

Section 2 Promotion of external economic policy through enhancement of economic cooperation in East Asia and a multi-layered approach

<Key Points>

1. Concrete efforts towards the systemization of an East Asian business zone

Japanese companies' activities are moving their focus of activities largely to East Asia, and as a source of profit also, East Asia is growing in significance. In order to ensure these sources of profit and strengthen them accordingly, it would be effective to systemize cooperative relations in East Asia, which have already been constructed in a practical manner.

Such systemization would, through the securing of markets in East Asia and the reduction of regional transaction costs, contribute to securing and ensuring profits for Japanese companies, thus enhancing the corporate value of Japanese companies and improving their competitive edge in a global context. In addition, systemization would provide impetus to the vitalization of the Japanese economy through an increase in stock values. To this end, it is important that, learning from the cases of Europe and North America in regional economic integration, concrete efforts are promoted towards the systemization of an East Asian business zone.

In systemizing an East Asian business zone, it would be necessary to seek regional systemization, based on rules to be realized through multilateral trade systems focused on the WTO, but overtaking the WTO rules in terms of degree of coverage and liberalization and system harmonization. An important tool towards the achievement of such systemization would be economic partnership agreements which cover a broad range of sectors, including FTAs, which would enable a greater flexible response.

Japan is looking to the realization of economic partnership with East Asia as a whole in the future, and it is important to first of all proceed with efforts with ASEAN as a whole as well as individual ASEAN countries such as Thailand, the Philippines, Malaysia and the ROK. In the future a strategic issue will be to widen efforts toward economic partnership with ASEAN and the ROK to include Japan-China-ROK and ASEAN+3 efforts, linked also with Taiwan and Hong Kong, to realize regional economic integration over a wide region of East Asia.

In addition to such efforts on the part of Japan, recently in East Asia too, efforts by various countries have been stepped up towards the conclusion of economic partnerships and free trade agreements which are legally binding. There is an increasing tendency to deepen the ASEAN Free Trade Area (AFTA), and to conclude bilateral and regional free trade agreements, including an ASEAN FTA with China.

2. Analysis of the economic effects of economic partnership in East Asia

Various analyses of the economic effects of economic cooperation have been conducted, and analyses conducted on the entire East Asian region have confirmed that in addition to trade liberalization, regional free trade agreements in the region that encourage convergence in technologies and the movement of international production capital provide further benefits to countries participating in the agreements.

In addition, performance analysis of economic partnership between Japan and ASEAN has revealed that the elimination of barriers such as tariffs that currently exist in Japan and ASEAN would expand trade between the two regions through increasing opportunities for market entry. In addition, further trade expansion would be expected over the long-term, through increased income in partner countries and promotion of competition and production improvement by technology transfer, both of which would be brought about by increased imports and inward direct investment.

The Japan-Singapore Economic Partnership Agreement (JSEPA), Japan's first ever economic partnership agreement, was put into effect in November 2002, and its influence is already being seen, such as in the increase in exports and imports between the two countries.

3. Utilization of multilateral and regional efforts such as the WTO, APEC and bilateral efforts

In promoting the systemization of economic partnership in East Asia, it would be desirable to realize an East Asian business zone even more smoothly by making use of the strategic efforts in the WTO, on the regional level in fora such as APEC, and bilateral efforts.

In other words, in the process of systemizing economic partnerships in East Asia, the following are considered to be effective in promoting the realization of an East Asian business zone, all of which could be combined to best utilize their various characteristics: the WTO, which acts as a common base for minimum requirements; East Asian regional cooperation through ASEAN+3 and other fora, which promotes further development of regional systemization; broad regional cooperation including APEC in the East Asian sphere; and bilateral efforts enabling more flexible efforts.

4. Strategic Utilization of ODA as a policy tool of Japan

To date East Asia has been the destination for more than half of Japan's Official Development Assistance (ODA), and assistance has focused on economic and industrial infrastructure development. At the same time, when viewing the recent situation surrounding ODA, in addition to reconfirmation of the importance of ODA, the ODA Charter is to be reviewed by the end of the current fiscal year in light of the stringent economic and fiscal circumstances in Japan and the trend to decreased budgets.

In such an environment, in order to strengthen economic partnership in East Asia, the necessity has emerged for policies to be reconsidered in the light of using ODA strategically and effectively. In other words, in order to promote the development of infrastructure and systems that would contribute to invigorating trade and investment in East Asia, including intellectual property rights, energy and currency and financial aspects, it is now required that ODA be used as a policy tool. In specific terms, in addition to making efforts to enhance the economic infrastructure, such as environment and energy, communications, roads and financial systems, that is required for sustainable economic development in developing countries, it is also necessary to focus the disbursement of ODA on development of trade and investment

infrastructure, including the creation of a system for intellectual property and assistance for supporting industries.

In addition, from the perspective of Japan's national interest, it is important to review the "request-oriented" nature of ODA, and in order that it can be proactively implemented, it is important to demonstrate to the recipient countries the fact that Japan places priority on economic cooperation policies, ask for their understanding in this regard, and enhance policy coordination so that requests can be made in line with this effort.

1. Concrete efforts towards the systemization of an East Asian business zone

(1) The idea of creating an East Asian business zone

(a) The significance of creating an East Asian business zone

It is important to employ measures that will help activities implemented in Japan as a base of economic operation to sustain their competitiveness. Such economic activities are of vital importance as they would become a source of employment in Japan, but it is also true that they represent just a fraction of the global activities of Japanese companies. A look at the actual status of Japanese companies' activities, which have already been implemented on a global scale, brings to the fore the significance of creating an East Asian business zone.

In other words, as seen in Chapter II, Japanese companies' activities are moving their focus of activities largely to East Asia, and as a source of profit also, East Asia is growing in significance. In order to ensure these sources of profit and strengthen them accordingly, it would be effective to systemize cooperative relations in East Asia, which have already been constructed in a practical manner. Such systematization would, through the securing of markets in East Asia and the reduction of regional transaction costs, contribute to securing and ensuring profits for Japanese companies, thus enhancing the corporate value of Japanese companies and improving their competitive edge in a global context. In addition, through an increase in stock values, systematization would provide impetus to the vitalization of the Japanese economy struggling with the triple distress of deflation, non-performing loans and low growth. Also, the lowering of the hedge between the internal and the external economy would, by accelerating domestic structural reform, make Japan an even more attractive investment destination. In other words, the systemization of an East Asian business zone is expected to stimulate the development of Japan's economy as a whole, in terms of both demand and supply.

(b) The experience of the European Union (EU) and the North American Free Trade Agreement (NAFTA)

In this regard, a lot can be learned about the actual effects of systemization from the experience of Europe and North America (the strengthening and expansion of the EU and the creation of NAFTA) in the 1990s. First of all, the formation of regional economic zones in Europe and North America accelerated structural reforms at corporate and national levels and enhanced the competitiveness of the supplier side, through interaction and integration of the different economies of the participating countries. Companies were exposed to free competition among powerful companies of other countries in the region and thus were forced to implement management reforms focused on selection and

concentration. Alternatively, by optimizing the area-wide distribution of management resources, regional zones enhanced the competitive edge of companies and improved their earnings performance. On a national level, industrial structures shifted from less competitive to more competitive industries.

Second, through the elimination of tariffs and the harmonization of various systems, such regional economic zones gave intra-regional transactions an edge over extra-regional transactions. Thus, the member countries gained preferential access to neighboring markets. The same effect is generated by the elimination of intra-regional tariffs among the member countries of the free trade agreement (FTA) and the establishment of rules of origin. For instance, NAFTA imposes a regional value-content requirement on certain goods demanding that components equivalent to no less than 60 percent (usually 60 percent; 62.5 percent for automobiles) of the transaction value of the goods is procured from its member countries. Such a requirement would encourage companies to shift to procurement of NAFTA-originating components. For instance, Japanese companies that manufacture vehicles in Mexico and import them in the United States (US) cannot exempt their imports from tariffs unless they procure components worth more than 60 percent of the product value from North America. That is why they were forced to shift from procurements from Japan to intra-regional procurements. As a result of such measures, the share of intra-regional transactions in the trade structure of the member countries significantly expands and drastically stimulates demand in those countries. Also, in terms of investment, the unification of systems and the preferential treatments for intra-regional companies results not only in enhancement of investment within the region, but also in drastic increase of investments from extra-regional investors interested in large and seamlessly organized economic zones.¹

Third, since the unified systems and standards in the regional economic zones are verified on a multilateral basis, they stand a very high chance to be adopted as norms at multilateral fora and if, indeed, they are accepted as multilateral rules, companies that implement economic activities in line with such rules ahead of their rivals would gradually enhance their competitive edge.

(c) Systemization of an East Asian business zone

The attempts for systemization of business zones in both Europe and North America were realized under political leadership and on the basis of the existing strong economic interdependence in those regions, and have produced the benefits outlined above. For Japan, it is crucial to make possible, through systemization of business zones in the East Asian region where economic interdependence has been gradually deepening in recent years, optimized allocation of corporate management resources, securing of markets, enhancement of earnings performance, implementation of structural reform of the economy, dissemination on a global level of rules that are familiar to the Japanese economy and enjoyment of benefits from this. This cannot be realized only through approaches based on the viewpoint of domestically enhancing the competitive edge of Japanese companies outlined in Section 1. Meanwhile, too much stress on this point causes potential insufficiency of domestic source of employment. In that sense, systemization of business zones implemented together with the measures outlined in the previous chapter is expected to bring enhanced effects to Japan's economy.

¹ *White Paper on International Trade* p. 168

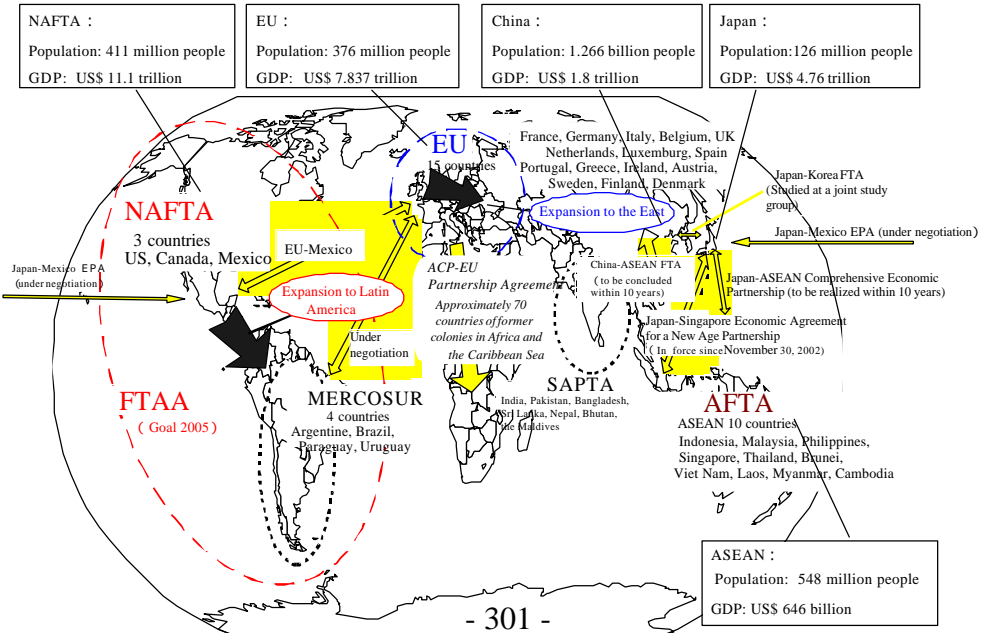
As for systematization of economic cooperation in East Asia, it is a fact that so far such efforts have been curbed by both Asia and the US. The creation of an Asian economic zone faced strong opposition from the US and other countries. For example, there was objection in the second half of the 1980s, when the Asia-Pacific Economic Cooperation (APEC) was created, and also in the beginning of the 1990s, when Malaysian Prime Minister Mahathir proposed the concept of an East Asian community. The concept of an Asian Monetary Fund proposed during the Asian currency crisis was again vehemently opposed. Japan, for its part, did not attempt to overcome this opposition and to exercise initiative. It is also true that the neighboring Asian countries viewed with apprehension a possible leadership by Japan.

However, this situation is undergoing significant changes. Aiming toward establishment of its own FTAs with the Asian countries, the US has announced initiatives to this end and is refraining from making negative statements regarding the systemization of economic cooperation in East Asia. Also, China and the Republic of Korea (ROK), as well as the countries of the Association of Southeast Asian Nations (ASEAN), are becoming clearly aware of the future significance of the systemization of an East Asian business zone. A report on cooperation in a wide range of areas, including FTAs was presented at the ASEAN+3 Summit Meeting in 2002, and it was decided to study the possibilities for forming FTAs at the Economic Ministers' Meeting. An ever-increasing number of countries in the region share the awareness that the real advancement of economic cooperation, the increasing intra-regional specialization and transactions, and the area-wide elimination of barriers will give advantages to all participating countries.

Actually, systematization of the East Asian economic cooperation and realization of an economic “win-win” situation would contribute to improvement of the social and political instability that is plaguing the region. This will reduce the investment risks in the region, stimulating increase of intra-regional investments and also making it possible to attract external investments, thus creating a virtuous circle of growth. The example of Mexico’s participation in NAFTA proves this effect.

Therefore, the creation of an East Asian business zone through systemization of economic cooperation in East Asia is an extremely important theme for Japan’s economy, as well as for the economies and societies in the East Asian region, and the time has come to address it. To this end it is important to learn from the cases of Europe and North America (Fig. 4.2.1).

Figure 4.2.1 Trends in the major global regional trade agreements



(2) Efforts toward enhancement of economic cooperation in East Asia

In order to facilitate international economic activities, it is important to not only eliminate borderline barriers, but also to implement cross-border harmonization of systems of each country. To this end, in systemizing an East Asian business zone, it would be necessary to seek regional systemization, based on rules to be realized through multilateral trade systems focused on the World Trade Organization (WTO), but overtaking the WTO rules in terms of degree of coverage and liberalization, and system harmonization. Furthermore, special consideration should be given to the point that bilateral efforts capable of producing greater flexible responses can take a leading role in the process of systemization in the East Asian region. From this perspective, it would be important to coordinate efforts on multilateral, regional and bilateral levels toward early realization of regional systemization in East Asia.

An important tool in the efforts on regional and bilateral levels toward the achievement of such systemization would be economic partnership agreements, which cover a broad range of sectors, including FTAs. Japan would need to mount its systemization efforts smoothly through utilization of such tools in conjunction with ODA, which is one of the few diplomatic tools Japan has.

As for the scope encompassed by “East Asia,” from the viewpoints of geographical proximity, strength of mutual interdependence in economic relationship such as trade and investment, and scope for development of corporate strategies, East Asia as a region basically consists of an area based on ASEAN+3 (Japan, China, the ROK), while the region including Taiwan and Hong Kong is thought to be a comprehensive figure of it. As for Australia and New Zealand, the interdependence with these countries is not particularly strong and they are not necessarily included in the scope for development of corporate strategies. Also, the awareness for integration between Australia and New Zealand on one side, and the East Asian countries and regions on the other seems to be rather weak on both sides. From this perspective, it is probably most appropriate to consider measures for enhancing separate economic cooperation with Australia and New Zealand as regions not included in East Asia.

As for the efforts toward enhancement of economic cooperation in East Asia, the first step regarding China should be assessment of its compliance with its WTO accession commitments. For that reason, Japan is, first of all, advancing efforts with ASEAN and with the ROK.

(a) Economic cooperation with ASEAN

<Direction of the economic cooperation with ASEAN>

In its relations with ASEAN, Japan is advancing efforts on both bilateral and multilateral levels, but priority is given to establishment of several preceding bilateral agreements with the final objective of realization of an economic cooperation between Japan and ASEAN as a whole. This cooperation between Japan and ASEAN as a whole will create a free trade area by eliminating tariffs and other trade barriers between Japan and all member countries of ASEAN. Similarly to the systemization of the economic cooperation in East Asia as detailed in this section, it is expected to produce various benefits, such as securing of markets, enhancement of intra-regional procurements, optimization of distribution of production bases and improvement of corporate earnings performance through cost reduction of enlarged regional transaction. In addition, the following points are particularly important.

First, given the current segmentation of each ASEAN country, it is difficult for the region to become

an important base in companies' global strategies in terms of both markets and production centers. However, through the creation of a single barrier-free Japan-ASEAN zone, including the elimination of intra-ASEAN barriers, ASEAN could become an important base. Amidst the trend for concentration of new investment in China because of the great growth potential of the country, Japanese companies will be able to avoid the risks of excessive concentration of investment in China by engaging in diversified investment in ASEAN, while effectively utilizing the substantial ASEAN assets accumulated through previous investment. From the viewpoint of the ASEAN countries, as well, the situation in which Japanese companies do not concentrate their investment in China but engage in diversified investment in ASEAN is indispensable for their economic development and cannot be realized on the basis of bilateral economic partnership agreements alone. Therefore, the systemization of economic partnerships in the Japan-ASEAN area will link the two sides in a "win-win" relationship.

Second, as indicated on Figure 4.2.2, it is often the case that Japan-ASEAN transactions already pass through several countries, and therefore there are many transactions where the bilateral FTAs and bilateral rules of origin are insufficient, so these measures alone are not enough to realize cost reductions, enhancement of earnings performance or securing of markets for Japanese companies. In other words, attention should be paid to the fact that there are many areas where bilateral FTAs are insufficient including the elimination of barriers in the ASEAN region through the progress of ASEAN integration.

First, in the cases when products produced in one country (Country A) are slightly processed in another (Country B) (for example, without changing their tariff classification), and then are exported to Japan (Fig. 4.2.3), even if Japan had FTAs with both Country A and Country B, if the same framework of the rules of origin stipulated in the Japan-Singapore Economic Partnership Agreement (JSEPA) were applied, neither FTA would be beneficial because the country of origin is Country A (or Japan and Country A) and the final location of loading is Country B. An appropriate measure in order to cover the entire process by the FTAs will be to specify rules in both FTAs that acknowledge accumulative origin in Japan, Country A and Country B. In order to accomplish this, it is necessary to form an agreement that includes a concept of "originated in both Japan and ASEAN" and to apply that concept to items whose tariffs have already been eliminated by both parties.

Figure 4.2.2 "ASEAN Optimum" supply system in Automobile Industry

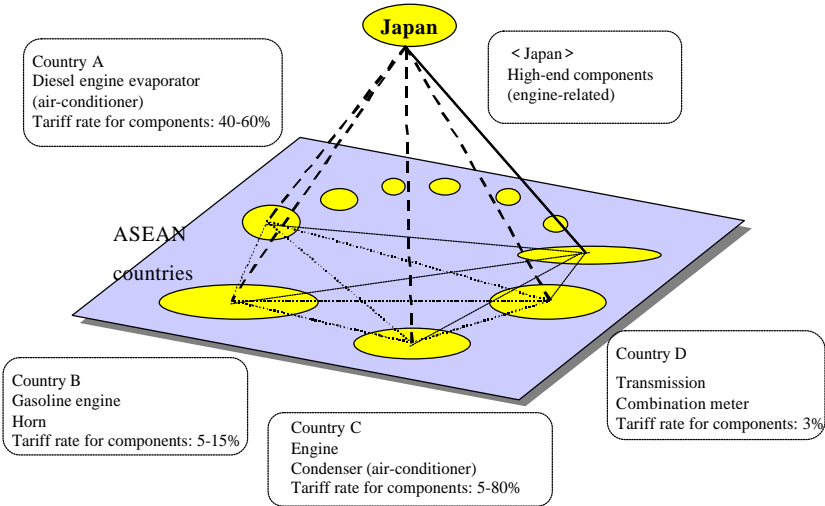
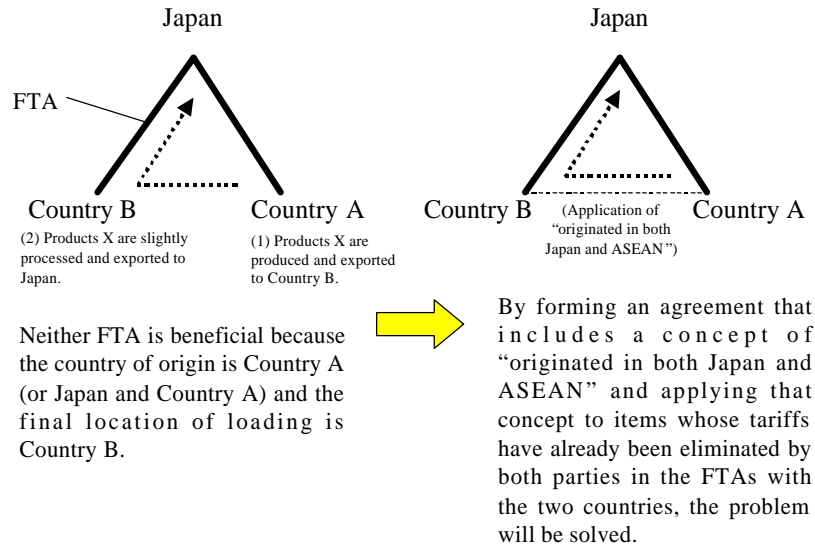
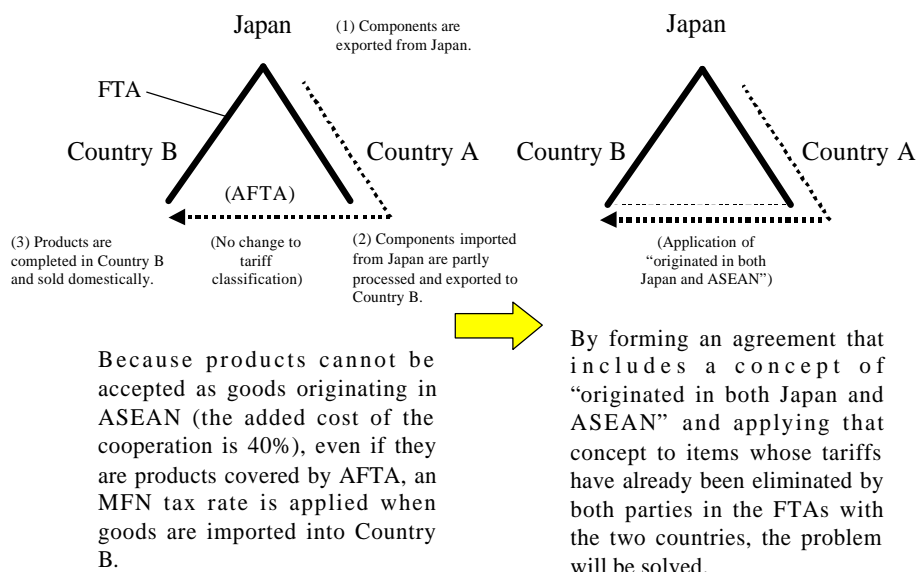


Figure 4.2.3 Example of barriers in the Japan-ASEAN region where bilateral FTAs are insufficient



In another example, components are brought into Country A from Japan, and the components are partly processed (for instance, the added value in Country A is about 10 percent), and then exported to Country B where the products are completed and sold domestically (Fig. 4.2.4). In this case, the products cannot be accepted as goods originating in ASEAN (the added cost of cooperation is 40 percent or over) even if they are products covered by AFTA. Even if Japan had FTAs with both Country A and Country B, if the same framework of the rules of origin stipulated in the JSEPA were applied, not only would preferential tariff rates of AFTA be applied for the importation from Country A into Country B, but also neither FTA would be beneficial. As stated above, it is likely that by acknowledging accumulative origin in multiple countries, the coverage of the FTAs can be expanded.

Figure 4.2.4 Example of barriers in the Japan-ASEAN region where bilateral FTAs are insufficient (2)



Third, in the situation enveloping ASEAN, many countries are striving to conclude FTAs with ASEAN at an early stage, such as China in East Asia (an FTA is scheduled to be concluded at the end of June 2004) and India (an FTA is expected to be concluded at the end of June 2005), Australia and New Zealand (an agreement for enhanced economic partnership was signed in September 2002), as well as the US (a framework agreement for the facilitation of trade and investment is scheduled to be signed in the fall of 2003) from other regions. Therefore, Japan should be strongly aware of the fact that other countries are already taking advantage of the rich potential of ASEAN.

If Japan falls behind in systemizing economic cooperation in ASEAN, it will not merely have problems in securing markets in the region, but will also face the risk of seeing investment related to manufacturing of products for the ASEAN markets flow to other countries that have FTAs with ASEAN. In this sense, it is necessary to clarify a time frame for studying the systemization of economic cooperation between Japan and ASEAN with the awareness of the abovementioned trends.

<Economic partnership with ASEAN as a whole>

The Joint Declaration (Fig. 4.2.5) was announced at the Japan-ASEAN Summit Meeting in November 2002 with the objective of translating into concrete measures the Initiative for Japan-ASEAN Comprehensive Economic Partnership proposed by Prime Minister Junichiro Koizumi in January 2002. The declaration was based on the report of the ASEAN-Japan Closer Economic Partnership Expert Group submitted at the consultation between the ASEAN Economic Ministers and the Minister of Economy, Trade and Industry of Japan held in September 2002. It is stated in the declaration that the implementation of measures for the realization of the comprehensive economic partnership, including elements of a possible FTA between Japan and ASEAN, will be completed as early as possible within ten years.

Figure 4.2.5 Main points of Japan-ASEAN Summit Declaration

- (1) Strengthening of the Japan-ASEAN economic partnership to take place following principles such as comprehensiveness of countries and sectors as well as WTO consistency.
- (2) The economic partnership, including elements of an FTA, will be completed as early as possible within ten years.
- (3) An inter-governmental committee will be established to draft an economic partnership framework during 2003 and present its report to the Summit Meeting in fall 2003.
- (4) The Japan-ASEAN economic partnership will leave no liberalization aspects behind, and this should begin in fields where implementation is feasible.
- (5) While Japan will consider a framework for the realization of the comprehensive economic partnership with ASEAN as a whole, it will begin working on establishing bilateral economic partnerships.

The declaration also states that such an economic partnership follows some principles, such as comprehensiveness of countries and sectors, as well as WTO consistency. Based on this declaration, an inter-governmental committee to draft the framework of a Japan-ASEAN Comprehensive Economic Partnership was established in March 2003 and has already started discussions. The framework is scheduled to be presented, discussed and adopted at the Japan-ASEAN Summit Meeting in October 2003.

<Bilateral economic partnerships with the ASEAN countries>

Parallel to studying a framework for realization of a comprehensive economic partnership with ASEAN as a whole, Japan is putting forth efforts to conclude bilateral economic partnerships with the ASEAN countries. In addition to the economic partnership agreement with Singapore that has already come into effect, such agreements are being discussed at inter-governmental working groups with Thailand, the Philippines and Malaysia.

- Singapore

In 2001, Japan negotiated with Singapore the conclusion of an economic partnership agreement, and on November 30, 2002, the Japan-Singapore Economic Partnership Agreement came into effect. JSEPA is Japan's first ever agreement for forming of a free trade area under Article XXIV of the General Agreement on Tariffs and Trade (GATT).

The effects of JSEPA are not limited to elimination of tariffs, which is a borderline measure. The agreement covers a wide range of areas, such as facilitation of trade through Mutual Recognition Agreement/Arrangement (MTA) and cooperation pertinent to intellectual property rights, liberalization of service trade and investment, harmonization of systems related to e-commerce and facilitation of the movement of persons, in order to respond to the realities of the recent global economy in which transnational movements of goods, people and information are advancing.

- Thailand

At a meeting between Prime Minister Koizumi and Prime Minister of Thailand Thaksin Shinawatra held in April 2002, the two sides agreed to establish a working group to explore the possibilities for a bilateral economic partnership. The working group has convened five meetings since September 2002 (as of June 1, 2003). The economic relations between Japan and Thailand are very strong, as Thailand holds the greatest share of entries by Japanese companies in ASEAN countries, and the Japanese industrial circles strongly demand elimination of the high tariff on industrial products imposed by Thailand and also improvement of investment rules, through conclusion of an economic partnership agreement. The Thai side, on the other hand, harbors interest in exports to Japan of agricultural and fishery products—a sensitive issue for Japan—as well as in the movement of persons, such as care-persons, practitioners of Thai-style massage, home-helpers and babysitters.

- Philippines

Acting on a proposal made by Philippine President Gloria Macapagal-Arroyo at a meeting between Prime Minister Koizumi and President Arroyo in May 2002, the two sides agreed to establish a working

group to explore the possibilities for a bilateral economic partnership. The working group has convened four meetings since October 2002 (as of May 1, 2003). At the summit meeting between Prime Minister Koizumi and President Arroyo held in December 2002, the two leaders voiced their hopes for acceleration of the process toward an early advancement to the next stage. Japan is particularly interested in more transparent and stable management of domestic systems in the Philippines, and improved development of business environment enveloping labor and public security. The Philippine side has strong interest in the movement of persons (nurses, care-persons, home-helpers and babysitters).

- Malaysia

Building up on the achievements of the Japan-Malaysia Summit Meeting held in December 2002, Minister of Economy, Trade and Industry Takeo Hiranuma and Minister of International Trade and Industry Dato' Seri Rafidah Aziz met in February 2003 and agreed to launch a study by a working group on the possibilities for an economic partnership. Acting on this, the working group convened its first meeting in May 2003, and Japan and Malaysia announced the areas they take particular interest in: elimination of automobile-related tariffs and liberalization in the investment and service areas for Japan and the cooperation area for Malaysia.

- Vietnam

The first round of plenary consultations between Japan and Vietnam on the conclusion of a bilateral agreement on investment was held in March 2002. Since then, four rounds of plenary consultations were held, and as a result the two sides reached a basic agreement in April 2003.

(b) Economic partnership with the ROK

Alongside its ASEAN-oriented efforts, Japan is engaged in advanced efforts for conclusion of an FTA with the ROK. Japan and the ROK are two representative developed countries in Asia that also happen to be neighbors. Their industrial structures are relatively analogous and their industrial levels are also similar, which gives reasons to believe that through strengthening the cohesiveness of their markets, it is possible to promote cross-border competition and cooperation between companies in both countries, thus contributing further to the economic structural reforms in the two countries and enhancing further their competitive edge. Furthermore, the integration of the markets of Japan and the ROK through an FTA will enhance their attractiveness as an investment destination for European and North American companies.

At present, the ROK is an extremely important trade partner for Japan that holds a 6 percent share of Japan's exports and a 5 percent share of its imports. With its 11 percent share of the ROK's exports and 18.9 percent share of the ROK's imports, Japan, too, is a very important trade partner of the ROK, second only to the US. Unfortunately, due to various factors, including historical ones, so far the two countries have not been taking full advantage of their relations as neighboring developed countries. In the field of investment, for instance, at the end of 2001 Japan held a 15 percent share of the inward direct investment in the ROK, while the ROK's share in the inward direct investment in Japan was a mere 1.8

percent. Also, Japan and the ROK are the only two neighboring countries in the world that have not concluded an FTA.

In aiming to create an East Asian economic zone, it is very important that both Japan and the ROK reach a high level of trade and investment liberalization, and realize their economic potential. The industrial circles of the two countries, too, have expressed their demand for establishment of an economic partnership agreement at an early stage.

At a summit meeting held in March 2002, Japan and the ROK agreed to establish a joint study group comprised of representatives of the business, academic and governmental circles of the two countries to deliberate on a Japan-ROK FTA. Acting on this agreement, the joint study group started its deliberations in July 2002 and has held five meetings so far. The two countries agreed on the importance of having the joint study group complete a report as early as possible within two years, as well as of concluding a comprehensive economic partnership agreement, and the joint study group is currently deliberating on the effects of a Japan-ROK FTA, the areas that should be encompassed by the FTA as well as on various points of contention in each area (Fig. 4.2.6). Also, regarding the Non-Tariff Measures (NTMs), which might obstruct economic activities of companies in the two countries, the two sides have reached an agreement to establish a consultative organ for NTMs, which engages in technical discussions on NTMs, under the joint study group.

Figure 4.2.6 Status of deliberations of the Japan-ROK FTA Joint Study Group

Deliberations timeline
<p>March 2002: Prime Minister Koizumi and President Kim Dae Jung agree at summit to start deliberations in a business-academia-government joint study group.</p> <p>July: The Japan-ROK Joint Study Group begins its deliberations (has met five times to date).</p> <p>Note: The joint study group is made up of three to five members from industry and academia of each country (with participation from an agriculture-related member from each country). From government, Japan is sending deputy-ministerial level delegates for foreign affairs, finance, agriculture and from METI, and ROK will delegate its deputy minister for foreign affairs and trade.</p>
Schedule
Agreement to complete a joint report of the Study Group “as early as possible within two years.”
Points of Note
<p>The Korean side has strong interest in the elimination of NTM and visa exemption.</p> <p>Agreement to establish a consultative organ for NTM. First meeting is scheduled for May.</p>

In order to conclude an FTA, Japan and the ROK first need to liberalize taxable products, which exceed 42 percent by value of Japan’s imports from the ROK, and 72 percent by value of the ROK’s imports from Japan. In addition, the two sides must eliminate barriers obstructing economic activities not only in the field of products but also in regard to the liberalization of services as well as the movement of persons, intellectual property rights, and standards and conformance. The joint study group is expected to swiftly advance its deliberations and launch inter-governmental negotiations toward conclusion of an economic partnership agreement.

The ROK is also an important export counterpart of agricultural, forestry and fishery products, ranked fourth after the US, Hong Kong and Taiwan, so that from the viewpoint of the ROK’s economy and

income levels, it remains a promising export market for agricultural, forestry and fishery products for Japan.

Therefore, in order to mitigate as much as possible the negative effects of the elimination of tariffs that will follow the conclusion of an FTA, and to develop the agriculture, forestry and fisheries industry as a model case for the future, the entire government must make efforts as a whole for the promotion of export of agricultural, forestry and fishery products.

(c) Efforts towards economic integration over a wide region of East Asia

In the future, a strategic issue will be to widen efforts toward economic partnership with ASEAN and the ROK to include Japan-China-ROK and ASEAN+3 efforts, linked also with Taiwan and Hong Kong, to realize regional economic integration over a wide region of East Asia. In order to establish an economic zone over a wide region of East Asia, it is essential that the efforts toward economic partnership implemented by Japan, as well as the efforts by China, the ROK and ASEAN, are advanced in a way that will not segment East Asia, but will generate synergistic effects toward creation of a single economic zone.

<Deliberations with Taiwan>

At a meeting between Minister of Economy, Trade and Industry Hiranuma and Minister of Economic Affairs Lin Hsin-i held in Shanghai after the 2001 APEC Ministerial Meeting, the two sides agreed on launching private-sector research on a Japan-Taiwan FTA. Based on this agreement, representatives of the business circles of both countries advanced deliberations at both the Japan Committee and the Taiwan Committee within the East Asia Business Council, and completed a report in December 2002. The two sides intend to establish a broad-based research infrastructure encompassing relevant industrial and business circles to further advance deliberations.

<Deliberations within the Japan-China-ROK framework>

At the Japan-China-ROK Summit Meeting held in Phnom Penh in November 2002, Chinese Prime Minister Zhu Rongji proposed a study on the feasibility of a Japan-China-ROK FTA. In response to this proposal, Japan expressed its opinion that the first step in that direction should be assessment of China's compliance with its WTO accession commitments and a Japan-China-ROK FTA should be studied from a mid- to long-term perspective. For the time being, it is decided for the study to be advanced among research organizations of the three countries.

<Deliberations on an East Asian Free Trade Area in ASEAN+3>

An East Asia Vision Group (EAVG) comprised of experts was established within the ASEAN+3 framework at the Summit Meeting held in Manila in 1999. The EAVG submitted a report featuring various proposals for the advancement of economic cooperation in East Asia including the establishment of an East Asian Free Trade Area, at the ASEAN+3 Summit Meeting held in Hanoi in November 2001.

Furthermore, an East Asia Study Group (EASG) established by government officials explored the

modalities for cooperation in East Asia, including the feasibility of an East Asian Free Trade Area, and announced the results of its deliberations at the ASEAN+3 Summit Meeting held in November 2002.

The feasibility of an East Asian FTA will be discussed at the ASEAN+3 Economic Ministers' Meeting and other occasions, and the results of the deliberations will be reported at the ASEAN+3 Summit Meeting that will be held in October 2003.

<Japan-Mexico economic partnership agreement negotiations>

In addition to the promotion of the abovementioned economic partnerships in East Asia, promotion of economic partnerships with regions where Japanese companies incur damages resulting from the absence of FTAs has become a pressing political task. Mexico is a typical case in that regard.

<Mitigation of damages resulting from the absence of an FTA>

Mexico is a member of NAFTA, which came into effect in 1994 and has concluded an FTA with the EU that came into effect in July 2000. Against this backdrop, Japanese companies are placed in a disadvantageous position compared to their European and North American rivals because of the average 16 percent tax burden and other factors, and the negative impact of this has become obvious.

Actual figures indicate that after NAFTA came into effect, Japan's share in the overall imports in Mexico has drastically dropped from 6.1 percent in 1994 to 3.6 percent in 2000. It is estimated, based on these numbers, that by failing to maintain its pre-NAFTA import share, Japan is incurring annual damages of 400 billion yen in unrealized exports to Mexico. Such damages are estimated to have the same impact as an approximate 600 billion yen reduction in domestic production or job losses of more than 30,000 people, and their mitigation has become a task of pressing urgency.

<Efforts towards Japan-Mexico economic partnership agreement>

Against this backdrop, a Japan-Mexico Joint Study Group on the Strengthening of Bilateral Economic Relations comprised of experts from the academic, industrial and governmental circles of both countries, has launched deliberations since September 2001, and in July 2002 released a report that clearly states the necessity of an economic partnership agreement with elements of an FTA. Based on this report and on the consensus for launch of negotiations reached at the meeting between Prime Minister Koizumi and President Vicente Fox Quesada, held during the APEC Informal Summit Meeting convened at the end of October 2002, negotiations between Japan and Mexico were launched in November. At present, the two sides are advancing the negotiations with the objective of completing the substantive agenda by the fall of 2003.

(3) Other trends enveloping economic partnerships in East Asia

Parallel to the abovementioned efforts by Japan toward economic partnerships, efforts by other countries in East Asia toward strengthening of economic partnerships including FTAs have been advancing at a growing speed².

² For detailed information on the FTA trends in East Asia, see Fukunari Kimura and Atsushi Suzuki (2003).

(a) Progress of regional economic integration in ASEAN (enhancement of AFTA)

Ever since 1992, ASEAN has been engaged in an effort for reduction of tariffs within the region toward establishment of an ASEAN Free Trade Area (AFTA)³. Through the Common Effective Preferential Tariff (CEPT) scheme, AFTA members phased in tariff reductions within the region. The ASEAN 6 (Philippines, Thailand, Malaysia, Singapore, Brunei and Indonesia) reduced tariffs on CEPT products to below 5 percent by 2002, thus achieving the objective of tariff reductions by the major ASEAN countries. Furthermore, tariffs on CEPT products will be reduced to below 5 percent in Vietnam by 2003, Laos and Myanmar by 2005, and Cambodia by 2007, toward the ultimate objective of eliminating tariffs on CEPT products by 2010 in ASEAN 6 and by 2015 in the remaining four ASEAN countries⁴.

As of January 2003, tariffs on almost all CEPT products have been reduced to below 5 percent in ASEAN 6, and the AFTA implementation has in general been proceeding smoothly. Yet, a large number of companies point out various procedural issues pertinent to the utilization of AFTA, such as the slow issuing of certificates of origin (Form D) and others. Therefore, in addition to efforts for reduction and elimination of tariffs, it is essential for ASEAN to engage in efforts for improvement—acceleration, clarification and ensuring of common applicability - of procedures.

Also, it is extremely important for ASEAN to enhance its attractiveness as an investment destination through appealing the merit of ASEAN as an integrated region in order to advance further its economic development. For that purpose, ASEAN needs to strengthen the integration processes in the region, and the stable advancement of AFTA is part of these efforts. With this awareness in mind, ASEAN countries have launched deliberations toward enhancement of the regional economic integration beyond the scope of AFTA.

(b) Swift development of economic partnerships enveloping ASEAN

In recent years, in addition to the AFTA initiative implemented within the ASEAN region, countries outside that region are swiftly implementing various initiatives for economic partnerships with ASEAN.

<China–ASEAN>

At the China-ASEAN Summit held in November 2001, the two sides reached an agreement to aim at concluding of a free trade agreement within ten years, and at the China-ASEAN Summit held in

³ AFTA is a free trade area notified to the WTO under the Enabling Clause. As for regional trade agreements among developing countries, special rules are agreed in the 1979 Tokyo Round Decision of the Contracting Parties (so-called Enabling Clause), which serves as the basis for special treatment accorded to developing countries in matters of trade. The Enabling Clause allows regional trade agreements entered into among developing countries for the mutual reduction or elimination of tariffs and non-tariff measures to be exempted from the most-favoured-nation treatment under Article I of GATT as long as certain conditions are met.

⁴ In order to protect its automobile industry, Malaysia postponed the inclusion of automobile-related products in the list of CEPT products by 2005; the Philippines, too, demands petrochemicals to be temporarily excluded from the list of CEPT products. In other words, the implementation of AFTA is being delayed for some “sensitive” products.

November 2002, they signed the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation, which includes establishment of an FTA. This agreement covers a wide range of areas, such as goods, services and investment, and also stipulates an Early Harvest Programme of measures for progressive liberalization of selected agricultural products by China and ASEAN. The implementation of the Early Harvest Programme will start from January 2004. The negotiations on establishment of an FTA started in the beginning of 2003 and should be completed by the end of June 2004. The deadline for implementation of tariff eliminations is 2010 for the six more-advanced ASEAN countries and 2015 for the newer ASEAN members states. Tariff concessions will be implemented within the overall framework of China-ASEAN, and tariffs and non-tariff barriers will be eliminated in “substantially all” trade in goods (Fig. 4.2.7).

Figure 4.2.7 China-ASEAN FTA

(1) Background	<p>Premier Zhu Rongji proposed the China-ASEAN FTA at the Summit in November 2000.</p> <p>The following were agreed at the November 2001 Summit.</p> <p>(1) Establishment of a framework for economic cooperation between China and ASEAN and creation within ten years of a China-ASEAN FTA.</p> <p>(2) The goods for which liberalization measures are to be taken in advance (“Early Harvest Programme”) are to be decided at future consultations.</p> <p>Working-level meetings since January 2002 and discussions at the Trade Negotiations Committee from June led to the signing by leaders of the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation, including creation of a China-ASEAN FTA within ten years, at the Summit in November.</p> <p>The agreement is scheduled to take effect on July 1, 2003.</p>
(2) Major points of agreement framework	<p>The FTA, which will cover goods, services and investment will be realized by 2010 between China and the ASEAN 6 (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand), to be widened to include Cambodia, Laos, Myanmar and Vietnam by 2015.</p> <p>Includes not only the area of FTA but trade and investment facilitation and cooperation fields.</p> <p>Tariff and non-tariff barriers will be eliminated in “substantially all” trade in goods, and the same measures will be taken for trade in services.</p> <p>An Early Harvest Programme for designated agricultural products will be implemented from January 2004.</p> <p>Negotiations on reducing or eliminating tariffs on goods are to be started early in 2003 and completed by mid-2004. Regarding services and investment, negotiations will begin early in 2003 and finish as soon as possible. The core negotiations will continue to take place in the Trade Negotiations Committee, which will report regularly on the progress and results of the negotiations to the China-ASEAN Economic Ministers’ Meeting.</p>

<US-ASEAN>

The US is also enhancing its initiatives targeting ASEAN. The US government used the establishment

of the Trading Partner Agreement (TPA) in 2002 to clarify its policy toward proactive development of FTAs. From the viewpoint of security and counter-terrorism as well, the US classifies FTAs as tools for establishment of alliances, and at the US-ASEAN Summit Meeting on the occasion of the APEC Economic Leaders' Meeting held in October 2002, US President George W. Bush announced the Enterprise for ASEAN Initiative (EAI). The US Trade Representative and ASEAN economic ministers discussed the EAI in November the same year, and at the ASEAN Economic Ministers' Meeting that will be held in September 2003, a trade and investment framework agreement between the US and all of ASEAN will be mapped out. Also, parallel to the initiatives targeting ASEAN as a whole, the US is exploring the conclusion of individual bilateral FTAs with the ASEAN countries. The first breakthrough in this direction was the conclusion of a wide-ranging economic partnership agreement between the US and Singapore in May 2003.

<India-ASEAN>

In November 2002, at the first ever summit meeting between ASEAN and India, the two sides agreed to strengthen their economic partnership and set liberalization of trade and investment as a long-term goal. An inter-governmental task force was established and is now mapping out a framework agreement to be presented at the Second India-ASEAN Economic Ministers' Consultations scheduled for the fall of 2003. The same meeting should also decide on the time frame for negotiations on establishment of an India-ASEAN Free Trade Agreement (FTA).

<Australia and New Zealand-ASEAN>

At a consultation between the ASEAN Economic Ministers (AEM) and the Ministers from Australia and New Zealand (Closer Economic Relations – CER) held in September 2002 in Brunei, CER and ASEAN signed the Joint Ministerial Declaration on the AFTA-CER Closer Economic Partnership (CEP). The essence of this declaration is promotion of regional economic integration with the objective for doubling ASEAN-CER trade and investment by 2010.

<EU-ASEAN>

At the AEM-EU Consultations held in April 2002 in Laos, the ministers agreed to establish a regional framework for expansion of trade and investment: the Trans Regional EU-ASEAN Trade Initiative (TREATI). The TREATI is positioned as an initiative that can pave the way for a future preferential trading agreement. The main objectives of the initiative are promotion of trade and investment through trade facilitation. Activities under TREATI are scheduled to start by 2004.

<ROK-ASEAN>

At the ASEAN-ROK Summit in Phnom Penh (Cambodia) held in November 2002, the leaders from ASEAN member countries proposed to ROK Prime Minister Kim Seok Soo to launch negotiations for conclusion of an FTA. In response, the ROK side demonstrated awareness that it would take some time before such negotiations begin. The two sides are expected to launch a study group sometime this fall.

(c) Other bilateral and regional efforts

<Efforts by the ROK>

The ROK used to be one of the few countries that had not concluded a single FTA yet, but this changed when on October 24, 2002, the ROK completed negotiations with Chile over the conclusion of an FTA, and the two sides signed an agreement on February 15, 2003. This agreement became the first FTA between an Asian and an American country. It covers a wide range of areas, including investment and service transaction in addition to transactions of goods, as well as dispute settlement systems and regulations for promotion of bilateral trade.

The ROK also reached an agreement with Singapore in November 2002 to establish a joint study group with the objective of concluding an FTA, which is expected to work out a report on the scope and the impact of a future FTA. The agreement is expected to cover tariff and non-tariff barriers, rules of origin, customs clearance procedures, quarantine, government procurements, competition policy measures, intellectual property rights, dispute settlement and other areas.

<Efforts by Taiwan>

Taiwan was admitted to the WTO in January 2002 and has been actively advancing FTA policy measures from the perspective of enhancing economic relationships. In view of the importance of FTA promotion, the Taiwanese premier himself directly supervises the process and advances FTA-related policies. Currently, Taiwan is deliberating FTAs with the US, Japan, Singapore, New Zealand and Panama.

<Efforts by Hong Kong>

In the past, Hong Kong used to develop its trade policy exclusively within the framework of WTO relations, but this approach has obviously changed with the launching of FTA negotiations with New Zealand in April 2001 and with China in January 2002.

Hong Kong's goal is to conclude wide-ranging agreements that encompass services and investment in addition to elimination of tariffs, but deliberations are necessary on the relation between future FTAs and Hong Kong's status as a free port of trade.

2. Analysis of the economic effects of economic partnership in East Asia

A study is underway to analyze the economic effects of economic cooperation. This section discusses the real example of the effects of bilateral economic partnerships: the economic partnerships operating under the wide-area framework of ASEAN+3 and Japan-ASEAN, and the Japan-Singapore Economic Partnership Agreement (JSEPA).

(1) Overall effect of economic partnership in East Asia

The Japan Center for Economic Research uses a Computable General Equilibrium (CGE) model to analyze the economic effect of FTAs not only in terms of trade liberalization, but also in terms of factors

of international movements of production (capital and labor)⁵.

According to the results of this simulation, a wide-area FTA in Asia (ASEAN+3) would lift cumulative growth of GDP by 2010 by 1.4 percent. Setting the base year of the simulation as 1995, and assuming that relevant liberalization measures are not realized at the time of the simulation and that they will be carried out over eight years, the simulation showed that average annual growth from 2002 to 2010 is 0.04% higher than it would otherwise be. The analysis has confirmed that regional free trade agreements in the region that encourage convergence in technologies and the movement of international production capital provide further benefits to countries participating in the agreements.

(2) Analysis of the effect of Japan-ASEAN economic partnership

(a) Analysis by the Japan-ASEAN Closer Economic Partnership Expert Group

Using a Global Trade Analysis Project (GTAP) model (an applied general equilibrium model developed by the Global Trade Analysis Project), the report of the Japan-ASEAN Closer Economic Partnership (CEP) Expert Group compiled last September provides both a qualitative and a quantitative analysis of the effect that lowering tariffs would have on the macroeconomy and each industry of Japan and the countries of ASEAN⁶.

Macroeconomic estimates show that lowering tariffs would expand trade between Japan and ASEAN and also accelerate economic growth, with ASEAN more than Japan enjoying increased exports and higher economic growth. Under a CEP, exports from ASEAN to Japan would increase by US\$20.63 billion (44.2 percent of 1997 base year value) and by US\$20.022 billion from Japan to ASEAN (27.5 percent of 1997 base year value).

The elimination of barriers such as tariffs that currently exist in Japan and ASEAN is considered to result in abovementioned expansion of trade between the regions through increasing opportunities for market entry and enhancing cost competitiveness through inputting cheaper intermediate goods. In addition, further trade expansion would be expected over the long-term through increased income in partner countries and promotion of competition and production improvement by technology transfer, both of which would be brought about by increased imports and inward direct investment.

At the same time, the report anticipates that the elimination of high existing tariffs would boost the expected rate of return on capital, through spurring domestic demands in ASEAN which results in increasing capital stock in ASEAN in particular, and contributing greatly to the expansion of production capacity in the countries of ASEAN.

As a result of large-scale direct investment in ASEAN by Japanese companies in particular and developing integration between the regions of economic activity, the elimination of tariff barriers in each region is expected to enable a more optimum division of labor, deepening the interdependent relationship. This would be hoped to boost exporting to one another and domestic production in many industrial sectors, including electrics and electronics, and the automotive field.

⁵ Shujiro Urata, Japan Center for Economic Research (2002).

⁶ ASEAN-Japan Closer Economic Partnership (CEP) Expert Group (2002).

(b) Analysis of a Japan-ASEAN FTA on the Japanese economy

The effect of a Japan-ASEAN FTA on the Japanese economy was estimated using an economic analysis model (GTAP model), resulting in predicted GDP increase of between 1.1 trillion yen⁷ and 2 trillion yen⁸. Some estimate that GDP growth of 1.1 to 2 trillion yen would lead to the creation of between 150,000 and 260,000 employment opportunities⁹.

(3) Effect of the Japan-Singapore Economic Partnership Agreement (JSEPA)

The Japan-Singapore Economic Partnership Agreement, Japan's first ever economic partnership agreement, was put into effect on November 30, 2002. Its full effect is likely to show gradually in statistics, but at the present time, here are a few actual examples.

With the elimination of tariffs on 98.5 percent of the value of trade between the countries, the two months following the entry into force of the agreement to January saw value of exports to Singapore increase by 14.1 percent on a year-on-year basis and the value of imports from Singapore by 6.9 percent on the same basis. A look at individual items shows that the elimination by Singapore of its tariff on beer (S\$0.80/liter) resulted in a 2.7-fold surge in value of beer exports from Japan.

3. Utilization of multilateral and regional efforts such as the WTO, APEC and bilateral efforts

In promoting the systemization of economic partnerships in East Asia, it would be desirable to realize an East Asian business zone even more smoothly by making use of the strategic efforts in the WTO, on the regional level in fora such as APEC, and bilateral efforts.

In other words, in the process of systemizing economic partnerships in East Asia, the following are considered to be effective in promoting the realization of an East Asian business zone, all of which should be combined to best utilize their various characteristics: the WTO, which acts as a global common base for minimum requirements; East Asian regional cooperation through ASEAN+3 and other fora, which promotes further development of regional systemization; broad regional cooperation including APEC in the East Asian sphere; and bilateral efforts enabling more flexible efforts.

(1) Multilateral regional cooperation in the East Asian region

Parallel to the abovementioned developments in the field of economic partnership in East Asia, regional cooperation has been advancing in various forms in line with multilaterally-steered dialogue and cooperation.

(a) Japan-ASEAN

Various efforts are being implemented toward further deepening and enlargement of the inter-related development and interdependence of the economies of Japan and the ASEAN countries. At the ASEAN Economic Ministers and Minister of Economy, Trade and Industry of Japan (AEM-METI) Consultations, which is comprised of economic ministers from ASEAN countries and the Japanese

⁷ Itakura (2003).

⁸ Kawasaki (2003).

Minister of Economy, Trade and Industry, vigorous discussions on a wide range of economic and industrial issues are held on the level of economic ministers, centering on establishment of a Japan-ASEAN economic partnership. The topics of the consultations include: exchange of opinions on international economic issues, such as energy cooperation and intellectual property rights, as well as implementation of programs for economic and industrial cooperation between Japan and ASEAN (such as: (i) Trade Electronic Data Interchange (TEDI) Initiative; (ii) design promotion assistance; and (iii) ASEAN Standards and Conformance Cooperation Programme; and (iv) assistance for the development of local industries in CLMV countries. Such consultations have been held regularly nine times (in principle, every year) since 1992.

Based on the direction mapped out in the AEM-METI Consultations, the AEM-METI Economic and Industrial Cooperation Committee (AMEICC) was established in 1998 as a forum for discussion on ASEAN-wide implementation of concrete economic and industrial cooperation. AMEICC is an economic ministers-level consultation which is held on the same occasion as the AEM-METI Consultations. It has held five meetings so far. AMEICC raises a “trinity” of objectives: (i) strengthening the competitiveness of ASEAN; (ii) promoting industrial cooperation; and (iii) providing assistance to new member countries of ASEAN (Cambodia, Laos, Myanmar and Vietnam). The committee has appointed eight working groups related to specific areas of cooperation and is designing and implementing various cooperation projects, such as the Centers of Excellence (COE) comprehensive program implemented by the Working Group on Human Resource Development for fostering leading figures, and the program for dispatch of experts with the objective of development of the supporting industries that is implemented by Working Group on Automobile Industry.

In the future, it will be important to clarify the significance of such efforts as part of the economic partnership agreement, to advance them under even clearer objectives and to enhance mutually beneficial cooperation (Fig. 4.2.8).

⁹ Estimate by METI.

Figure 4.2.9 Timeline of Meetings of ASEAN Economic Ministers with Economic Ministers of China, Japan and the ROK (AEM+3)

First Meeting, May 2000, Myanmar	<p>Agreement on nine possible fields of cooperation in the economic and industrial arena, based on the November 1999 Joint Statement on East Asia Cooperation at the ASEAN+3 Summit Meeting.</p> <p>(1) Trade and investment (2) IT (3) Mekong Basin development (4) Human resources development (5) Participation by private sector in industry-specific business fora, etc. (6) Agriculture, tourism (7) SMEs, supporting industries (8) Science and technology (9) Cooperation in international and regional institutions</p> <p>In order to facilitate the early launch of the new WTO round, ministers agree to deal with a wide variety of areas including capacity building to address the interest shown by developing countries among WTO members and to reform existing rules such as anti-dumping agreements.</p>
Second Meeting, October 2000, Thailand	<p>Following a proposal by Japan, ministers agree to prioritize the following three areas for cooperation in the nine possible fields agreed to at the first meeting:</p> <p>(1) Strengthening efforts in accelerating trade, investment and technology transfer (2) Encouraging technical cooperation in IT and e-commerce (3) Strengthening SMEs and supporting industries</p> <p>Also decide on selection criteria for projects in these three areas of cooperation.</p> <p>Announcement of IT engineer training cooperation (Asian Common Skill Standard Initiative for IT Engineers) by Japan.</p> <p>Agreement reached on importance of education process for launch of new WTO round.</p> <p>Japan comments on need for stability in crude oil price, and participant countries approve.</p>
Third Meeting, May 2001, Cambodia	<p>Agree to launch the following six East Asian cooperation projects:</p> <p>(1) Asian Common Skill Standard Initiative for IT Engineers (Japan) (2) Conformity Assessment Development Program in Industrial Standards (ROK) (3) Strengthening the Competitiveness of ASEAN SMEs (Malaysia, Myanmar) (4) Training Program on Practical Technology for Environment Protection (China) (5) Software Development in the Mekong Basin Project (Thailand) (6) ASEAN Satellite Image Archive for Environmental Study (Thailand)</p> <p>Agree to convene an e-ASEAN+3 Working Group.</p> <p>Debate the launch of the new WTO round.</p>
Fourth Meeting, September 2001, Vietnam	<p>Reports from each lead country on progress of six projects agreed at the third meeting.</p> <p>Announcement of supplying 300 or more new PCs necessary for training over next three years to Vietnam and Myanmar welcomed.</p> <p>Japan's proposal of an Asia e-Learning Initiative adopted.</p> <p>Announcement of cooperation for IT-related Legal Infrastructure initiative welcomed.</p> <p>Expression of strong intention to launch new round of WTO at the Ministerial Conference in Doha in November.</p>
Fifth Meeting, September 2002, Brunei	<p>Adoption of the following four projects:</p> <p>(1) Promotion of the entertainment industry (Thailand) (2) East Asia IT Cooperation Initiative (ROK) (3) ASEAN+3 SME information network (ROK) (4) Seminar on Economic and Technological Development Zone (China)</p> <p>ROK recommends steps toward regional integration in East Asia centered around the examination of an East Asian FTA by the East Asia Study Group.</p> <p>Japan gives explanation on the topics of the WTO round negotiations, the energy-related meeting and intellectual property protection, followed by an exchange of opinions.</p>

Source: METI.

<Cooperation to Cambodia, Laos, Myanmar, and Vietnam>

After the end of the Cold War, ASEAN accepted four new members: Cambodia, Laos, Myanmar, and Vietnam (CLMV). Yet, the new member countries are well behind the rest of the ASEAN countries in terms of economic development, and the mitigation of this intra-regional economic disparity is an important task for ASEAN as a whole.

For instance, the CLMV countries face some grave problems in addition to the originally small scale of their economies, such as underdeveloped infrastructure, deficiency of skilled workers and lack of distribution networks. Against this backdrop, METI is implementing support and cooperation with priority attached to "soft infrastructure." In concrete terms, such efforts include development of human resources through dispatch of experts and training programs, and also recommendations on economic policy, with the objective of acquisition of foreign currency through fostering of export products and promotion of tourism, development of small and medium-sized enterprises (SMEs) and supporting/local industries, and mitigation of the digital divide (IT assistance).

(b) ASEAN+3

In 1997, the year when ASEAN celebrated the 30th anniversary of its establishment, the leaders of the ASEAN countries, and Japan, China and the ROK held their first summit meeting with the objective of promoting dialogue and mutual understanding between ASEAN and the Northeast Asian countries (the summit meeting has been held on an annual basis since 1997). The participants at the Third ASEAN+3 Summit Meeting held in Manila in 1999 announced a Joint Statement on East Asia Cooperation. In order to follow up on the efforts for economic cooperation as listed in the Joint Statement, the economic ministers of the ten ASEAN countries, and Japan, China and the ROK convene the ASEAN+3 Economic Ministers' Meeting as a forum for a wide-ranging dialogue on economic and industrial cooperation in the East Asian region as a whole (Fig. 4.2.9).

Figure 4.2.9 Timeline of Meetings of ASEAN Economic Ministers with Economic Ministers of China, Japan and the ROK (AEM+3)

<p>First Meeting, May 2000, Myanmar</p>	<p>Agreement on nine possible fields of cooperation in the economic and industrial arena, based on the November 1999 Joint Statement on East Asia Cooperation at the ASEAN+3 Summit Meeting. (1) Trade and investment (2) IT (3) Mekong Basin development (4) Human resources development (5) Participation by private sector in industry-specific business fora, etc. (6) Agriculture, tourism (7) SMEs, supporting industries (8) Science and technology (9) Cooperation in international and regional institutions In order to facilitate the early launch of the new WTO round, ministers agree to deal with a wide variety of areas including capacity building to address the interest shown by developing countries among WTO members and to reform existing rules such as anti-dumping agreements.</p>
<p>Second Meeting, October 2000, Thailand</p>	<p>Following a proposal by Japan, ministers agree to prioritize the following three areas for cooperation in the nine possible fields agreed to at the first meeting: (1) Strengthening efforts in accelerating trade, investment and technology transfer (2) Encouraging technical cooperation in IT and e-commerce (3) Strengthening SMEs and supporting industries Also decide on selection criteria for projects in these three areas of cooperation. Announcement of IT engineer training cooperation (Asian Common Skill Standard Initiative for IT Engineers) by Japan. Agreement reached on importance of education process for launch of new WTO round. Japan comments on need for stability in crude oil price, and participant countries approve.</p>
<p>Third Meeting, May 2001, Cambodia</p>	<p>Agree to launch the following six East Asian cooperation projects: (1) Asian Common Skill Standard Initiative for IT Engineers (Japan) (2) Conformity Assessment Development Program in Industrial Standards (ROK) (3) Strengthening the Competitiveness of ASEAN SMEs (Malaysia, Myanmar) (4) Training Program on Practical Technology for Environment Protection (China) (5) Software Development in the Mekong Basin Project (Thailand) (6) ASEAN Satellite Image Archive for Environmental Study (Thailand) Agree to convene an e-ASEAN+3 Working Group. Debate the launch of the new WTO round.</p>
<p>Fourth Meeting, September 2001, Vietnam</p>	<p>Reports from each lead country on progress of six projects agreed at the third meeting. Announcement of supplying 300 or more new PCs necessary for training over next three years to Vietnam and Myanmar welcomed. Japan's proposal of an Asia e-Learning Initiative adopted. Announcement of cooperation for IT-related Legal Infrastructure initiative welcomed. Expression of strong intention to launch new round of WTO at the Ministerial Conference in Doha in November.</p>
<p>Fifth Meeting, September 2002, Brunei</p>	<p>Adoption of the following four projects: (1) Promotion of the entertainment industry (Thailand) (2) East Asia IT Cooperation Initiative (ROK) (3) ASEAN+3 SME information network (ROK) (4) Seminar on Economic and Technological Development Zone (China) ROK recommends steps toward regional integration in East Asia centered around the examination of an East Asian FTA by the East Asia Study Group. Japan gives explanation on the topics of the WTO round negotiations, the energy-related meeting and intellectual property protection, followed by an exchange of opinions.</p>

Source: METI.

At the Second Meeting of ASEAN Economic Ministers with Economic Ministers of China, Japan and the ROK (AEM+3) held in October 2000, the two sides agreed to prioritize the following areas for cooperation: (i) strengthening efforts in accelerating trade, investment and technology transfer; (ii) encouraging technical cooperation in IT and e-commerce; and (iii) strengthening SMEs and supporting industries.

Based on this agreement, a total of ten projects including the Asian Common Skill Standard Initiative for IT Engineers and the Asia e-Learning Initiative to be carried out under the leadership of Japan, as well as projects implemented by China, the ROK and the ASEAN countries, have been selected, and specific cooperation is being implemented in areas such as IT, SMEs, environmental protection and development of human resources.

At the AEM+3 Meetings, economic ministers also conduct exchange of information on international and regional economic issues, such as the regional integration trends in East Asia, and exchange of views on discussion held at international fora such as WTO, APEC and the Asia-Europe Meeting (ASEM). Furthermore, at the meetings, ministers review economic issues of common interest for the ASEAN+3 countries, such as cooperation in the areas of energy and intellectual property rights.

In the process of systemizing economic partnership in East Asia, such existing cooperation efforts contribute to the formation of common grounds, and future cooperation contributes to the economic partnership. From such a viewpoint, it is essential to advance future cooperation in a more prioritized way.

<AEM+3 projects implemented under the leadership of METI>

- Asian Common Skill Standard Initiative for IT Engineers

The Asian Common Skill Standard Initiative for IT Engineers is a project for standardization of IT engineers' skill development and evaluation indicators, through the provision of the questions in the Information Technology Engineers Examination that is conducted in Japan and Japan's experience and know-how, with the objective of developing and upgrading the skills of IT engineers in the Asian countries and enhancing cross-border employment opportunities. Cooperation under the framework of this project advances the introduction of examination systems for IT engineers in the Asian countries and the promotion of mutual recognition of the systems.

- Asia e-Learning Initiative

Proactive utilization of the e-learning approach, or the use of IT education, in the East Asian region, which abounds with high-quality and ample human resources, will significantly contribute to the efficient development of human resources and the enhancement of the competitive edge of the industries. From this perspective, this project involves provision of IT skills-related contents and implementation of experimental e-learning systems, with the objective of information sharing on latest e-learning trends and technologies, ensuring of interoperability of e-learning systems and contents, promotion of utilization, and enlightenment and dissemination activities.

(c) Japan, China and the ROK

At the Trilateral Meeting of the Leaders of Japan, China and the ROK held in November 2001, the leaders agreed to establish the Japan-China-Korea Economic Ministers' Meeting, and the first meeting was held in September 2002 in Brunei. At this meeting the ministers of economy and trade of the three countries conducted vigorous exchange of views on a wide range of trilateral issues, including countermeasures against the steel safeguards, multilateral and regional cooperation efforts including the efforts at the WTO new round, and also intellectual property rights, IT cooperation, holding of business fora and others. It is necessary to deepen the debate on issues in Northeast Asia.

It is important to advance such efforts with view to the future systemization of economic partnership in East Asia and from the perspective of East Asia-wide expansion of the high-level trilateral partnership among Japan, China and the ROK, which will play a leading role in the future systemization.

(2) Broad-based multilateral and regional cooperation enveloping East Asia

There are two broad-based frameworks for regional cooperation that envelop East Asia: APEC encompasses the Asia-Pacific region, and ASEM, which is established by Asian and European countries, and they both develop a wide range of activities. Yet, unlike frameworks based on legally binding economic partnership agreements, both APEC and ASEM are loosely linked fora established on the principle of voluntarism.

As mentioned previously, efforts toward regional economic integration have been swiftly advancing in East Asia, and fora such as APEC and ASEM play the role as a showcase of the trends occurring in East Asia that contributes to the open and transparent development of the economic integration process in the region. For instance, the exchange of information in the political dialogue on FTA implemented in APEC is one of the efforts that contribute to ensuring of transparency.

Also, APEC and ASEM work toward establishment of close partnership relations between the business circles and the government. In order to summarize and advocate the aspirations of the business world, APEC has set up the APEC Business Advisory Council (ABAC) and ASEM has established the Asia Europe Business Forum (AEFB). Such frameworks are of great importance as European and North American companies have entered into the East Asian region through direct investment and other means and have integrated in the regional economy.

(a) APEC (Asia-Pacific Economic Cooperation)

Established in 1989, APEC is a forum comprised of 21 Asia-Pacific countries and regions, including East Asia, for vigorous discussions on liberalization and facilitation of trade and investment, and economic and technical cooperation (Fig. 4.2.10).

Figure 4.2.10 Timeline of APEC

Date	Major agenda items/results
January 1989	Australian Prime Minister Bob Hawke calls for an Asia-Pacific region ministerial meeting.
November 1989, Australia	First Ministerial Meeting (founding members): Japan, ROK, US, Canada, Australia, New Zealand, Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand Emphasis on “open regional cooperation” (Acceded 1991: China, Hong Kong, Chinese-Taipei)
November 1993, US	First informal summit, start of informal summits (Acceded 1993: Mexico, Papua New Guinea) Focus on “trade and investment liberalization”
November 1994, Indonesia	Bogor Declaration (Acceded 1994: Chile) “Industrialized economies achieve the goal of free and open trade and investment no later than 2010 and developing economies no later than 2020.” Start of meetings of ministers responsible for trade in Indonesia in October
November 1995, Osaka	Osaka Action Agenda (OAA) “Realization of the Bogor Declaration” “From Vision to Action” Basic principles, direction of liberalization and goals for each sector formulated.
November 1996, Philippines	Manila Action Plan for APEC (MAPA) Start of Individual Action Plan (IAP) and Common Action Plan (CAP)
November 1997, Canada	Designation of 15 areas for early voluntary sectoral liberalization (EVSL)
November 1998, Malaysia	Addressed Asian financial crisis. (Acceded 1998: Russia, Peru, Vietnam) Capacity building (infrastructure building)
September 1999, New Zealand	Strengthening the market function (promoting structural reform in the region) Contributes to new WTO round.
November 2000, Brunei	Globalization (IT, human resources development, strengthening of market structures) WTO and regional trade agreements
October 2001, (Shanghai) China	Globalization and the benefits for new economies Formulation of Shanghai Accord which gives direction for future APEC activity
2002, Mexico	Expanding the Benefits of Cooperation for Economic Growth and Development: Implementing the Vision Shanghai Accord implemented, Counter-Terrorism and Trade Facilitation Action Plan adopted.
2003, Thailand	A World of Differences: Partnership for the Future

Source: METI.

In 1994, the members endorsed the Bogor Goals which stipulate that “the industrialized economies achieve the goal of free and open trade and investment no later than 2010 and developing economies no later than 2020,” and the following 1995 formulated the Osaka Action Agenda (OAA), a roadmap toward realizing the Bogor Goals. Every year APEC announces an Individual Action Plan (IAP) that incorporates the individual efforts of each member country and region toward achieving the Bogor

Goals. Following a proposal by Japan on the IAP, the review process was enhanced in 2001, and a new review process is now being implemented. Thus, APEC has devised a mechanism that clearly maps out the common objective as well as the pathway leading to it, and at the same time applies strong peer pressure on the member countries and regions in their individual efforts.

Another characteristic feature of APEC is that it combines trade and investment liberalization and facilitation (TILF), and economic and technical cooperation (ECOTECH).

Some specific examples of recent policy developments include efforts for protection of intellectual property rights, counter-terrorism, trade facilitation, facilitation of movement of persons and enhancement of the economic legal infrastructure.

In the field of intellectual property rights protection, Japan has proposed that Intellectual Property Rights (IPR) Service Centers be established in all of the APEC member economies as counseling centers for victims of counterfeit and pirated products. Japan has made another proposal in line with its conviction that strict protection of intellectual property rights is indispensable for the economic prosperity of APEC, which is to establish a comprehensive strategy for protection of intellectual property rights that includes the abovementioned IPR centers, thus appealing the importance of intellectual property rights protection within APEC.

As for counter-terrorism, the leaders of the APEC member economies met in October 2001 in the wake of the September 11 terrorist attacks in the US and agreed on measures to deal with terrorism. Currently, they are working on formulation and implementation of specific plans to realize such measures.

Regarding trade facilitation, at their 2001 summit meeting the APEC leaders endorsed the objective of reducing transaction costs in the APEC region by 5 percent over five years by 2006. Currently, the APEC member economies are implementing efforts in the fields of movement of goods, standards, business mobility and e-commerce, based on the Trade Facilitation Action Plan adopted in October 2002.

As for facilitation of business mobility, efforts are being advanced through the APEC Business Travel Card (ABTC) scheme. The ABTC scheme is a visa waiver system that enables ABTC holders to undergo immigration examinations with only a passport and an ABTC in entering and staying in participating APEC economies. Once entry is permitted, the visitor can spend a minimum of two months up to a maximum of three months during each visit. Japan officially announced in October 2002 that it would join the ABTC scheme, and from April 2003 started to implement the scheme. Since then, Japan has granted ABTCs to Japanese and admitted foreign ABTC holders into Japan smoothly and appropriately.

As for enhancement of the economic legal infrastructure, Japan, as chairman of the coordinating group, is leading various initiatives in the fields of corporate, insolvency and competition law, with the objective of improving the investment environment.

Such efforts will become an important platform underpinning the future process of systemizing economic partnership in East Asia, and it is expected that they will be continuously realized in an advanced manner.

(b) ASEM (Asia-Europe Meeting)

ASEM is a forum that brings together East Asian countries (seven ASEAN countries, Japan, China and the ROK), the EU member states as well as the European Commission. It was established in 1996 with the objective of promoting wide-ranging cooperation in the areas of policy, economy and culture between Asia and Europe (Fig. 4.2.11).

Figure 4.2.11 History of ASEM (Mainly in economic field)

Date	Major agenda items/results
October 1994	Singaporean Prime Minister Goh Chok Tong proposes to French Prime Minister Edouard Balladur to establish ASEM.
March 1996	First Summit Meeting (Bangkok) Asia and Europe to have equal standing in an Equal Partnership of comprehensive cooperation, with dialogue opening in the wide ranging areas of politics, business and culture to boost development in both regions.
September 1997	First Finance Ministers' Meeting (Makuhari) <ul style="list-style-type: none"> • Basic principles of ASEM and priority policy agenda in the economic field decided. • Trade Facilitation Action Plan (TFAP) and Investment Promotion Action Plan (IPAP) agreed.
April 1998	Second Summit Meeting (London) The Asia-Europe Cooperation Framework is approved.
October 1999	Second Finance Ministers' Meeting (Berlin) Discussion on world economic development (the economic and financial conditions of Europe and Asia, the effect of introducing the euro). Confirmed economic relationship between Asia and Europe, increased implementation of trade and investment projects and set the ground rules of the new WTO round.
October 2000	Third Summit Meeting (Seoul) Asia-Europe Cooperation Framework 2000 approved.
September 2001	Third Finance Ministers' Meeting (Hanoi) Sent off message on launch of the new WTO round, and discussed strengthening the economic relationship between Asia and Europe, business exchange in ASEM and the recent economic situation.
September 2002	Fourth Finance Ministers' Meeting (Copenhagen) <ul style="list-style-type: none"> • Affirmed that countries would strive to respect the deadline for WTO negotiations. • Approved the evaluation of TFAP activities to date and its concrete future goals. • Discussed efforts toward regional economic integration.
September 2002	Fourth Summit Meeting (Copenhagen) Discussion of Asia-Europe economic relationship and WTO, and decision to appoint task force comprised of trade, investment and finance experts.

Source: METI.

In the area of economic cooperation, apart from the ASEM Economic Ministers' Meetings held annually since the convening of the ASEM Summit in 2000, the Senior Officials' Meeting on Trade and Investment (SOMTI) is held on a regular basis. Regarding trade facilitation, ASEM has designated eight priority areas, including customs procedures, standards and conformance, with the objective of reducing non-tariff barriers and promoting trade between Asia and Europe, and has formulated a Trade Facilitation Action Plan (TFAP) that outlines measures for each priority area. Consultations and

seminars are held for each area in order to specify individual goals. Regarding investment, an Investment Promotion Action Plan (IPAP) was prepared with the objective to generate greater investment flows between Asia and Europe. Furthermore, an Investment Experts Group (IEG) comprised of investment experts was established to follow up on the initiatives under IPAP. An Asia Europe Business Forum (AEBF) was established from the perspective of strengthening cooperation with the business sectors. The AEBF raises various issues and proposes recommendations from a business viewpoint, with the objective of promoting trade and investment opportunities between the two regions.

Furthermore, the Fourth ASEM Summit held in September 2002 decided to appoint a task force comprised of trade, investment and finance experts that would discuss modalities for a closer economic partnership between Asia and Europe, including the creation of a Eurobond market in Asia, and the use of the euro as an international currency. The task force will prepare an interim report for submission to ministers' meetings (foreign, economic and finance ministers) in 2003 and will provide a final report to the ASEM Summit in Vietnam in 2004.

Since ASEM does not have a regular secretariat and administrative work is carried out on a rotation principle by the participating countries, and since expert-level consultations are held rather rarely, ASEM as a forum for dialogue is structured even more loosely than APEC, and it is necessary to consider various schemes for advancement of discussions in order for ASEM to produce more specific results.

Europe launched the process of regional economic integration in the 1960s and its experience is considered a valuable source of information for East Asia, where countries are accelerating their efforts toward regional economic integration. A forum that brings together East Asia and Europe gives an opportunity for the Asian countries to learn from the experience of their European partners that are currently implementing advanced efforts toward regional integration, such as creation of a unified regional market, introduction of a single currency, and expansion of the zone covered by regional alliances through accession by countries with different economic powers. Despite the fact that Europe and Asia pursue regional integration with different motives and different objectives, the advanced experience of Europe is expected to provide valuable input in the process of systemizing economic partnerships in East Asia.

(3) Global efforts within the WTO

(a) The importance of the WTO as an infrastructure

In implementing a multitier external economic policy, liberalization and enhancement of rules within the WTO scheme is an important "infrastructure" that underpins the entire system.

The maturity of the WTO—a shared global platform—maintains its significance even in the efforts for systemization of economic partnerships in East Asia, and the multilateral creation of shared infrastructures becomes increasingly important in the process of promoting regional economic partnership.

The GATT/WTO system has expanded to its present proportions by providing its members with fora for negotiations (called rounds) on trade liberalization focused on reduction of tariffs and formulation of

trade rules. In recent years, the WTO has expanded the scope of its activities from borderline measures to domestic measures and from activities focused on industrial products to services and agriculture. The number of its members has grown to 146 countries (as of April 2003), including China who joined the WTO in 2001. This indicates that the WTO is gradually turning into a global organization in the true sense of the word.

Under the WTO framework, Japan has been enjoying the benefits of the following WTO functions: (i) trade rules based on coherent principles and widely applied to members; and (ii) neutral dispute settlement procedures. It is essential to maintain and develop such functions further. Toward that end, Japan must implement regional and bilateral efforts while actively participating in the enhancement of rules at the WTO rounds and creating rules that will underpin various economic activities, and work toward the realization of fair trade through the WTO dispute settlement procedures.

(b) Promotion of the new round negotiations (Doha Development Agenda)

Regarding the enhancement of rules in the WTO system, the ninth round of negotiations since the GATT era, the Doha Development Agenda (DDA), is currently under way. The decision to launch the DDA was taken at the Fourth WTO Ministerial Conference held in Doha, Qatar in November 2001, and January 1, 2005 was set as a deadline for concluding the negotiations. The DDA is an “ambitious” round that comprehensively handles an extensive agenda, which corresponds to the needs of the new age and incorporates issues pertinent to investment, environment and the situation of the developing countries in addition to issues traditionally covered by the WTO negotiations rounds, such as non-agricultural products and anti-dumping. The negotiations are gradually advancing, and members have been engaged in intensive negotiations through the WTO Informal Ministerial Meetings held in Sydney in November 2002, in Tokyo in February 2003 and in Paris in April 2003, and toward the Fifth WTO Ministerial Conference (scheduled for September 2003 in Cancun, Mexico) which marks an interim point in the DDA process.

The significance of the DDA contains the following points: (i) strengthening of rules in areas where rules have not been developed; (ii) stabilization of the WTO system through efforts targeting the issues including those of developing countries; (iii) revitalization of domestic economies; and (iv) curbing the emergence of protectionism. The position upheld by Japan is that in order to materialize the abovementioned points and to optimize and stabilize the achievements of free trade, it is absolutely necessary to realize, in a well-balanced manner, not only enhancement in the areas related to market access including non-agricultural products and agriculture, but also strengthening of rules including discipline in anti-dumping. Furthermore, it is necessary to respond to the needs of the times, by dealing with new types of issues related to investment and environment, and issues of the developing countries, such as that of access to medicines (an issue emphasized by the developing countries who find it difficult to obtain medical products due to the WTO rules for protection of intellectual property rights).

Among these issues, the formulation of investment rules is one of the most important agenda items for Japan in line with the necessity of business environment improvements for Japanese corporations in the context of the global economy. Research results (a report by the World Bank) show that multilateral investment rules would increase direct investment for developing countries and would significantly

contribute to their economic growth, but conversely, establishment of investment rules is met with a strong resistance in some developing countries that fear that such rules would impede their development policies. Obtaining the understanding of such countries on investment rules is a big challenge for the future.

(c) Active utilization of the WTO dispute settlement procedures

Apart from working on creation of rules, Japan is actively utilizing the WTO dispute settlement procedures with the objective of realizing fair trade. The WTO dispute settlement procedures are an important point that was reinforced in the evolution of GATT into WTO. Some recent examples of Japan's utilization of the WTO settlement procedures are the case of the US Anti-dumping Act of 1916, in which the WTO in general admitted Japan's allegations that the act violated the WTO regulations by setting as bailout measures for dumping not the GATT-approved anti-dumping duty, but criminal punishment and fines, and the case concerning the complaint filed by Japan and seven other countries demanding that the US correct the safeguard measures imposed by the US government in March 2003 with the objective of protecting the US iron and steel industry.

<Efforts for export control>

The section above outlined WTO efforts toward trade and investment liberalization, and similar efforts within APEC and other structures. On the other hand, efforts for export control implemented from the viewpoint of maintaining international peace and security, too, contribute to the improvement of the business environment by realizing stability, and the following briefly outlines some such efforts.

<Trends after the September 11 terrorist attacks in the US>

Regarding efforts for control of international export of weapons of mass destruction (WMDs) and conventional weapons, there exists an international export control regime focused on the advanced industrial countries including Japan. After the September 11 terrorist attacks in the US, the awareness that terrorists could use WMDs raised demands for implementation of efficient export control. The improvement of security in trade through export control will result in fostering of greater trust in transactions on global as well as regional levels.

<Export control efforts by Japan>

The countries that participate in the international export control regime, including Japan, have been implementing strict control on exports of listed products in line with international frameworks. In addition, Japan followed the US and European countries in adopting catch-all regulations, which requires special permission for exports of products that are not included in the abovementioned list but could be used in WMDs and other weapons.

On the other hand, in order to improve the efficiency of the international export control measures, it is necessary to obtain the cooperation of the East Asian region that possess the ability to provide listed products and play an important role as a trade intermediary in relations with third countries.

<Cooperation with and support for Asian countries and regions>

Based on the above understanding, Japan has been supporting export control efforts in East Asian countries and regions that still have not joined international structures for export control, through holding consultations with these countries and regions as well as seminars on export control.

(4) Bilateral efforts

In addition to the abovementioned consultations on bilateral economic partnership agreements with the East Asian countries, bilateral consultations on a variety of levels have been held: from the ministerial and senior official levels to the expert level, and it is necessary to utilize such fora to discuss pending key issues in the area of economic relations.

At such fora it is also possible to discuss the East Asian business zone creation as a theme of common interest, and explore solutions for concrete negotiations on a regional level through bilateral consultations. It is very possible that such bilateral discussions, on the one hand, and discussion on a regional level, on the other, could stand in each other's way, and strategic negotiations and dialogue that take into consideration both approaches will gradually grow in importance.

For example, Japan has been holding a wide variety of bilateral consultations with China, including those at the vice-ministerial level, and some of the topics covered by the recent discussions include China's compliance with the WTO agreements, the steel safeguard issue, and the issue of infringement of intellectual property rights. Also, in the relations with the ROK, in addition to the efforts toward conclusion of the abovementioned Japan-ROK FTA, Japan is implementing cooperative efforts for promotion of investment, standards and conformance, intellectual property rights and others. As for the Japan-ROK Investment Agreement, the two governments reached a basic consensus in December 2001 and signed the agreement at the summit meeting on March 22, 2002. The Japan-ROK Investment Agreement was approved by the Japanese Diet on May 29, 2002 and came into effect on January 1, 2003.

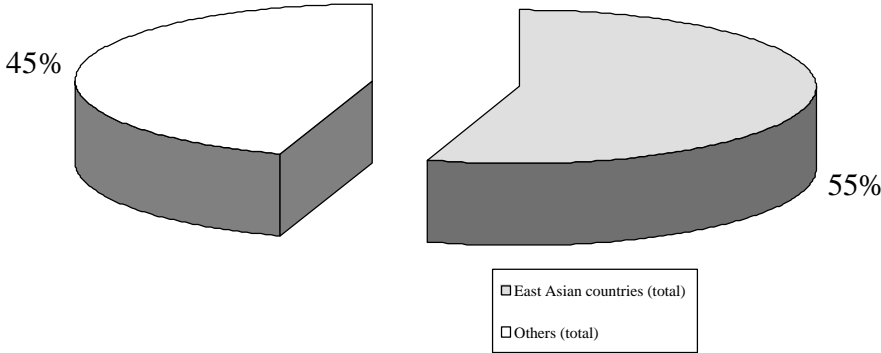
4. Strategic Utilization of ODA as a policy tool of Japan

To date Japan's official development assistance (ODA) has contributed greatly to solving various global development issues, and East Asia has been the destination for more than half of Japan's ODA (Fig. 4.2.12), with assistance focused on economic and industrial infrastructure development. The East Asian countries' economic and industrial infrastructure established through Japan's ODA is conducive to the stable implementation of economic activities on a corporate level and induces investment from Japan and other foreign countries. The infrastructure also stimulates the enhancement of trade by the countries and has significantly contributed to the economic development of the East Asian region including Japan.

When viewing the recent situation surrounding ODA, in addition to reconfirmation of the importance of ODA in line with the expanding gap among developing countries following the advancement of globalization and the deepening of discussions within the international society on development assistance, the domestic situation in Japan is characterized by stringent economic and fiscal

circumstances and the trend to decreased budgets. In light of these developments, the government has decided to review, for the first time in ten years, the current ODA Charter formulated in 1992. On March 14, 2003, the Council of Overseas Economic Cooperation-related Ministers decided the Basic Principle for the Review of the ODA Charter. The Basic Principle stipulates that, in addition to incorporating the security and prosperity of Japan in the basic philosophy, review of the “request-based approach” should be made through enhancing policy consultation with recipient countries, that priority should be put on Asian region and that enhancement of economic partnership should be taken into consideration in the process of prioritization.

Figure 4.2.12 Proportion of Japan's ODA to East Asia
(Cumulative total to FY2000)



Source: Japan's ODA White Paper.

In line with the direction of the ODA review process, it is necessary for policies to be reconsidered in the light of using ODA strategically and effectively, such as strengthening economic partnership in East Asia. In other words, through the promotion of the development of infrastructure and systems that would contribute to invigorating trade and investment in East Asia, including intellectual property rights, energy, currency and financial aspects, Japan should encourage balanced and stable economic development in the East Asian region including Japan. For that purpose, it is now required that ODA be used as a policy tool. In specific terms, in addition to making continued efforts to enhance the development of the economic infrastructure, such as environment and energy, communications, roads and financial systems, that is required for sustainable economic development in developing countries, it is also necessary to focus the disbursement of ODA on development of trade and investment infrastructure, including the improvement of operation systems for intellectual property and standards and conformance, development of human resources and assistance for supporting industries.

In addition, it is important to review the “request-based approach.” The basic philosophy of Japan’s ODA is emphasis on respect for the independence of the recipient countries and support for their self-help efforts, and that is why request for assistance from the government of partner countries is necessary. Yet, in order for ODA to be proactively implemented, it is important to demonstrate to the recipient countries priority issues in Japan’s economic cooperation policies, ask for their understanding in this regard, and enhance policy coordination so that requests can be made in line with this effort.

