transparency by specifying all exceptions to these provisions. Furthermore, provisions concerning protection of investment will also be included in the Agreement.

3. Movement of natural persons

The Japanese side will allow entry of Filipino qualified nurses and certified careworkers that satisfy certain requirements and will allow them to work, after completing training in the Japanese language and other skills, as preparation for obtaining national licenses, on the assumption that the Philippine side will provide a similar framework to meet the Japanese interest. (Duration of stay: up to 3 years for nurses, 4 years for certified careworkers) After taking the national license examinations, successful candidates will be allowed to work as qualified nurses and certified careworkers.

4. Other effects

- Setting up a committee on the business environment in which private sector representatives can participate.
- Promoting bilateral cooperation in nine fields (human resource development, financial services, information and communications technology, energy and environment, science and technology, trade and investment promotion, small and medium enterprises, tourism, and transportation.)

Outline and effect of the EPA Negotiation between Japan and Mexico

| | |
|----------------|---|
| November, 2002 | First negotiation meeting was held. (13 negotiation meetings have been held so far.) |
| March, 2004 | Both countries agreed in substance at ministerial meeting. |
| April, 2005 | Going into effect |

1. Trade in goods

Eliminating tariffs on the Japan side (particularly the elimination of almost all tariffs on mining and manufacturing products within 10 years) is expected to lead to a 10.6% increase in Mexico's exports to Japan after the EPA is implemented. (Source: Mexico's Ministry of Economy)

2. Investment

The EPA means an improvement in Mexico's investment climate

1. Slowing the growing trend for Japanese firms to pull out of Mexico
 1. Mexico will become increasingly attractive as a base not only for exporting to the North American market but also to Latin America as well (Mexico has FTA agreements with Venezuela, Colombia, Bolivia, Uruguay, etc.)*
 2. Increased inward investment directly from Japan, rather than via the US
2. Mexico estimates that the EPA will attract \$12 billion in investment from Japan over 10 years and will lead to the direct employment of nearly 277,000 persons.

3. Other effects

1. Upgrading industries and companies through investment and cooperation
2. Less trade dependency on North America
3. Contributing to regional economic development

***The Japan-Mexico EPA is estimated to produce a 1.08% increase in Mexico's net GDP.
(Source: Report of the Japan-Mexico joint study group)**