

OVERVIEW

ESTABLISHMENT OF DISCIPLINES ON FORMATION OF ECONOMIC PARTNERSHIPS AGREEMENTS

REASONS FOR DISCUSSING ECONOMIC PARTNERSHIP AGREEMENTS IN THIS REPORT

The number of EPAs/FTAs keeps increasing around the globe. The number of RTAs (such as FTAs and Customs Unions) reported to the GATT from 1948 to 1994 was 124. As of December 15, 2017, the number of RTAs that have come into force and been reported to the GATT/WTO is 453¹. Furthermore, the number of IIAs (International Investment Agreement)² -- which set forth the protection of investment property, free transfer of funds and restriction of foreign investment -- has increased globally. As of March 2018, Japan has entered 15 EPAs/FTAs that are in force with 17 countries and concluded IIAs with 29 countries and regions.

Such rapid increase in EPAs/FTAs can be attributed to several factors. The establishment of the EU as a Customs Union, which has a massive internal market, and its development prompted the establishment of the NAFTA (North American Free Trade Agreement) and the AFTA (ASEAN Free Trade Area). Furthermore, the establishment of customs unions and EPAs/FTAs stimulates trades among their parties and decreases relative trade barriers among them, while it provides incentives for non-associated countries to conclude customs union/EPA/FTA regional trade agreements with associate countries, since the non-associate countries are treated less favorably through the trade conversion effect. For example, after the FTA within the ASEAN region (AFTA) entered into force in 1993, the FTA network of “ASEAN+1” was formed in East Asia FTAs (trade in goods) between ASEAN and Japan, China, the Republic of Korea (hereafter “Korea”), India, Australia and New Zealand by end of January 2010 (See the following section, “Global Trends of Economic Partnership” concerning the global trends in EPAs/FTAs.).

EPAs/FTAs are agreements that stipulate special rules within specific regions, and are treated as an exception to MFN treatment (which is the principle rule of the WTO). GATT and GATS stipulate requirements in cases where establishing regional trade agreement of goods and services are allowed exceptionally (See Section II Chapter 16, Regional Trade Agreement).

However, multilateral trade policy initiatives under the WTO and bilateral initiatives in EPAs/FTAs may mutually complement each other. The economic partnership initiatives developed in the three

¹ http://www.wto.org/english/tratop_e/region_e/region_e.htm

As for the number of RTAs referred to herein, an RTA that covers goods and services is counted as two RTAs. If that RTA is counted as one RTA, as of December 15, 2017, the number of RTAs that have come into force is 279.

² Among IIAs, agreements concluded between two countries are called BITs (Bilateral Investment Treaties).

major markets of the United States, the EU and Asia and regional cooperation initiatives developed in the Asia-Pacific region through APEC (Asia-Pacific Economic Cooperation) support the multifaceted free trade system of the WTO, and furthermore, such developments are expected to contribute to the liberalization of trade and investment in the global scale. As compared to the round of negotiations in the WTO, EPAs/FTAs can include rules in accordance with the economic conditions and can conclude the treaty between the countries in a flexible manner, covering a wide range of fields, not limited to the elimination of tariffs and the liberalization of services, but those areas which WTO does not cover such as the implementation of investment rules and the expansion of human exchanges.

Summarized below are the anticipated benefits Japan could receive by entering EPAs/FTAs into force.

- i) With the reduction of trade barriers, imports of cheaper goods and services increase and participation of foreign companies is promoted, which enhances competition in the domestic market, reduces prices of goods and services, and promotes the differentiation of products and supply of more diverse goods and services.
- ii) EPAs/FTAs will realize the preferential access to markets important for Japan through elimination of tariffs, liberalization in investment and harmonization of domestic systems, thereby expanding trade and investment opportunities and enabling enterprises to enjoy economies of scale.
- iii) By expeditiously setting trade rules between countries and/or regions sharing the same way of thinking with Japan, such EPAs/FTAs will enable Japan to form framework agreements in areas where specific rules are not agreed upon in the WTO forum. In addition, if that framework is adopted widely, Japan will be able to take a leading initiative in discussing these areas in the WTO.

Japan can enjoy these benefits of EPAs/FTAs by entering them into force before other countries. In contrast, if foreign countries enter EPAs/FTAs into force prior to Japan, then Japan, and Japanese companies, would be excluded from these benefits because of the increase of relative trade barriers as already described. It is therefore important to support the WTO system and enjoy benefits from EPAs/FTAs.

While Parts I and II of this Report assess trade policies of major countries from the viewpoint of rights and obligations under the WTO Agreements, it is also important to focus on ensuring national governments' compliance with rules provided by the rapidly increasing number of EPAs/FTAs and IIAs and ensuring their consistency with the WTO Agreements.

Part III explains the contents of the disciplines for international economic rules and examines relevant measures taken in each country, mainly regarding EPAs/FTAs and IIAs that Japan has concluded. It also introduces recent examples of EPAs/FTAs and IIAs concluded between third-party countries.

GLOBAL TRENDS OF ECONOMIC PARTNERSHIP

1. GLOBAL TRENDS³

Following the collapse of the non-western cold war regimes, and with the pursuit of a new

³ The status of FTA conclusion by country/territory is available on the websites of the WTO and JETRO.

international economic system, western countries began accelerating regional integration. With the establishment of a single market through the intra-regional market integration plan within the European Economic Community (EEC) (1992) and the inauguration of the North America Free Trade Agreement (NAFTA) (1994), European and North American countries actively promoted efforts aimed at: (i) increased corporate income through market expansion and productivity improvements; and (ii) domestic economic structural reforms through high-level trade and investment liberalization and facilitation with those neighboring regions with which they had close economic relationships.

The breakdown of the Seattle WTO Ministerial Conference (1999) revealed the difficulties of promoting multilateral free trade within the WTO, and further accelerated the trend of pursuing bilateral or regional FTAs and EPAs.

Since the meeting, new trends have emerged with regard to EPAs and FTAs.

First, there were more agreements involving, not only the elimination of tariff and non-tariff measures to trade, but also the establishment of rules in new areas (such as investment, competition, environment, economic cooperation and the movement of natural persons). (One such example is the fact that Japan has concluded wide-ranging EPAs covering matters such as the elimination of border controls and domestic restrictions to further liberalize and facilitate the regulatory humanization in various economic areas, movement of goods, services, persons, and capital.)

The second feature of recent EPAs/FTAs is that there has been a trend of forming “regional integration”-type EPAs/FTAs and broader regional economic partnerships. Remarkable progress has been made in the Americas after the breakdown of the Cancun WTO Ministerial Conference (September 2003); for example, the MERCOSUR/MERCOSUL and the CAN (Comunidad Andina) signed a framework agreement towards the creation of a FTA. In addition, the FTA between the U.S. and Central American countries (the Dominican Republic-Central America-United States Free Trade Agreement: DR-CAFTA) was signed in August 2004 and entered into force in the respective countries. In the Asia-Pacific region, negotiations for the TPP (Trans-Pacific Partnership) commenced in March 2010. The TPP was signed in February 2016. Although the United States withdrew from the TPP in January 2017, the remaining eleven countries continued negotiations and signed the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in March 2018. Moreover, negotiations for a Japan-China-Korea FTA commenced in March 2013, and negotiations for the RCEP (Regional Comprehensive Economic Partnership), which covers almost all regions of East and Southeast Asia (participated in by 10 ASEAN countries, Japan, China, Korea, India, Australia and New Zealand) commenced in May 2013.

The third feature is that not only the number of “regional integration”-type EPAs/FTAs but also that of EPAs/FTAs among countries and regions that are not neighbors are increasing (i.e. the U.S.-Israel FTA, the EU-Mexico FTA, Korea-the EU FTA, Korea-the U.S. FTA, the EU-South Africa FTA, the EU-Singapore FTA, and the EU-Canada FTA. Japan also concluded EPAs/FTAs with Central and South American countries, including Mexico, Chile, and Peru). It is considered that the motivations underlying such EPAs/FTAs between non-neighboring countries are: (i) to function as a trade “hub” by obtaining favorable access to economically important countries/regions; (ii) to increase employment by enhancing its attractiveness as an investment destination; (iii) to remove disadvantages that would exist in the absence of an EPA/FTA; and (iv) the political/diplomatic reasons.

2. SUMMARY OF MAJOR REGIONAL INTEGRATION AND TRENDS IN INDIVIDUAL COUNTRIES

This subsection outlines trends in the accelerating regional integration that is taking place in the respective regions. Developments in regional integration and economic partnerships in the Americas, the EU, and the East Asia/Asia-Pacific region, or regions that have a particularly close relationship with Japan are outlined below. In addition, the trends with major efforts by the United States, the EU, China, and Korea to strengthen regional integration and economic partnerships are also outlined.

(1) THE AMERICAS

There are four major regional integrations in the Americas: North American Free Trade Agreement (NAFTA), Southern Cone Common Market (MERCOSUR: Mercado Común del Sur), Andean Community (CAN: Comunidad Andina), and Pacific Alliance (Alianza del Pacífico). Among the efforts of the individual countries in the Americas, the regional integration efforts of the United States, Mexico, and Canada will be presented here.

(a) Overview of the North American Free Trade Agreement (NAFTA) (*As of the End of March 2018)

NAFTA, the regional FTA between Canada, the United States and Mexico), was signed in December 1992 and entered into force in January 1994. This agreement provides for the regulation of trade in goods and services (including the elimination of intra-regional tariffs and quantitative restrictions, and the unification of rules of origin), and rules in respect of investment, intellectual property, and competition policies. NAFTA member countries have been reinforcing relationships with Latin American countries. Canada, the U.S. and Mexico already have concluded FTAs with Chile, Peru, Honduras, Costa Rica, Colombia, and Panama.

On May 18, 2017, the Trump administration notified Congress of the recommencement of NAFTA negotiations in accordance with the Trade Promotion Authority (TPA) Act. The first round of negotiations took place on August 16, 2017. By January 2018, six rounds of negotiations were held. Below, the objectives and history of negotiations by the United States are summarized.

(i) Negotiating Objectives

On July 17, 2017, the Office of the United States Trade Representative (USTR) announced NAFTA negotiating objectives. This announcement was made in accordance with the TPA Act, which requires such announcement to be made by 30 days before the commencement of trade agreement negotiations. Major negotiating objectives are as below.

a) Trade in Goods

◇ Improve the U.S. trade balance and reduce the trade deficit with the NAFTA countries.

(Industrial Goods)

- ◇ Maintain existing reciprocal duty-free market access for industrial goods and strengthen discipline to address non-tariff barriers that constrain U.S. exports to NAFTA countries.
- ◇ Maintain existing duty-free access to NAFTA country markets for U.S. textile and apparel products and seek to improve competitive opportunities for exports of U.S. textile and apparel products while taking into account U.S. import sensitivities.
- ◇ Promote greater regulatory compatibility with respect to key goods sectors to reduce burdens associated with unnecessary differences in regulation, including through regulatory cooperation

where appropriate.

(Agricultural Goods)

- ◇ Maintain existing reciprocal duty-free market access for agricultural goods.
- ◇ Expand competitive market opportunities for U.S. agricultural goods in NAFTA countries, substantially equivalent to the competitive opportunities afforded foreign exports into the U.S. market, by reducing or eliminating remaining tariffs.
- ◇ Seek to eliminate non-tariff barriers to U.S. agricultural exports including discriminatory barriers, restrictive administration of tariff rate quotas, other unjustified measures that unfairly limit access to markets for U.S. goods, such as cross subsidization, price discrimination, and price undercutting.
- ◇ Provide reasonable adjustment periods for U.S. import of sensitive agricultural products, engaging in close consultation with Congress on such products before initiating tariff reduction negotiations.
- ◇ Promote greater regulatory compatibility to reduce burdens associated with unnecessary differences in regulation, including through regulatory cooperation where appropriate.

b) Rules of Origin

- ◇ Update and strengthen the rules of origin, as necessary, to ensure that the benefits of NAFTA go to products genuinely made in the United States and North America.
- ◇ Ensure that the rules of origin incentivize the sourcing of goods and materials from the United States and North America.
- ◇ Establish origin procedures that streamline the certification and verification of rules of origin and that promote strong enforcement, including with respect to textiles.
- ◇ Promote cooperation with NAFTA countries to ensure that goods that meet the rules of origin receive NAFTA benefits, prevent duty evasion, and combat customs offences.

c) Others

Data Flow

- ◇ Establish rules to ensure that NAFTA countries do not impose measures that restrict cross-border data flows and do not require the use or installation of local computing facilities.
- ◇ Ensure that the NAFTA countries refrain from imposing measures in the financial services sector that restrict cross-border data flows or that require the use or installation of local computing facilities.
- ◇ Establish rules to prevent governments from mandating the disclosure of computer source code.

Dispute Settlement

- ◇ Eliminate the Chapter 19 dispute settlement mechanism.

Currency

- ◇ Through an appropriate mechanism, ensure that the NAFTA countries avoid manipulating exchange rates in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage.

*In addition to the above, objectives are described for the following sectors: Sanitary and Phytosanitary Measures; Customs and Trade Facilitation; Technical Barriers to Trade; Good Regulatory Practices; Trade in Services, Including Telecommunications and Financial Services; Digital Trade in Goods and Services and Cross-Border Data Flows; Investment; Intellectual Property; Transparency; State-Owned and Controlled Enterprises; Competition Policy; Labor; Environment; Anti-Corruption; Trade Remedies; Government Procurement; Small- and Medium-Sized Enterprises; Energy; and

Dispute Settlement.

On November 17, 2017, the USTR updated the above NAFTA negotiating objectives. This change was made following the senators' request to the USTR to periodically update negotiating objectives in accordance with the TPA Act of 2015.

In the updated version, mainly objectives concerning intellectual property and investment were added. The objective of trade deficit reduction was maintained.

(ii) History of Negotiations (Joint Statement after Negotiations; Prepared Based on the Statement of U.S. Trade Representative Robert Lighthizer)

a) First Round: August 16-21, 2017 (Washington, D.C., United States)

- At the opening press conference, U.S. Trade Representative Lighthizer reflected on NAFTA, saying it was a failure, and emphasized that the enormous trade deficit of the U.S. could not be neglected. He expressed that there was a need to drastically improve NAFTA.
- The three member states agreed on promoting negotiations at a fast pace toward ambitious goals.

b) Round 2: September 1-5, 2017 (Mexico City, Mexico)

- The United States, Canada, and Mexico reaffirmed their commitment to expedited and comprehensive negotiations and shared the goal of completing the negotiation process by the end of the year.
- Over 24 working groups of trade experts and government officials were established and had discussions.

c) Third Round: September 23-27, 2017 (Ottawa, Canada)

- Work concerning the consolidated text progressed in most areas. In particular, significant progress was seen in the fields of telecommunications, competition policy, digital trade, good regulatory practice, and customs and trade facilitation. Basic proposals were exchanged regarding market access for government procurement.
- Negotiations in the small- and medium-sized enterprises (SME) area have substantially been completed. To include a new chapter dedicated to SMEs in the modernized NAFTA means to recognize the contribution of SMEs to the economy of the three member states. This chapter provides for the establishment of SME dialogues consisting of private sector entities, NGOs, and other stakeholders from the three NAFTA member states.

d) Fourth Round: October 11-17, 2017 (Washington, D.C., the United States)

- Discussions on the competition chapter were substantially completed. Furthermore, some progress was seen regarding customs and trade facilitation, digital trade, good regulatory practices, and some Annexes.
- The Ministers of the three member states reconfirmed the order to the lead negotiators to reach an agreement within a reasonable period. They also agreed on holding another round of negotiations from January to March 2018. The objective of completing negotiations by the end of the year was postponed.

e) Fifth round: November 15-21, 2017 (Mexico City, Mexico)

- Nearly 30 negotiation groups had discussions. The lead negotiators confirmed progress in every area.

In order to complete negotiations at the earliest possible time, a working-level meeting is scheduled in Washington, D.C. in mid-December before the next round of negotiations.

- U.S. Trade Representative Lighthizer issued a statement to the effect that he was concerned about the lack of headway and hoped Canada and Mexico would be willing to seriously engage in negotiations.

f) Sixth Round: January 21-29, 2018 (Montreal, Canada)

- U.S. Trade Representative Lighthizer appreciated that discussion concerning some core issues had finally started and that there was some progress in this round, although he also expressed his concern about the slow progression of such discussion. Lighthizer affirmed the continuation of discussions. He also welcomed that discussions regarding the chapter on corruption were completed.
- On the other hand, Lighthizer criticized Canada's proposal on rules of origin for automobiles submitted in this round of negotiations, stating that the proposal would result in a decrease of automobile components made in North America and loss of job opportunities in the automobile industry.
- Secretary of Economy Guajardo (Mexico) stated that negotiations were on the right track toward completion, although there were some remaining issues to be discussed in the next round.

g) Seventh Round: February 25 to March 5, 2018 (Mexico City, Mexico)

- In this round, negotiations in the fields of good regulatory practices, management and publication (transparency), and sanitary and phytosanitary measures were completed. There was also substantial progress in discussions concerning telecommunications and technical barriers to trade.
- U.S. Trade Representative Lighthizer stated that the United States was prepared to work continuously to achieve a breakthrough. In his statement, Lighthizer also stated, "we are at the point where we have very important decisions to be made. If the political will is there, I am certain that we have a path to a rapid and successful conclusion."

<Addendum> Discussion on Rules of Origin in NAFTA Renegotiation

In the final stages of his election campaign, U.S. President Trump issued a "100-Day Action Plan," which announced his intention to "renegotiate NAFTA or withdraw from the deal." In May 2017, Trump notified Congress of his intention to open NAFTA renegotiation. In August of the same year, NAFTA renegotiation with Canada and Mexico commenced.

One of the core elements of the US proposal for NAFTA renegotiation is the revision of the rules of origin for automobiles. The United States proposed to upgrade and enhance the rules of origin as necessary so that NAFTA purely benefits from products produced in the United States and North America, noting that the rules of origin bring incentives for using goods and materials produced in the United States and North America. According to comments from negotiating Ministers, etc., the United States proposed to raise the current threshold of 62.5% of a car's value (based on value added) provided under the rules of origin for finished automobiles in the NAFTA area, which caused huge debate among Canada and Mexico.

Unlike the conventional efforts toward the purpose of FTAs, i.e. advanced liberalization and facilitation of trade and investment, the proposals of the United States, including those for rules of origin, could result in excessive restrictions on the freedom of trade and investment related to the procurement of components and materials. Attention needs to be paid to the future negotiations.

(b) Overview of the MERCOSUR/MERCOSUL

MERCOSUR/MERCOSUL (Mercado Comun del Sur/Mercado Comun du Sul), which entered into force in January 1995, is a customs union of six countries - Brazil, Argentina, Bolivia, Uruguay, Paraguay, and Venezuela (Bolivia signed the accession protocol in December 2012 and is waiting for ratification by the congresses of the other countries; Paraguay's right to participate in MERCOSUR/MERCOSUL was suspended in June 2012, but was resumed in 2014; Venezuela's membership has been suspended since 2017). In addition, MERCOSUR/MERCOSUL concluded FTAs with Chile, Bolivia, Peru, Colombia and Ecuador, and Economic Complementarity Agreements (that mutually reduce tariffs applied to specific sectors for a certain period) with Cuba and Mexico. The FTA negotiations between MERCOSUR/MERCOSUL and the EU started in April 2000. Although the negotiations stalled for a while, exchange of negotiation offers concerning market access for trade in goods, services, government procurement, etc. was carried out in 2016 for the first time since 2004. In October 2004, a negotiation meeting was held in Brussels. In 2017, three negotiation meetings were held (in March and July and from the end of November to December). In addition, a negotiation meeting was held from the end of January to February 2018 and negotiations are still ongoing today. MERCOSUR/MERCOSUL and the Andean Community entered into an FTA in December 2003, and at the MERCOSUR/MERCOSUL summit meeting in June 2005, it was confirmed that members of each agreement would treat the members of the other agreement as associate member countries, reinforcing the South American common market. In addition, an FTA negotiation between MERCOSUR/MERCOSUL and Israel (entered into force in 2009), Southern African Customs Union (SACU, entered into force in 2016), Egypt (entered into force in 2017), and Palestine (signed 2011, not yet entered into force) have been concluded, and efforts for possible future FTA negotiations are being made through Preferential Trade Agreements (PTAs) negotiations and joint study with 10 countries and three regions. With respect to MERCOSUR/MERCOSUL's member countries' relationships with Japan, dialogues for closer economic ties between Japan and MERCOSUR/MERCOSUL were held in 2012, 2015, 2016, and 2017, and information on EPA/FTA initiatives was exchanged.

(c) Overview of the Andean Community (CAN [Comunidad Andina])

The Andean Community, established in 1996 by a reorganization of the Andean Subregional Integration Agreement (which entered into force in 1969), is a customs union consisting of: Colombia, Peru, Bolivia and Ecuador. Venezuela announced its withdrawal in April 2006. MERCOSUR countries (Argentina, Brazil, Paraguay and Uruguay) joined the CAN as associate members in July 2005. Chile joined the CAN as an associate member in September 2006. Colombia, Bolivia and Ecuador eliminated intra-regional tariffs by 1993. Peru achieved complete elimination thereof at the end of December 2005. The free trade area started in January 2006. Under CAN, a new common external tariff with four levels was planned to be applied by 2004, but it was agreed at the first commerce ministers meeting of the Andean Community in February 2006 to defer the date of entry into force of a new common external tariff until the end of January 2007, due to conflicting interests among the member countries, and due to Colombia, Peru, and Ecuador commencing individual FTA negotiations with the United States. Subsequently, it was further deferred until December 31, 2014. The FTA negotiations between the EU and CAN started in June 2007. However, since January 2009, the negotiation changed to a negotiation for trade treaties between the EU, Colombia, Peru, and Ecuador. In March 2010, an agreement in principle was reached with Colombia and Peru and in June 2012, the trade treaties were signed. As for the bilateral FTA with the CAN and the United States, the Peru-U.S. FTA came into force in February 2009, and the Colombia-U.S. FTA in 2012.

(d) Overview of the Pacific Alliance (Alianza del Pacífico)

The Pacific Alliance (Alianza del Pacífico) is a regional economic integration agreement for which a framework treaty was signed by Mexico, Colombia, Peru and Chile in June 2012. The Pacific Alliance Framework Agreement, which provides for the organization and mechanisms of the Pacific Alliance, including the composition of and qualifications for participation in the Pacific Alliance, became effective on July 20, 2015. An Additional Protocol including provisions to immediately eliminate regional tariffs on 92% of items and then gradually on the remaining 8% over 17 years at maximum was adopted at the 8th Pacific Alliance leaders meeting held on February 10, 2014. The 10th leaders meeting was held on July 3, 2015, and the Declaration of Paracas was adopted at the meeting.

In the Declaration, the members indicated their determination to advance towards the construction of an area of deep integration and their intention to coordinate with other mechanisms of integration in order to realize greater free movement of goods, services, capital and people.

In 2017, discussions about associate members made large progress. The strengthening of the relationship with Asia-Pacific countries has been part of the basic goals since the formation of the Pacific Alliance. Efforts toward this goal are being promoted in earnest. At the Pacific Alliance Summit held in Colombia in June 2017, four candidate associate members, namely Australia, New Zealand, Canada, and Singapore, announced the commencement of comprehensive free trade negotiations with four Pacific Alliance members. Japan is also invited to become an associate member.

(e) Major Movements of Countries Regarding Regional Integration

(i) United States

Prior to the establishment of the Trade Act of 2002 (which included Trade Promotion Authority (TPA)), the U.S. had entered into only one FTA (Israel in 1995) and the North America Free Trade Agreement (NAFTA). Since then, the U.S. has been active in FTA negotiations with countries such as Chile and Singapore. This trend has been accelerating following the failure to reach an interim agreement on the Doha Development Agenda at the Cancun WTO Ministerial Conference in September 2003. The United States does not consider FTAs merely from the economic viewpoint of trade liberalization, but also as tools to establish political alliances both to support countries emerging from poverty and to conduct economic reform and implement security and anti-terrorism measures. The United States has shown its intention to enter into FTAs on a global scale, covering areas such as Latin America, Asia/Oceania, the Middle East and Africa. As of November 2017, 20 bilateral FTAs have come into force and five FTAs are under negotiation. In November 2006, the United States proposed the establishment of a free trade area in the Asia Pacific region (FTAAP). In November 2009, President Obama announced his involvement in the Trans-Pacific Partnership (TPP), and notified the Congress of the start of negotiations in December. The first TPP negotiation meeting was held in March 2010. The negotiations on the TPP reached agreement in principle in October 2015, and the TPP was signed in February 2016.

However, the United States trade policies radically changed their direction with the end of the presidency of Barack Obama and inauguration of Donald Trump in January 2017. From during his election campaign, withdrawal from the TPP and renegotiation of NAFTA were part of Trump's agenda. Immediately after his inauguration, Trump signed an executive order to officially decide the country's withdrawal from the TPP (for details concerning the development of the TPP negotiations, see *Efforts in Japan in Economic Partnerships*, 2(16) *Trans-Pacific Partnership*). The United States started renegotiation of NAFTA with Canada and Mexico in August 2017. In addition, the country agreed to commence negotiations on the amendment of the U.S.-Korea FTA in October of the same

year. In March 2018, the United States and Korea announced that they reached an agreement on the basic principle for the amendment of the FTA.

(ii) Mexico

As of 2017, Mexico has concluded 12 EPAs/FTAs (the Japan-Mexico EPA came into force in 2005; for details, see Efforts in Japan in Economic Partnerships, 2(2) Japan-Mexico EPA). Mexico and the Republic of Korea began negotiations in February 2006 but failed to make progress in three rounds of negotiations that ended in June 2006, as Korea was focusing on its FTA negotiations with the United States. Mexico and the Republic of Korea then announced that they had agreed to upgrade the “Strategic Economic Complementation Agreement” and to commence negotiations for conclusion of an FTA. In April 2016, the President of the Republic of Korea paid an official visit to Mexico to meet the country’s President. At this meeting, they agreed to have consultations toward the recommencement of FTA negotiation, which had been suspended since the fourth quarter of 2016. However, the negotiation was practically suspended in June 2008. Afterwards, at the Korea-Mexico summit held in June 2012, the resumption of negotiation was agreed upon, but to date no notable announcements have been made concerning its progress.

As for the EU-Mexico FTA, which came into force in 2000, the parties agreed in 2013 to work toward its comprehensive modernization. The EU and Mexico had a series of negotiation meetings since June 2016 and reached an agreement in April 2018 regarding the trade and investment sectors related to the modernization of the EU-Mexico FTA.

(iii) Canada

As of 2017, Canada is a party to nine bilateral EPAs/FTAs. As for multilateral FTAs, Canada is a member of the North American Free Trade Agreement (NAFTA) and the European Free Trade Association (EFTA), which is also participated in by Switzerland, Norway, Iceland, and Liechtenstein. (Canada and Japan started negotiations on the Japan-Canada EPA in November 2012 and had seven negotiation meetings by November 2014. For details, see Efforts in Japan in Economic Partnerships, 3 (4) Negotiations of Japan’s Other EPAs/FTAs.)

The provisional application of the EU-Canada Comprehensive Economic and Trade Agreement (CETA) (signed October 30, 2016) started on September 21, 2017. For the EU, the CETA is the FTA with a G7 country. In order for the CETA to fully come into force, it needs to be ratified in all EU member states.

In March 2018, Canada started negotiations on an FTA with MERCOSUR, a trade block consisting of four Latin American countries, namely Argentina, Brazil, Paraguay, and Uruguay. The Canadian government is committed to the promotion of the Progressive Trade Agenda.

(2) EUROPE

(a) Overview of the European Union (EU)

The European Union (EU) is a political and economic union in Europe. It promotes cooperation among the member states in such fields as foreign affairs and security policies (e.g. economic and currency integration policies), police, and criminal justice. Its former body, the European Economic Community (EEC), was formed in 1967, integrating the European Coal and Steel Community (ECSC), the European Economic Community (EEC) (established in 1958), and the European Atomic Energy Community (EAEC). The EEC aimed for the establishment of a communal market that has achieved the free movements of goods, services, people and capital. Accordingly, the EEC completed the

customs union and the Common Agricultural Policy in 1968. Furthermore, the Treaty of Maastricht entered into force in 1993; this treaty promotes integration in political aspects as well in addition to economic and currency integration. Following this, the EU (European Union) was established. After five expansions, the EU now has 28 member states. As part of the steadily expanding EU, the Treaty Establishing the Constitution for Europe was adopted in 2004 with the purpose of maintaining forward momentum and deepening integration. However, referendums in France and the Netherlands rejected ratification of the Treaty in 2005. Accordingly, in June 2007, member states agreed to draft a Reform Treaty that basically maintains the content of the Constitution of Europe while excluding elements peculiar to a “Constitution”. At the informal European Summit in Lisbon in June 2007, the Reform Treaty (“the Treaty of Lisbon”) was signed. The Treaty entered into force on December 1, 2009 after going through the process of ratification by all member countries.

In May 2014, the European Parliament election was held for the first time after the Treaty of Lisbon came into force. A new administration was established with Juncker from Luxembourg becoming the President of the European Commission in November and Tusk from Poland becoming the President of the European Council in December.

Following the referendum of June 23, 2016, when a majority of the UK voters supported the country’s withdrawal from the EU, the United Kingdom notified the EU of its withdrawal in March 2017. Negotiations between the United Kingdom and the EU started in June 2017. At the meeting of the European Council held from December 14 to 15, 2017, it was agreed that negotiations on the transitional period and a new UK-EU framework will be discussed after 2018, when talks regarding the rights of EU citizens in the UK and British citizens in EU countries, financial obligations, and issues concerning Ireland will have considerably progressed.

(b) Regional Integration and Economic Partnership Reinforcement Efforts by the EU

The EU has actively promoted FTAs. In January 1994, the EU established the European Economic Area (EEA) with the EFTA Member States (excluding Switzerland, Norway, Iceland and Liechtenstein) and then non-member states of the EU (Sweden, Finland and Austria) which reinforced and expanded cooperation in the areas of free movement of persons, goods, capital, and services; research and development; environment; and so on. This was broader in scope than a free trade area. The EU is increasing its efforts to reinforce economic relationships with the Mediterranean countries. To replace the agreements entered into in the 1970s, the EU is advancing negotiations for new FTAs with the Mediterranean countries. These agreements will provide for liberalization of trade, investment, and services. The EU has established free trade area with Mediterranean countries excluding Syria. Currently, by deepening this further, the EU is aiming for a free trade area including services, investment, government procurement, and regulations. There is also a trend to establish regional cooperation relationships with more member countries other than neighboring countries.

It replaced the Lomé Convention, through which the EU had maintained economic assistance relationships with the ACP states since 1975. The purpose of the Cotonou Agreement, which consists of an FTA and a Generalized System of Preferences (GSP), was to form a new cooperative relationship between the EU and the ACP states. Pursuant to this agreement, negotiations between the EU and the regional integration groups within the ACP states (four regions in Africa, the Caribbean region, and the Pacific countries region); commenced in September 2002.

As seen above, while the EU put the first and utmost priority on trade and investment liberalization through multilateral trade negotiations under the framework of GATT/WTO, it has also promoted FTA negotiations with its neighboring countries and former colonies. However, following the collapse of Doha Round negotiations, the EU issued in October 2016 “Global Europe,” a policy document that explained its approach to the strengthening of the single market and foreign trade policies. While also

expressing its full support for the WTO mechanism, the EU presented in this document its strategy to promote FTA negotiations with Asian and other countries with the acquisition of new markets in mind. Based on this strategy, the EU started FTA negotiations with the Republic of Korea in May 2007, which came to provisional application in July 2011. The EU has also promoted ongoing FTA negotiations with India since June 2007. With respect to ASEAN, the EU commenced negotiations in May 2007 but suspended them in March 2009 after 7 rounds of negotiations and instead shifted to bilateral negotiations with individual countries. The EU has already reached an agreement with Singapore and Viet Nam. Negotiations with Malaysia and Indonesia are still ongoing.

As for African countries, the EU executed several regional integrations within the ACP by the end of 2007, with the aim of entering into EPAs with integrated regions. However, an agreement was reached only with the Caribbean region (signed in October 2008). Subsequently, the EU proceeded with the negotiations for the review of the treaty by dividing African countries into five regions, and as a result the EPA with the West African region was signed in July 2014 and the EPA with the South African region was provisionally applied in 2016.

Furthermore, the EU presented a comprehensive trade strategy under the title of “Trade for All” in 2015.

With respect to Latin American countries, the EU-Mexico FTA, which also includes political cooperation, entered into force in July 2000. Further, negotiations regarding revisions commenced in May 2016. This is a comprehensive agreement including intellectual property rights, governmental procurement, competition, and investment. In the area of market access, non-agricultural products are fully liberalized, and services are mostly liberalized (except for audiovisual services, air transport services, and marine transport services). Since Mexico is a member country of NAFTA, the Mexico-EU FTA allowed the EU to gain a foothold, not only in Latin America, but also in NAFTA. An economic framework cooperation agreement between EU and Chile, including an FTA, entered into force in November 2002. The EU and MERCOSUR/MERCOSUL signed the Inter-regional Framework Cooperation Agreement in December 1995. In April 2004, they commenced negotiations on the EU-MERCOSUR FTA, which aims at comprehensive political and economic partnership including improvement of the legal environment for promoting both technical cooperation and investment. The negotiations are still ongoing. While the EU requests MERCOSUR/MERCOSUL to make larger concessions on investment and services, MERCOSUR/MERCOSUL requests the EU to liberalize the market access of agricultural and food products. The EU and the Gulf Cooperation Council (GCC: Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) commenced FTA negotiations in 1990; they were suspended and then resumed in 2002. The GCC suspended the negotiations in 2008, but unofficial negotiations continue.

With Canada, negotiations commenced in October 2009 and the conclusion of the negotiations was announced at the Canada-EU Summit meeting in Ottawa in September 2014. Afterward, in October 2016, the Comprehensive Economic and Trade Agreement (CETA) between Canada and the EU was signed at the Canada-EU Summit meeting in Brussels. The provisional application of the CETA commenced on September 21, 2017.

The commencement of EU-US FTA negotiations was scheduled in July 2013; however, European Commissioner for Trade Malmström commented on January 31, 2017, that the negotiations have been suspended due to the inauguration of the Trump administration.

(3) ASIA-PACIFIC REGION

(a) Overview of the ASEAN Free Trade Area (AFTA)

AFTA is a free trade area covering the 10 member countries of the ASEAN, which was agreed upon

at the ASEAN Summit of January 1992. Based on the Common Effective Preferential Tariff (CEPT) framework, the intra-regional tariff was to be gradually reduced from January 1993, initially targeting reduction of the intra-regional tariff on products listed in the CEPT Inclusion List (IL) to 0-5% by 2008. However, at the AFTA Council Meeting in 1994, the time limit for the reduction of the intra-regional tariff was moved up to 2003. At the ASEAN Summit in December 1998, the time limit for reduction was further moved up to 2002 for the original ASEAN member countries (the Philippines, Thailand, Malaysia, Singapore, Brunei, and Indonesia). In addition, at the AFTA Council meeting and the ASEAN Summit held in 1999, the tariff reduction target of “0-5%” was changed to “tariff elimination”, and it was declared that the tariffs on the IL products would be eliminated among the original ASEAN member countries by 2010 and among the new member countries (Cambodia, Laos, Myanmar and Viet Nam) by 2015. As a result, original ASEAN member countries achieved the tariff reduction for the IL products by 2002 and the tariff elimination for the IL products by 2010, and the new member countries achieved tariff elimination for the IL products, except for certain items corresponding to 7% of all items, by January 2015. The new member countries were given a grace until 2018 to achieve the tariff elimination for those remaining items.

Then, at the ASEAN Summit in November 2007, the legally binding “ASEAN Charter” was signed, and the “AEC Blueprint” was issued as a roadmap for the AEC up to 2015. It stated that the AFTA-CEPT Agreement would be reviewed to make it a comprehensive agreement, and in February 2009, the ASEAN Trade in Goods Agreement (ATIGA) was signed, replacing CEPT agreements. It covered the following five additional areas: trade facilitation; customs; standards, technical regulations and conformity assessment procedures; sanitary and phytosanitary measures; and trade remedy measures. In the area of investment as well, the ASEAN Comprehensive Investment Agreement (ACIA), which integrated and revised the ASEAN Agreement on the Promotion and Protection of Investments (IGA) and the ASEAN Investment Region Framework Agreement (AIA), was also signed.

However, the Declaration of the Establishment of the ASEAN Community, which was adopted at the ASEAN Summit in November 2015, indicated that the establishment of the ASEAN Community is only a milestone in ASEAN integration, and that initiatives for further deepening integration will continue to be implemented in 2016 onward. Moreover, the “AEC Blueprint 2025” was announced as a new roadmap up to 2025. The AEC Blueprint 2025 sets forth further strengthening of ATIGA, steady implementation of ACIA, as well as facilitation of the negotiations and implementation of the ASEAN Trade in Services Agreement (ATISA), which completely revamps the AFAS.

(b) Recent Events Related to the ASEAN (Efforts of “ASEAN+1”)

Recently, in addition to the United States, the EU and Japan, China, Korea, India, and Australia and New Zealand (ANZ-CER) are also actively working to enter into EPAs/FTAs with the ASEAN in order to revitalize their respective economies by benefiting from the ASEAN’s growing economic power.

As for the China-ASEAN FTA, the Framework Agreement on Comprehensive Economic Cooperation came into force 2003. In 2004, China and the ASEAN signed the Agreement on Trade in Goods and the Agreement on Dispute Settlement Mechanism. Tariff reduction commenced in 2005 and 90% of the tariffs on goods of the six ASEAN countries were eliminated in 2010. In 2007, the China-ASEAN FTA on Trade in Service entered into force. The China-ASEAN Investment Agreement entered into force in January 2010.

Negotiations concerning the Korea-ASEAN FTA started in 2004. Following eight rounds of negotiations, the Framework Agreement on Comprehensive Economic Cooperation was signed at the Korea-ASEAN Summit in December 2005. Also, the “Agreement on Dispute Settlement Mechanism” was signed at the Korea-ASEAN Economic Ministerial Conference, which was held during the same

period. Apart from this, the ASEAN countries (excluding Thailand) and Korea signed the Agreement on Trade in Goods in August 2006 and started reducing tariffs in 2007. The ASEAN countries and Korea also signed the Agreement on Trade in Service in 2009. Thailand and Korea signed a protocol concerning agreements on trade in goods in February 2009 and signed an investment agreement in June. Tariffs for most goods within the six countries of the ASEAN were abolished by 2012.

In November 2002, at the first summit between the ASEAN and India, it was agreed to reinforce economic cooperation and to set liberalization of trade and investment as a long-term objective. They established an intergovernmental task force and signed a Framework Agreement in October 2003. Although negotiations over the number of products exempted from liberalization by India deadlocked at one point, India and ASEAN reached an agreement in August 2008 and signed the agreement in August 2009. The agreement entered into force in January 2010. The Philippines and Cambodia completed ratification in 2011, and so this FTA entered into force in all ten countries. India and ASEAN also reached an agreement to conclude FTA in the areas of services and investment on December 20, 2012, and the FTA was signed among all contracting countries in November 2014.

The ASEAN-Australia-New Zealand FTA opened its negotiations in 2005 and was signed in February 2009. The FTA entered into force among eight countries, including Australia, New Zealand, Brunei, and Malaysia, etc. in January 2010 and among all ASEAN countries in January 2012. The negotiations for the review of the treaty commenced in May 2010; the review was agreed in December 2013 and signed in August 2014. In October 2015, the First Protocol for amending the treaty came into effect; it included consolidation and simplification of the rules of origin, etc.

The ASEAN and Hong Kong started FTA negotiations in July 2014 and reached an agreement in September 2017. The FTA was signed taking the opportunity of the ASEAN Summit in November 2017.

The ASEAN-Japan Comprehensive Economic Cooperation (AJCEP) is the first wide-area EPA Japan entered into. Negotiations were commenced in 2005. As of February 2018, the FTA has entered into force with all the parties except Indonesia (for details, see Efforts in Japan in Economic Partnerships, 2(8) ASEAN-Japan Comprehensive Economic Partnership (AJCEP)).

(c) Major Movements of Countries toward Regional Integration

(i) Singapore

Singapore is aggressively pursuing the objective of entering into EPAs/FTAs. As of 2017, Singapore has entered into EPAs/FTAs with twelve countries, including Japan, and two regions (EFTA and GCC). The country has also concluded a Trans-Pacific Strategic Economic Partnership (TPP) with Brunei, New Zealand and Chile and led the negotiations for the TPP Agreement. Negotiations with the EU commenced in March 2010, and an FTA with the EU was provisionally signed in September 2013. The FTA has yet to come into force as it needs to be authorized by the EU Council and the European Parliament and be ratified by the EU member countries. Singapore is conducting negotiations with Pakistan, Canada and Ukraine, etc. Both parties signed the FTA with Turkey in November 2015 (the ratification process has not yet been completed).

(ii) Thailand

From 2001, in which the Thaksin government was established, Thailand has been active in reinforcing economic partnerships with many countries. As of 2017, five EPAs/FTAs have come into force. Thailand has entered into framework agreements with Bahrain and India. However, the agreement with Bahrain was derailed, as the GCC did not allow Bahrain to conduct FTA negotiations

singlehandedly (Thailand has a policy to prioritize negotiations with the GCC). Plenary negotiations with India are underway (the Early Harvest (EH) has already been implemented). Furthermore, progress has been made in negotiations with Pakistan, and Turkey, but negotiations with the United States and EFTA have come to a standstill due to the political confusion in Thailand and other reasons.

As for the TPP, Thailand showed interest in participating in the TPP negotiations at the US-Thailand summit held in November 2012. However, there were issues with domestic procedures and Thailand did not participate in the negotiations.

(iii) Malaysia

Following the commencement of EPA negotiations with Japan in January 2004, Malaysia has been promoting efforts for EPA negotiations. As of 2017, seven EPAs/FTAs have come into force (however, with Chile, only goods-related provisions have come into force; provisions on services and investment are still negotiated). Malaysia officially became a member state of the TPP negotiations in December 2010, and commenced FTA negotiations with the EU in 2010; seven rounds of negotiations have been held up to April 2012, and after temporary suspension, the negotiations resumed in July 2015.

(iv) Korea

As of 2017, Korea has entered into EPAs/FTAs with twelve countries and three regions. The Korea-Central America FTA was signed in February 2018. The Republic of Korea is also negotiating a China-Japan-Korea FTA and RCEP, as well as FTAs with Ecuador and Israel. Negotiations with Japan, Mexico, GCC, and Indonesia remain suspended.

In May 2017, the Moon Jae-in administration was inaugurated. The New Administration's Economic Policies issued in July 2017 stated that Korea would promote new FTA negotiations with MERCOSUR and EAEU as well as negotiations to amend the existing FTAs with India and ASEAN. In addition, the 2018 economic direction report issued by the Ministry of Economy and Finance of the Republic of Korea in December 2017 stated that negotiations for the amendment of the Korea-US FTA would be promoted under cooperation of relevant Ministries, with the utmost priority on national interests and in a balanced manner taking into account the situation of the industry and the entire macroeconomy. As for the Korea-China FTA, the report stated that Korea would promote domestic procedures for the follow-up negotiations concerning the service and investment sectors, while also contributing through the Korea-China FTA Implementation Committee to the resolution of the issues relating to Korean companies' trade investment in China, etc. and to the enhancement of competitiveness of products exported to China.

(v) China

China aggressively promotes the reinforcement of economic partnerships with many countries and regions. As of 2017, 13 EPAs/FTAs have come into force. Negotiations on the China-Georgia EPA/FTA have already been completed. The EPA/FTA is due to come into effect in January 2018. In addition, China has also been working on negotiations on bilateral EPAs/FTAs with Sri Lanka, Maldives, Israel, and Norway, the secondary EPA/FTA with Pakistan, and EPAs/FTAs under multilateral frameworks, such as the RCEP, the Gulf Cooperation Council, and the Japan-China-Korea framework. China is also implementing or discussing joint research on bilateral FTAs/EPAs with eight countries. Looking at EPAs/FTAs that have already come into force, upgrading negotiations for EPAs/FTAs with the ASEAN and Chile have already been completed, while those for EPAs/FTAs with Singapore and New Zealand are still ongoing. With Peru and Switzerland, joint research for EPA/FTA upgrading has just begun. Moreover, the Economic Cooperation Framework Agreement concluded with Taiwan has already come

into force.

(vi) India

The India-ASEAN FTA came into effect in January 2010. India entered into a similar agreement with Thailand, commenced FTA negotiations simultaneously, and conducted an early harvest with respect to 82 specified products in September 2004. The Comprehensive Economic Cooperation Agreements (CECAs) with Singapore, Malaysia, and the Republic of Korea have already entered into force. A CEPA negotiation with Sri Lanka has been completed but has not yet been signed. Other countries with whom India is negotiating include the EU, New Zealand, Canada, Australia, and Indonesia. Japan and India started EPA negotiations in January 2007. The EPA came into force on August 1, 2011. (See the section titled Efforts in Japan in Economic Partnerships.)

In addition, at the South Asia Association for Regional Cooperation (SAARC) Summit held in January 2004, India signed an agreement on the South Asian Free Trade Area (SAFTA) among seven countries; it came into effect in January 2006.

India also concluded FTA framework agreements with the GCC, Southern African Customs Union (SACU) and the BIMSTEC (discussed later), and preferential trade agreements (PTAs) with MERCOSUR/MERCOSUL, Afghanistan and Chile. A joint study for EPAs/FTAs with Russia and China has been concluded and India is currently reviewing the report of the results.

(vii) Australia

Australia has been actively promoting FTA negotiations with other countries. As of 2017, ten EPAs/FTAs have entered into force. Currently, Australia is in the process of negotiating with the GCC (negotiations started in July 2007). With regard to an FTA with India for which commencement of negotiations was agreed upon in May 2011, negotiations are ongoing toward concluding a comprehensive economic cooperation agreement (CECA). Although it was agreed at the top-level during Indian Prime Minister Modi's visit to Australia in November 2014 to work toward concluding the negotiations within 2015, the negotiations have not yet concluded. Australia agreed to commence negotiations with Indonesia in November 2010 and, furthermore, agreed to negotiate toward a CEPA in October 2011; the negotiations commenced in September 2012. In November 2008, Australia announced its participation in the Trans-Pacific Partnership (TPP) and joined the negotiations in March 2010. In November 2015, Australia and the EU agreed to work toward the commencement of FTA negotiations. Australia and Germany, France, and other major EU countries agreed to work toward the completion of FTA negotiations by 2019. In November 2016, Australia and the United Kingdom agreed to promote constructive discussions for a UK-Australia FTA after the United Kingdom's withdrawal from the EU. In May 2017, Australia and Hong Kong held the first FTA negotiation meeting. In the same month, Australia also started FTA negotiations with Peru. The FTA was signed in November 2017. In June 2017, Australia commenced FTA negotiations with the Pacific Alliance (Mexico, Colombia, Peru, and Chile).

(viii) New Zealand

As of 2017, New Zealand has entered into nine CEPs/FTAs. The country also put into force the Trans-Pacific Strategic Economic Partnership (P4) with Singapore, Brunei and Chile. New Zealand reached a final agreement with the GCC in October 2009. Currently, New Zealand is continuing negotiations with India, which commenced in April 2010. New Zealand commenced negotiations with the EEU in February 2011, and it started to hold talks with the EU on the scope of FTA negotiations and the overall approach method in October 2015. Since early 2017, New Zealand and the United Kingdom have held bilateral trade policy talks, which also included discussions on trade issues

concerning mutual benefits of market access. As for TPP negotiations, New Zealand has been participating since the first meeting held in March 2010. Upon its inauguration in October 2017, the new administration expressed its “hope for recommencing TPP negotiations.” In November 2017, the eleven parties other than the United States reached a basic agreement on the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

(ix) SAFTA

In January 2004, the South Asian Association for Regional Cooperation (SAARC) Summit was held, and the SAFTA Framework Agreement was signed by seven member states (India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, and Maldives). Under it, the Non-LDC states (India, Pakistan and Sri Lanka), reduced their maximum tariff rates to 20% by the end of 2007 except for certain exceptional items. The least developed countries (“LDC” states) similarly reduced their maximum tariff rates to 30%. India and Pakistan reduced their tariff rates applicable to LDC states to 5% or less by the end of 2012 and Sri Lanka reduced its rates to 5% or less by the end of 2013.

(x) Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC)

BIMSTEC is comprised of seven countries: Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal, and Bhutan. In February 2004, the FTA Framework Agreement was entered into by all member countries except Bangladesh, and in June of the same year it was signed again, with Bangladesh included. So far, 19 rounds of negotiation have been held on tariff reduction, custom cooperation, trade in services, and investment. At the 19th round of negotiations, implementation of tariff reduction among participating countries was decided. Negotiations regarding trade in service and investment have been continued.

3. BROAD REGIONAL ECONOMIC PARTNERSHIPS IN EAST ASIA/ASIA PACIFIC REGION

In addition to the economic partnerships described above, this subsection gives an outline of the trends in regional economic integration in East Asia/Asia-Pacific regions.

(1) TRANS-PACIFIC STRATEGIC ECONOMIC PARTNERSHIP (TPP)

In 2005, Singapore, New Zealand, Chile and Brunei signed Trans-Pacific Strategic Economic Partnership (P4) agreement. The P4 was an FTA that aimed at high-level liberalization and was in principle designed to eliminate 100% of tariffs by 2015. It covered wide-ranging provisions from services to intellectual property systems, cooperation, and so on.

In March 2008, the United States took part in negotiations for investment rules and financial services, areas that are not covered by the P4 and, in September the same year, the United States announced that it would expand the scope of its negotiations to all fields. At the APEC Ministerial Meeting held in Peru in November, Australia and Peru announced their intention to take part in the negotiations, and then Viet Nam announced its intention to be involved in the negotiations on condition of becoming a negotiating member in the future.

No formal negotiations were held for nearly one year after the Vietnamese announcement. In November 2009, however, U.S. President Obama announced that the United States would engage with TPP member countries and in December the President notified Congress of his Administration’s intention to commence negotiations. Following the notice, the first round of negotiation of the TPP

was held in Australia with the United States, Australia, Peru, and Viet Nam added to the P4 countries, in March 2010. Malaysia joined the negotiating countries from the negotiation meeting in October 2010, and Viet Nam became an official negotiating country from the negotiation meeting in December of the same year. Canada and Mexico, which had showed interest in participating, were officially approved to join the TPP negotiation in October 2012. (See 3. (2) 16) Trans-Pacific Partnership (TPP) for detailed post developments concerning Japan's participation in TPP negotiations)

(2) REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)

The trend of economic integration and political cooperation in East Asia was triggered by the East Asia Economic Caucus (EAEC) framework proposed by Malaysia in 1991. In 1997, the year of Asia's financial crisis, the first ASEAN+3 Summit was held; thereafter it was established as a standing summit. At the third ASEAN+3 Summit, the "Joint Statement on East Asia Cooperation," which provided for the basic policy for future cooperation in East Asia, was issued. The East Asia Vision Group (EAVG) was formed to advise the ASEAN+3 Summit with respect to institutionalization for the purpose of establishing an integrated East Asian community. In 2002, the East Asia Study Group (EASG) advised on specific measures, including 17 measures that should be achieved in the short term and 9 measures that should be achieved in the medium and long term. The EASG report mentions the East Asia Free Trade Area (EAFTA) as a goal that should be achieved in the medium to long term. In April 2005, a group of experts began studying the feasibility of EAFTA. In July 2006, they completed a report stating that discussions between governments should be launched in order to establish an FTA for the ASEAN+3. This was reported at the ASEAN+3 Economic Ministers' Meeting held in August 2006, where many expressed the view that discussions between governments were premature. At the ASEAN+3 Summit held in January 2007, it was decided to continue with Phase 2 research by experts. This study commenced in May 2007, and the final report was submitted in August 2009 to the ASEAN+3 Economic Ministers' Meeting and in October 2009 to the ASEAN+3 Summit. The leaders welcomed the decision made at the Economic Ministers' Meeting to start discussions between governments based on private study recommendations.

Parallel to this, development of concepts related to ASEAN+6 has been developed as well. In December 2005, pursuant to the agreement at the ASEAN+3 Summit of the preceding year, the first East Asia Summit (EAS) was held with the ASEAN+6 as participating countries. A joint declaration was issued at the summit confirming, that the EAS would be convened regularly and that it would play a "significant role" in establishing a community in this region. In August 2006, with firmer connections of the economic conditions of ASEAN+6 and progress in the efforts of "Plus 1" EPA/FTA between ASEAN and Japan, China, Korea, India, Australia and New Zealand, Japan proposed an expert study of the regional economic partnership initiative called "Comprehensive Economic Partnership in East Asia (CEPEA) for 16 countries." In January 2007, the second EAS was held in Cebu, Philippines, where the launch of the CEPEA Track Two study was well received. As the first cooperation in the EAS framework, Japan submitted a proposal for the energy sector. At the third EAS held in Singapore in November 2007, it was formally agreed to establish the Economic Research Institute for ASEAN and East Asia (ERIA).

At the ASEAN+6 Economic Ministers' Meeting in August 2009 and the fourth EAS, held in October 2009, leaders welcomed the decision to conduct inter-governmental discussions and studies on the results of the private research, and confirmed their intention to shift the inter-governmental discussions in parallel with the EAFTA vision.

In 2009, an intergovernmental working group was established for the four areas of trade facilitation (Rules of Origin, Tariff Nomenclature, Customs Procedures and Economic Cooperation). Thereafter,

comparisons and analyses of five ASEAN+1 FTAs have been conducted between the ASEAN and dialogue partners for the realization of a wide-ranging FTA (i.e., CEPEA, EAFTA), which has been compiled into a report. With the progression of substantial discussion in these four areas, at the ASEAN Economic Ministers' Meeting in August 2011, Japan and China jointly proposed to establish three working groups on liberalization of trade and investment (goods, service, and investment) as the "Initiative on Speeding up the Establishment of an East Asia Free Trade Area (EAFTA) and Comprehensive Economic Partnership in East Asia (CEPEA)". This is the first time a joint proposal has been made by Japan and China; it was welcomed by the Economic Ministers of the ASEAN and dialogue partners (Japan, China, Korea, India, Australia and New Zealand).

At the sixth East Asia Summit held in November of the same year, the final report of the four working groups on trade facilitation was warmly received, and the leaders agreed to establish the working groups for trade and investment liberalization, based on the Japan-China joint proposal. The Working Group on Trade in Goods was supposed to be established in early 2012. The leaders also noted the adoption of the ASEAN Framework for Regional Comprehensive Economic Partnership (RCEP) at the 19th ASEAN Summit.

After that, at the ASEAN Economic Ministers plus ASEAN FTA Partners Consultations held in August 2012, the Ministers finalized "the Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership" and agreed to work towards commencing the negotiation at the summit in November. The launching of RCEP negotiations was declared at the ASEAN Summit in November 2012. In ERIA (the Economic Research Institute for ASEAN and East Asia) established in June 2008, the status of progress and futures issues, etc. of the ASEAN+1 FTA, a FTA between ASEAN and Japan, China, Republic of Korea, India, Australia, and New Zealand, have been analyzed. The efforts toward economic integration covering the entire East Asia region were praised at the EAS Economic Ministers' Meeting in August 2015. (For details concerning the history of RCEP negotiations, see *Efforts in Japan in Economic Partnerships*, 3(2) Regional Comprehensive Economic Partnership (RCEP).)

(3) ASIA-PACIFIC ECONOMIC COOPERATION (APEC)

APEC is a regional cooperation framework in Asia-Pacific region established in 1989 under the initiative of Japan and Australia. At the Economic Leaders' Meeting held in Bogor, Indonesia in 1994, APEC set as a goal ("Bogor Goal") free and open trade and investment among the industrialized economies by 2010 (and by 2020 for developing economies).

Furthermore, at the Economic Leaders Meeting held in November 2006, it was agreed to consider methods for promoting regional economic integration (including an FTAAP) as a long-term objective. Since then, discussions concerning regional economic integration in APEC have progressed rapidly. At the Economic Leaders Meetings in 2007 and 2008, discussions concerning research on existing bilateral and multilateral FTAs were held. The leaders agreed that the work should continue.

In 2010, Japan held a series of meetings as the chair of APEC. The Yokohama Vision, which aims for an "economically-integrated community," a "robust community" and a "secure community," was compiled as a result of such meetings. An announcement that notable progress has been made toward achieving Bogor Goals was made as of 2010 during this series of meetings, as well as confirming to continue the implementation of regional economic integration programs that work toward achieving the 2020 Bogor Goals. Furthermore, it was agreed to further progress ongoing regional undertakings, such as ASEAN +3, ASEAN +6, and the Trans-Pacific Partnership (TPP), among others, as a foundation, which is viewed to be a specific step toward achieving the Free Trade Area of the Asia-Pacific (FTAAP), pursuing it as a comprehensive free trade agreement. In the process of achieving the FTAAP, the APEC will make an important and meaningful contribution as an incubator of an

FTAAP by providing leadership and intellectual input into the process of its development, and by playing a critical role in defining, shaping and addressing the “next generation” trade and investment issues that an FTAAP should contain. In addition, APEC formulated a long-term and comprehensive growth strategy in order to achieve solid growth of the Asia-Pacific region as the center of global growth.

Regarding the next-generation trade and investment issues that should be included in an FTAAP as efforts toward regional economic integration, in 2011 common principles were developed on the “promotion of effective, non-discriminatory, and market-driven innovation policy (innovation and trade)” and “enhancing the participation of small and medium-sized enterprises (SMEs) in global production chains”. In particular, with regard to “innovation and trade”, Japan cooperated with the United States and succeeded to include in the principles -- “Ensure that the terms and conditions of transfer of technology, production processes, and other proprietary information are left to the agreement between individual enterprises, consistent with WTO rules” and “Refrain from adopting or maintaining measures that make the location of the development or ownership of intellectual property rights a condition for eligibility for government procurement preferences, without prejudice to economies' positions in the WTO”.

The “APEC list of environmental goods” (including 54 items such as solar panels and wind energy generating facilities) that was agreed upon at the 2012 summit, contributes directly and actively to Green Growth and sustainable development. Also, applied tariff rates of each economy will be reduced to 5% or less in accordance with the “Honolulu Declaration” agreed at the APEC summit in 2011. Tariff reductions on environmental goods have been discussed at the WTO since the establishment of the Doha Round in 2001, and APEC’s achievement in reaching the above agreement amid the stagnation of the Doha Round is a remarkable accomplishment that proves the role it plays in promoting liberalization of trade and investment within the region. Also, this agreement at APEC has given new impetus to WTO’s initiative to liberalize trade in environmental goods.

At the APEC Summit meeting held in 2013 discussions were held regarding matters including support for the multilateral Trading system and attaining the Bogor Goals.

With regard to supporting the multilateral trading system, and in preparation for the Ninth Ministerial Conference of the WTO (MC9) to be held in December the same year and to disseminate the necessity/urgency of reaching a timely Bali Package agreement, a separate statement was released in support of the multilateral trading system and the 9th Ministerial Conference of the World Trade Organization.

At the APEC Economic Leaders Meeting and Ministerial Meeting in 2014, discussions were held on such matters as multilateral trading systems and the developments of regional economic integrations, including the FTAAP.

With regard to the multilateral trading system, because the WTO’s Trade Facilitation Agreement had not been adopted, resuming the WTO’s negotiation functions was called for, and early conclusion of the ITA expansion negotiations was promoted, gaining support from many ministers. In addition, extending until 2018 the commitment period for not introducing new protectionist measures was recommended to the leaders. With regard to the FTAAP, the “Beijing Roadmap for APEC’s Contribution to the Realization of the FTAAP”, which includes launching a “collective strategic study on issues related to the realization of the FTAAP”, was agreed upon in order to realize the FTAAP as early as possible by building on ongoing regional undertakings such as the TPP and RCEP, etc. In addition, an agreement was reached to develop a plan of action for the liberalization and facilitation of trade in manufacturing-related services by the end of 2015, while positioning such services as a next-generation trade and investment issue.

At the APEC Ministerial Meetings and Economic Leaders' Meeting in 2015, discussions were held on matters such as multilateral trading systems, the development of regional economic integrations including the FTAAP, and regional cooperation in services. With regard to multilateral trading systems, a statement promoting success of the 10th WTO Ministerial Conference in Nairobi in December was issued. It called for early ratification of the Trade Facilitation Agreement, reaffirmed pledges against all forms of protectionism, and welcomed the efforts to achieve early conclusion of the negotiations on staging timeframes for the Information Technology Agreement expansion negotiations. Regarding the developments of regional economic integrations, it was reiterated that the FTAAP should be pursued as a comprehensive free trade agreement by building on ongoing regional undertakings, and the vision contained in the Pathways to FTAAP that the FTAAP should be high-quality and incorporate and address next generation trade and investment issues was reaffirmed. In this connection, recent developments including the finalization of the TPP negotiations were noted, and the early completion of negotiations for RCEP was encouraged. With regard to services, the APEC Services Cooperation Framework was formulated and the principles and the direction of services cooperation in APEC were indicated. In addition, it was decided that a roadmap would be developed in 2016, covering the actions to be taken and the index and targets to be achieved by 2025. In addition, respective action plans for manufacturing-related services and environmental services were agreed upon.

At the APEC Ministerial Meetings and Economic Leaders' Meeting in 2016, discussions were held on matters such as the promotion of regional economic integrations and the modernization of micro-, small and medium-sized enterprises. As for the promotion of regional economic integration, commitments for the final-phase realization of the FTAAP were confirmed again and the "Collective Strategic Study on Issues Related to the Realization of the FTAAP," which was initiated in 2014, was approved, while a proposal relating to the study was adopted as the Lima Declaration on FTAAP. In addition, with regard to digital trade, the following steps for work related to digital trade was received positively and was approved, and the importance of implementation of the APEC Cross Border Privacy Rules (CBPR) system was confirmed. Further, with regard to services, the "APEC Services Competitiveness Roadmap" was approved. As for the modernization of micro-, small-, medium-sized enterprises, the supporting industry initiative was received positively and is to be implemented in 2017.

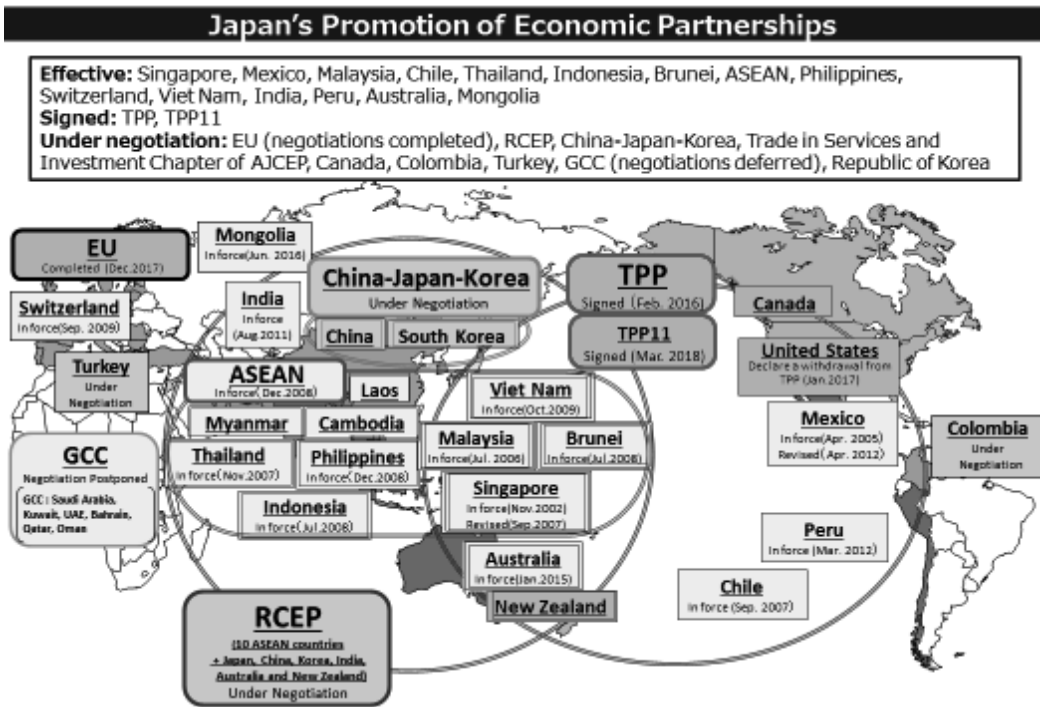
At the APEC Ministerial Meeting and Summit in 2017, the leaders affirmed their support toward a free, open, fair, transparent and comprehensive multilateral trade system. They also committed to ensuring a level playing field, removing market-distorting measures, and extending their standstill commitment. It was also confirmed that the parties commit to fight protectionism, address unfair trade practices, and work together to improve the functioning of the WTO.

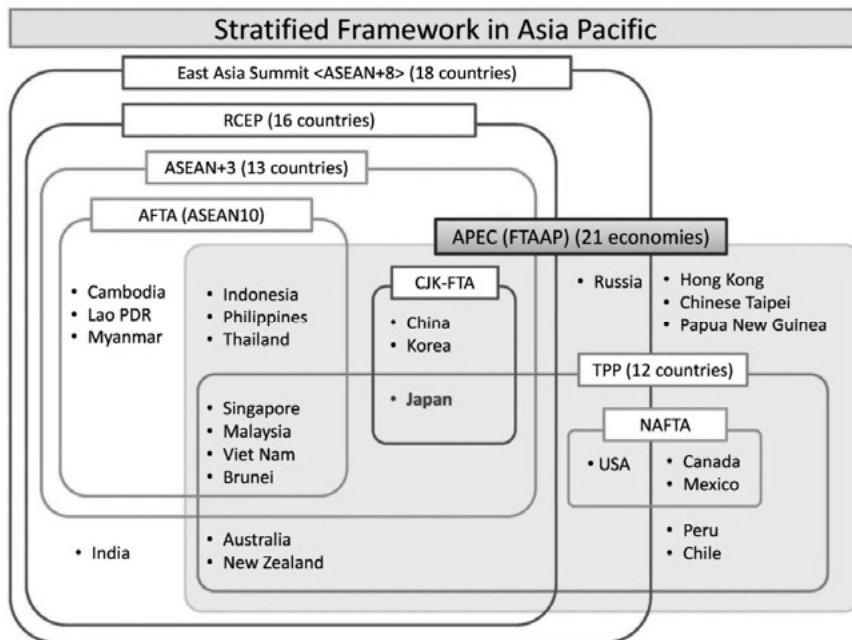
In relation to the deepening of regional economic integration, the leaders affirmed their commitment to attaining the Bogor Goals and their support toward the Lima Declaration concerning an FTAAP and toward the advancement of technical works and initiatives for the realization of a future FTAAP. In addition, the leaders welcomed the advancement of the Peer Review and Capacity Building on APEC Infrastructure Development and Investment Project and the amendment of the APEC Guidebook on Quality of Infrastructure Development and Investment. They also welcomed the completion of the APEC Best Practices for Promoting Supporting Industry in the Asia Pacific Region and confirmed the importance of promoting digital trade.

EFFORTS IN JAPAN IN ECONOMIC PARTNERSHIPS

Japan is advancing economic partnership strategically and in a multi-faceted way with a wide range of countries including major trading powers of Japan. As of February 2018, Japan has 15 EPAs/FTAs with 17 countries that have entered into force and has signed the TPP and CPTPP. Meanwhile, Japan is currently promoting negotiations such as JAPAN-EU EPA, RCEP and China-Japan-Korea FTA.

This section describes EPAs/FTAs both in force and under negotiation, and Japan’s economic partnership initiative status.





1. BACKGROUND

Since entering the 21st century, the economies of emerging and developing countries experienced rapid development, with the percentage that they account for in the global nominal GDP increasing from 20.3% in 2000 to 38.7% in 2016.⁴ On the other hand, Japan's relative status has been on a declining trend, with Japan's GDP accounting for 6.5% of the global nominal GDP in 2016.⁵ Furthermore, inspecting the global trade structure will reveal that production networks constructed of optimum divisions into manufacturing processes have expanded within the regions of East Asia, including Japan. To be specific, the trade trend involves intermediate goods produced in Japan, Korea, and the ASEAN, being shipped and assembled in China. Thereafter, the final goods are exported from China to major market countries (i.e., the United States, the EU).⁶ With the development of supply chains in East Asia, each country is committing to improve trade and investment environments in order to build production bases in its own country.

As an initiative of improving trade and investment environments, the enhancement of international trade rules through the settlement of the WTO Doha development agenda negotiations is still important for Japan.

In recent years, due to stagnation of the Doha Round negotiations, the United States and the Republic of Korea have been promoting high-level FTA negotiations with major trading partner countries. As of December 2017, the ratio of trade with the partner countries of signed/enacted FTAs to total trade (the so-called "FTA coverage rate") reached nearly 70% for the Republic of Korea and approached almost 50% for the United States. In contrast, the FTA coverage rate of Japan lags behind at around 40%.

Ever since Japan had shown interest in the TPP in Autumn 2010⁷, discussions on a EPA with the EU or intergovernmental discussions on the China-Japan-Korea FTA and discussions on broader regional economic partnerships in East Asia regions such as the ASEAN + 3 and the ASEAN + 6 have accelerated. In this manner, the EPA can become a driving force each other. It is important for Japan to continue to aggressively conduct initiatives for economic partnerships with major trading countries in the world (i.e., the EU, China, and the Republic of Korea) in an integrated manner.

⁴ Calculated from the IMF World Economic Outlook April 2018.

⁵ Cabinet Office, International Comparison of GDP

http://www.esri.cao.go.jp/jp/sna/data/data_list/kakuhou/files/h28/sankou/pdf/kokusaihihaku_20171222.pdf

⁶ White Paper on International Economy and Trade 2011 (p. 96)

⁷ Naoto Kan, prime minister at the time, declared that Japan would "consider the participation in the TPP negotiations and aim for the establishment of the Free Trade Area of the Asia-Pacific" in the 176th policy speech at the Diet session in October 2010.

Overview: Establishment of Disciplines of Formation of Economic Partnership

	Singapore	Mexico	Malaysia	Philippines	Thailand	Chili	Indonesia	Brunei	AJCEP	Viet Nam	Switzerland	India	Peru	Australia	Mongolia	TPP
Tariffs	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o
Rules of Origin	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o
Antidumping and Countervailing Duty	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o
Safeguards	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o
Standards and Conformity Assessment Systems	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o
Trade in Services	o	o	o	o	o	o	o	o	—	o	o	o	o	o	o	o
Movement of Natural Persons	o	o	o	o	o	o	o	o	—	o	o	o	o	o	o	o
Intellectual Property	o	o	o	o	o	o	o	o	—	o	o	o	o	o	o	o
Investment	o	o	o	o	o	o	o	o	—	o	o	o	o	o	o	o
Competition	o	o	o	o	o	o	o	o	—	o	o	o	o	o	o	o
Government Procurement	o	o	—	o	o	o	o	o	—	o	o	o	o	o	o	o
Trade Facilitation	o	o	o	o	o	o	o	o	—	o	o	o	o	o	o	o
Energy	—	—	—	—	—	—	o	o	—	—	—	—	—	o	—	—
Labor	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	o
Environment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	o
Electronic Commerce	—	—	—	—	—	—	—	—	—	—	o	—	—	o	o	o
Settlement of Disputes between States	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o	o
Business Environment	—	o	o	o	o	o	o	o	—	o	o	o	o	o	o	o

2. JAPAN'S EPAs/FTAs SIGNED/IN FORCE

As of February 2018, Japan has fifteen EPAs/FTAs that are in force with 17 countries. Japanese companies benefit from lower tariff rates than normal (EPA tariff rates) on imports/exports from/to the above countries/regions. In addition, business environments in trade/investment partner countries can be improved through reduction/elimination of regulations regarding service businesses and establishment of consultations on improving investments environment and business environments, etc.

The areas covered differ between the individual agreements. The areas covered by the EPAs/FTAs signed/in force are as follows (categorization of the areas is based on the structure of the Chapters of Part III of this Report; see the relevant part in Chapter 1 and later Chapters of Part III of this Report for more details on each area).

The history of Japan's EPAs/FTAs dates back to the Japan-Singapore EPA. Its entry into force in November 2001 sparked other ASEAN countries' interest in concluding EPAs/FTAs with Japan. In April 2005, the Japan-Mexico EPA came into force. In addition, the ASEAN-Japan Comprehensive Economic Partnership (AJCEP), which was Japan's first regional EPA, came into force in 2008. Subsequently, seven bilateral EPAs came into force. An outline of the EPA signed/in force is given below.

(1) Japan-Singapore EPA

Japan's EPA with Singapore was signed on January 13, 2002, and entered into force on November 30 of the same year. This agreement, Japan's first EPA, expands trade and investment by liberalizing and facilitating trade and investment and harmonizing economic systems, promotes the harmonization of paperless trade systems, mutual recognition systems, etc., and improves bilateral cooperation in the areas of information and communication technology (ICT), and trade and investment. In addition, the negotiation for review, which commenced in April 2006, reached agreement in March 2007 and the agreement entered into force in September the same year. Thus, further liberalization is being implemented.

(2) Japan-Mexico EPA

Japan and Mexico commenced negotiations for an EPA in November 2002. The FTA came into effect in March 2004. Under this agreement, a large portion of the average tariff rate previously imposed on export products to Mexico (16%, as of 2001) is to be eliminated within 10 years after the date on which the FTA came into force. In areas such as investment, services, and governmental procurement, Japan enjoys a competitive environment similar to that enjoyed by Western countries with Mexico. The negotiations for the review of the FTA commenced in April 2009. The revised FTA came into force in April 2012. By this revision, the conditions of market access have further improved, and a system of self-certification by approved exporters with regard to certificate of origin has been introduced.

(3) Japan-Malaysia EPA

Negotiation commenced in January 2004. The EPA entered into force in July 2006.

Many Japanese-owned companies have been established in Malaysia, indicating that there is a strong economic relationship between the countries. The establishment of an economic partnership has had the effect of facilitating procurement and sales of parts and expanding trade and investment between the countries. Japan and Malaysia also advances the implementation of EPA through

conducting subcommittees meetings on issues concerning such as goods, country of origin, services, investment, technical barrier to trade (TBT) and cooperation.

(4) Japan-Chile EPA

Negotiations commenced in 2006. The EPA entered into force in September 2007. Like Japan, Chile is aggressively promoting an open economic policy as a trading nation. Chile's political and economic climates are stable, and Chile is an important supplier of mineral resources to Japan. Chile has already entered into FTAs with approximately 50 countries, including the United States, Canada, the EU, EFTA, Korea and China, and it was thus important for Japan to secure an environment for Japanese-owned companies that is not inferior to the environment for companies from Chile's FTA partner countries.

(5) Japan-Thailand EPA

Negotiations commenced in February 2004. The EPA entered into force in November 2007.

Under this agreement, Thailand eliminated tariffs on almost all non-agricultural products, excluding certain classes of automobiles, while Japan implemented comprehensive tariff elimination including on many agricultural products. Thailand is one of the biggest ASEAN countries as the destination of Japanese exports, but most exports are subject to high tariff rates. The EPA will create the benefit of tariff elimination. Also, Thailand is the core manufacturing base in ASEAN for Japanese companies, with Japan being the largest investor in the country and many Japanese companies operating there (as of 2017, the number of Japan Chamber of Commerce and Industry member companies operating in Thailand being one of the largest among ASEAN countries was 1,748). Therefore, the commitments under this EPA to not tighten but to relax regulations on manufacturing-related investments and services are also beneficial for Japan. In order to solve business problems faced by these Japanese companies, a "subcommittee concerning the improvement of business environment" has been set up. The subcommittee had held seven meetings by 2017 and has produced some benefits. Moreover, Japan also provide agricultural cooperation and industrial cooperation in such fields as automobiles and steels.

At the fourth meeting of the Japan-Thailand EPA Joint Committee held in August 2017, the two countries agreed on the commencement of the general revision of the EPA, which is due to be conducted ten years after the date on which the EPA came into force in accordance with the provisions of the EPA.

(6) Japan-Indonesia EPA

Negotiations commenced in July 2005. The EPA entered into force in July 2008.

In addition to reducing or dismantling trade barriers, this EPA is effective in harmonizing the existing legal systems of the two countries, promoting reasonable administration and transparency of each administrative system, and improving the investment environment. Since Indonesia has rich natural resources, such as natural gas and petroleum, the two countries have included a chapter on energy and mineral resources in the EPA. Based on the EPA, Japan has been receiving nurse and caregiver candidates since August 2008 (details on the number of those entering Japan, etc. are in Chapter 3, "Movement of Natural Persons").

(7) Japan-Brunei EPA

Negotiations commenced in June 2006. The EPA entered into force at the end of July 2008.

Brunei is one of the important countries for Japan that supplies energy such as natural gas. The

Japan-Brunei EPA sets the first independent Energy Chapter among Japan's EPAs. The chapter includes provisions relating to contractual relationship in the application of energy regulatory measures; implementation of written notice to and consultation with the other Party; consideration for environment, including cooperation and a consultation mechanism through a Sub-Committee. All will contribute to maintain and strengthen stable relationship beneficial for both countries.

(8) ASEAN-Japan Comprehensive Economic Partnership (AJCEP)

In April 2005, Japan commenced negotiations with ASEAN for an ASEAN-Japan comprehensive economic partnership (AJCEP), based on the November 2004 agreement of the leaders of the involved countries. As of February 2018, the agreement is in force with all countries excluding Indonesia. Negotiations on the services and investment chapters started in October 2010. Japan and the ASEAN reached a substantial agreement on the rules after three years of negotiations. The results of the negotiations were welcomed by the national leaders at the Japan-ASEAN Commemorative Summit Meeting in December 2013. The remaining issues have been negotiated since then.

At the ASEAN Economic Ministers Meeting in November 2017, Japan and the ASEAN agreed on the completion of Minister-level negotiations on the Protocol to Amend AJCEP concerning service trade and investment. From then, legal scrutiny has been promoted to realize an early signing of the Protocol.

An EPA between Japan and ASEAN as a whole would institute a free economic area (Japan and ASEAN as one area) with a population of 770 million and an economic scale of 7.5 trillion US dollars (2016). In the East Asia region, the ASEAN continues to provide the deepest trade and investment relationship with Japan, and is therefore an important region. An EPA with the ASEAN is also very important from the viewpoint of further deepening the economic relationship and effectively utilizing assets in the ASEAN, which have accumulated due to investments made to date. Furthermore, an EPA with ASEAN as a whole would facilitate harmonization over a wide region, which would be difficult to achieve through bilateral EPAs between Japan and the ASEAN member countries, and would contribute to strengthening industrial competitiveness in a form fitting into the actual pattern of economic activities conducted broadly between Japan and ASEAN. For example, while bilateral EPAs might not necessarily be useful where final products exported within the region are processed within ASEAN using high value-added parts manufactured in Japan, the AJCEP offers opportunities to enjoy preferential treatment, as cumulative rules of origin are applied in Japan and within ASEAN countries. AJCEP is extremely important for Japanese companies that have complex production networks within both Japan and the other ASEAN countries.

(9) Japan-Philippines EPA

Negotiations commenced in February 2004. The EPA entered into force in December 2008. This agreement is the first bilateral EPA entered into by the Philippines. It aims to advance a comprehensive economic partnership between the countries, so as to a) promote the free movement of goods, persons, services and capital, as well as the harmonization and clarification of legal frameworks for intellectual property rights, competition policies and maintaining the business environment, and the development of economic activity of both countries; and b) improve bilateral cooperation in the areas of intellectual property rights, competition policy, business environment maintenance, training of human resources, trade and investment, information and communication technology, and small/medium-sized companies. Furthermore, based on the EPA, Filipino nurse and care-worker candidates have been allowed to stay in Japan from May 2009 (details on the number of those entering Japan, etc. are in Chapter 3, "Movement of People").

(10) Japan-Switzerland EPA

Negotiations commenced in September 2007. The EPA entered into force in September 2009. The Japan-Switzerland EPA is the first EPA signed by Japan with a developed western country. The EPA is rich in content and is expected to serve as a model for EPAs with other developed countries. Specifically, it allows for high-level liberalization of trade in goods (elimination of tariffs on more than 99% of two-way trade within 10 years after the EPA entered into force, including the immediate elimination of tariffs on major industrial products); introduced a system of self-certification by approved exporters with regard to certificates of origin, the first such system in Japan's EPA; and created a chapter on electronic commerce systems, also the first such system in Japan's EPA. Moreover, the EPA has achieved high-level results with regard to investment, services and intellectual property.

(11) Japan-Viet Nam EPA

Negotiations commenced in January 2007. The EPA entered into force in October 2009. It is the first bilateral EPA for Viet Nam.

Japanese companies' investment in some Vietnamese manufacturing industries—such as automobiles and electronic products—had already been increasing from before the commencement of EPA negotiations. However, the high tariffs on components and materials and the weak supporting industries posed challenges for such investment. Under the Japan-Viet Nam EPA, Viet Nam reduced or eliminated tariffs mainly on parts and materials that are necessary for local manufacturers. Viet Nam also promised to liberalize its high tariff rates to an extent which had never been realized in the China-ASEAN FTA or the Korea-ASEAN FTA. Japan, for its part, eliminated tariffs on almost all industrial products and improved access to the market for agriculture and fishery products. In the area of movement of natural persons, Japan has promised to promote the movement of Vietnamese IT engineers within the scope of the current immigration control system. Additionally, concerning nurses and care workers, a memorandum related to the entry to Japan in the future was signed during the Japan-Viet Nam summit in October 2011, and the treaty entered into force in June 2012. The EPA also provides for cooperation to foster supporting industries.

(12) Japan-India EPA

Negotiations commenced in January 2007. The EPA entered into force on August 1, 2011.

As India used to impose high tariffs on most exports from Japan, tariff elimination would enable freer procurement for Japanese companies in India. In the areas of investment and services, free, transparent, and stable rules have been established, which has improved the business environment in the country. In 2011, the major tariff items and their tariff rates among exports to India included automotive parts (10%), steel products (5%) and machine tools (7.5%). However, as a result of negotiations, the tariffs will be eliminated in ten years for automotive parts, five years for steel products, and ten years for machine tools. Within ten years after the entry of the treaty into force, tariffs will be eliminated for trade items that are equivalent to 94% of the two-way trade value.

(13) Japan-Peru EPA

Based on the report by the study group, the two countries agreed at the Japan-Peru Summit Meeting held in April 2009 to commence negotiations for a Japan-Peru EPA. From May 2009 to November 2010, seven rounds of formal and interim meetings were held, and negotiations concluded in November 2010. Thereafter, the EPA was signed in the end of May 2011, and entered into force in March 2012, after completion of ratification procedures in both countries. The major tariff items and

their tariff rates among the exports to Peru (as of 2010) include automobiles (9%), motorcycles (9%) and TVs (9%). However, as a result of the negotiations, tariff will be eliminated within ten years for automobiles, within nine years for motorcycles and immediately for TVs. Tariffs on more than 99% of the items to and from Japan will be eliminated within ten years after the agreement entered into force.

(14) Japan-Australia EPA

Negotiations commenced in January 2007. The EPA entered into force in January 2011.

For Japan, Australia is the second largest among the partner countries of bilateral EPAs that have been concluded. With the EPA, the proportion of tariff-free goods to total export value to Australia increased from less than 30% to more than 80% of total export value immediately after the entry-into-force of the EPA, and tariffs on almost all remaining goods will be eliminated by the eighth year (2022). In particular, in the motor vehicle sector (MFN tariff rate of 5%), which accounted for nearly half of total exports from Japan, tariffs on approximately 75% of the value of finished vehicles exported to Australia were immediately eliminated. Tariffs on all remaining vehicles also had been eliminated in April 2016.

Along with elimination of tariffs, high-level agreements in a broad range of sectors were achieved, including securing of stable supply of resources and energy such as natural gas and coal, the liberalization of investment and trade in services, the improvement of rules for electronic commerce and government procurement, and the protection of intellectual property rights, etc.

(15) Japan-Mongolia EPA

Japan and Mongolia started EPA negotiations in March 2012 and reached a basic agreement in July 2014. The EPA was signed in February 2015 and entered into force in June 2016. Japan and Mongolia, which has a wealth of natural resources, share a close and important relationship, and this EPA is a valuable framework for strengthening future trade and investment between Japan and Mongolia. In addition, the Japan-Mongolia EPA is the first EPA/FTA for Mongolia, and it will be an important step for further strengthening the “strategic partnership” as stated in the Japan-Mongolia Joint Statement in November 2010.

(16) Trans-Pacific Partnership (TPP) (Signed)

Following the Cabinet approval of the Basic Policy on Comprehensive Economic Partnerships (hereafter “Basic Policy”) on November 9, 2010, Japan commenced consultations with countries concerned in December in order to gather information. Subsequently, at the press conference in November 2011, Prime Minister Noda announced the decision “to enter into consultations toward participating in the TPP negotiations with the countries concerned.” In January 2012, Japan started consultations with individual TPP negotiating countries regarding its participation in the negotiation process.

On March 15, 2013, Prime Minister Abe held a press conference and announced that Japan would participate in the TPP negotiations.

In April of the same year at the ministerial meeting of TPP member countries, Japan's participation was approved by the 11 participating countries and on July 24, Japan officially participated half-way through the 18th negotiation meeting that was held in Malaysia. After subsequent discussions, the TPP negotiations were concluded at Atlanta, the United States, in October 2015, and the TPP was signed on February 4, 2016.

In Japan, the TPP Agreement and a related bill were submitted to the Diet on March 8, 2016. On December 9, 2016, the TPP Agreement was approved by the Diet and the related bill was also approved and became law. Afterward, on January 20, 2017, Japan became the first of the 12 original signatories to the TPP Agreement that notified New Zealand, the Depositary of the TPP, of the completion of its domestic procedures.⁸

(17) Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (Signed)

In January 2017, U.S. President Trump notified the TPP members of the United States' withdrawal from the TPP negotiations mentioned above. In March 2017, the Ministers of the remaining eleven member states gathered in Chile and issued a joint statement to confirm their continued collaboration into the future. The joint statement included (1) a reconfirmation of the strategic and economic significance of the TPP, and (2) that Senior Trade Officials will meet and consult in preparation for the Ministers to meet again in the margins of the APEC Ministers Responsible for Trade Meeting in May.

Following the issuance of the joint statement, working-level negotiations were conducted. In May, the TPP Ministerial Meeting was held, taking the opportunity of the APEC Ministers Responsible for Trade Meeting. At this meeting, the Ministers issued a joint statement, which stated that (1) the member states seek options to bring the agreement into force expeditiously, (2) in order to achieve the above, the Ministers tasked officials to assess such options, including promoting the United States' participation, and (3) the assessment of such options are to be completed by the APEC Summit in November.

Subsequently, active discussions were held among the leaders through four meetings (one meeting held in Australia in August, and three meetings held in Japan in July, September, and October, respectively).

In November, the TPP Ministerial Summit was held in Da Nang, Viet Nam. At the Ministerial Meeting held on November 9, 2017, all Ministers reached a basic agreement on the Agreement package, which also contained the text of the new agreement and a list of suspended provisions. The Ministerial statement stated that (1) the Ministers reached an agreement on the TPP among the eleven states ("TPP11"), and (2) the TPP 11 maintains the high standards and overall balance of the TPP.

In January 2018, the chief negotiators met in Tokyo to confirm the final text of the TPP 11 and agree on holding a signing ceremony in Chile.

At 3 p.m., March 8, 2018 (local time), the eleven member states signed the TPP11 in Santiago, Chile. The countries are now working on domestic procedures with a view to the early entry of the TPP11 into force.

On April 24, the Senate of Mexico ratified the TPP11 Agreement, becoming the first country to approve the new agreement.

3. JAPAN'S EPAs/FTAs UNDER NEGOTIATION

This subsection outlines the EPAs/FTAs that are being negotiated by Japan. Japan is currently negotiating three so-called "Mega-FTAs," namely the Japan-EU EPA, RCEP, and China-Japan-Korea FTA. In addition, Japan is negotiating with three countries -- Canada, Colombia, and Turkey. Negotiations on the Japan-Korea EPA have been suspended as of February 2015, and negotiations on the Japan-GCC FTA have been deferred due to a GCC request. Outlines of negotiations currently

⁸ On January 30, 2017, the US issued a written statement to New Zealand, the Depositary of the TPP, and other member states of the TPP to notify them that it has no intention of becoming a contracting party to the TPP Agreement.

underway with their backgrounds are described below.

(1) JAPAN-EU EPA (NEGOTIATION COMPLETED)

Japan and the EU are important economic partners, accounting for about 10% of the world population, about 40% of the value of trade (about 20% excluding trade within the EU), and about 30% of the GDP. The Japan-EU EPA is expected to increase trade and investment in both countries, leading to economic growth in Japan, and contribute to the formulation of the trade/investment rules in the world.

Commencement of negotiations regarding the Japan-EU EPA/FTA and the Strategic Partnership Agreement (SPA) were agreed upon in a telephone conference of Japan-EU leaders held in March of 2013. Japan negotiated elimination of the EU's high tariffs on mining and industrial products, etc. (e.g. automobiles (10%), electronic devices (up to 14%)) and improvement of regulatory issues faced by Japanese companies operating in the EU territory. On the other hand, the EU demanded improvement in such fields as market access for agricultural products, etc., non-tariff measures (in the fields of automobiles, chemicals, electronic devices, food safety, processed foods, medical devices, pharmaceuticals, etc.), geographical indication protection, government procurement, sustainable development, etc.

By April 2017, a total of eighteen rounds of negotiation meetings were held. Japan and the EU reached a basic agreement in July 2017. In December, Prime Minister Abe and President of the European Commission Juncker had a telephone conference in which they confirmed the completion of the negotiation.

(2) REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP) (UNDER NEGOTIATION)

The Regional Comprehensive Economic Partnership (RCEP) is a multilateral framework that encompasses sixteen member states, namely the ASEAN countries, Japan, China, Korea, India, Australia, and New Zealand. At the ASEAN Economic Ministers' Meeting Plus ASEAN FTA Partners Consultations held in August 2012, the "Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership" were finalized. At the summit held in November, the leaders agreed to work towards commencing negotiations. In November 2012, the commencement of RCEP negotiations was announced at the ASEAN summit.

The first round of negotiations was held in May 2013 in Brunei. Since then, by December 2017, ministers' meetings were held nine times (including three intersessional meetings) and negotiation meetings twenty times. In November 2017, the RCEP Summit was held in Manila, the Philippines. After the Summit, the leaders issued a joint statement to the effect that (1) the member states reconfirmed that they would work for the conclusion of quality agreements with a special focus on market access, rules, and cooperation, and (2) further efforts must be made at the Minister and working levels in 2018 toward the completion of the RCEP negotiations. At present, in addition to the Trade Negotiating Committee, negotiations are held on a broad range of sectors, including trade in goods, trade in services, investment, intellectual property, competition, economic and technical cooperation, legal and institutional issues, electronic commerce, technical barriers to trade (Standards, Technical Regulations and Conformity Assessment Procedures [STRACAP]), Sanitary and Phytosanitary measures (SPS), Rules of Origin, trade facilitation/customs procedures, financial services, telecommunications, small- and medium- size enterprises, government procurement, trade remedies, etc.

Preferential tariff treatment for products that are jointly produced in multiple countries and the

unification of EPA procedures such as rules of origin in East Asia achieved by the RCEP will contribute to making rules that reflect the advanced supply chain of East Asian region.

(3) CHINA-JAPAN-KOREA FTA (UNDER NEGOTIATION)

In the Asian-Pacific region, in which further growth is expected, the economies of China and Korea are of great importance for Japan. The supply chains that operate across East Asia in the manufacturing sector are extremely integrated. Moreover, China in particular is further increasing its importance as a tremendous growing market. China and Korea are responsible for 21.6 and 5.7% of Japanese exports and imports respectively. They are becoming the largest and the third largest trading partners for Japan respectively (according to the Trade Statistics by the Ministry of Finance 2016).

In 2003, a private joint study on a China-Japan-Korea FTA was launched. In 2009, with the results of this joint study in mind, the three countries agreed at the Economic and Trade Ministers' Meeting and the Japan-China-Korea Summit to conduct a new industry-academic-government joint study. In December 2011, the joint study report by the three countries was finalized.

The report was submitted to the China-Japan-Korea summit in May 2012, and the leaders of the three countries agreed to the commencement of negotiations during 2012. The commencement of negotiations was announced at the Japan-China-Korea Economic and Trade Ministers meeting held in November 2012. By April 2017, twelve rounds of negotiation meetings have been held since the commencement of the negotiations in March 2013.

(4) NEGOTIATIONS OF JAPAN'S OTHER EPAs/FTAs

(a) Japan-Canada EPA (under negotiation)

For the EPA with Canada, four joint studies have been conducted from March 2011 to January 2012. At the Japan-Canada summit in March 2012, the commencement of bilateral EPA negotiations was agreed upon. The first negotiation meeting was held in November 2012, and mostly recently the seventh in November 2014. Of the total export value, 37.0% (2016) of Japan's exports to Canada are subject to tariffs and 33.2% (2016) of exports from Canada to Japan are subject to tariffs. The major tariff items among exports to Canada and their tariff rates are: automobiles (6.1%); automobile parts (6~8.5%); transmission (6%); and tires (7%).

(b) Japan- Colombia EPA (under negotiation)

At the Japan-Colombia summit meeting held in September 2011, the launch of a joint study for an EPA was agreed upon. The joint study meetings were held from November 2011 to May 2012 and a study report was issued in July 2012.

Based on the joint study report, both countries agreed to commence EPA negotiations at the Japan-Colombia summit held in September 2012 and the first negotiation meeting was held in December of the same year. The 13th negotiation meeting was held from August to September 2015. Furthermore, the leaders of both countries confirmed that the negotiation had reached its final stage and that they would work together for its early completion.

(c) Japan-Turkey EPA (under negotiation)

In July 2012, the first Japan-Turkey Trade and Investment ministerial meeting was held and both countries agreed to commence a joint study regarding the possibility of a Japan-Turkey EPA.

After completing a joint study, Japan and Turkey agreed to commence EPA negotiations at the summit meeting held in January 2014. The first negotiation meeting was held in December 2014. A

total of eight negotiation meetings have been held by February 2018.

With the Japan-Turkey EPA, Japan aims to boost exports by Japanese companies to Turkey through early equalization of the conditions of competition with competitors, including Korean companies, and to improve investment environment-related systems of Turkey to make Turkey a hub for exports/new entries to neighboring countries.

(d) Japan-GCC FTA (negotiations deferred)

In March 2006, Japan and the Gulf Cooperation Council (GCC), composed of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates, agreed to commence negotiations on an FTA with respect to goods and services. The negotiations commenced in September 2006, and two official meetings and four intermediate meetings were held by March 2009. However, negotiations were deferred in July of the same year at the request from the GCC. At present Japan is working to encourage the GCC to resume negotiations. The GCC region accounts for over 77% (2016) of Japan's raw petroleum imports, and the aggregate value of exports from Japan is approximately 2.1 trillion yen (2016). It is important to form and maintain a friendly relationship (including an economic relationship) between the countries from the viewpoint of Japan's energy security and expansion of trade. Bilateral consultations have been established with Saudi Arabia, Qatar, UAE, and Kuwait to enhance the relationship.

(e) Japan-Korea EPA (negotiations suspended)

Although the Japan-Korea EPA negotiations commenced in December 2003, the negotiations have been suspended since November 2004. After the inauguration of the President of the Republic of Korea, there were movements towards resuming the negotiations. From 2008 to 2010, a series of working-level talks were held. At the Japan-Korea summit meeting held in October 2011, substantial implementation of administrative work necessary for resuming negotiations was agreed upon. However, to date, negotiations have not resumed.

Japan and Korea have a relatively similar industrial structure and the two countries share an international, horizontal division of labor. Both developed countries are the driving force behind the Asian economy. Although negotiations have not yet resumed due to Korea's trade deficit with Japan, executing an EPA with Korea is effective not only for both countries, but also in the sense of contributing to the development of the Asian economy as a whole, because the market integration resulting from an EPA would be expected to stimulate transnational competition and cooperation between Japanese and Korean companies that would improve both productivity and efficiency for both countries.

Up to 63.3% of Japan's exports to Korea now are subject to tariffs, while only 26.5% of exports from Korea to Japan are subject to tariffs. Since many of Japan's exports to Korea now are subject to tariffs, benefits from the reduction of tariffs by concluding the EPA can be expected. The major tariff items and their tariff rates among the exports to Korea include automobiles (complete vehicles (5~10%), chemical products (1~20%), general machinery (3~13%) and electrical machinery (3~13%) (2015).