

## *OVERVIEW*

# ESTABLISHMENT OF DISCIPLINES ON FORMATION OF ECONOMIC PARTNERSHIPS AGREEMENTS

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## REASONS FOR DISCUSSING ECONOMIC PARTNERSHIP AGREEMENTS IN THIS REPORT

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The number of Economic Partnership Agreements/Free Trade Agreements (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 January 4, 2019, the number of RTAs that have come into force and been reported to the GATT/WTO is 467.<sup>1</sup> Furthermore, the number of IIAs (International Investment Agreement)<sup>2</sup> which set forth the protection of investment property, free transfer of funds and restriction of foreign investment has increased globally. As of February 2019, Japan has entered EPAs/FTAs that are in force with 20 countries and regions, 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 favourably through the trade conversion effect (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).

Multilateral trade policy initiatives under the WTO and bilateral initiatives in EPAs/FTAs may mutually complement each other. The economic partnership initiatives developed in each region, regional cooperation initiatives developed in the Asia-Pacific region through APEC (Asia-Pacific Economic Cooperation) and etc. 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 the WTO does not cover such as the implementation of investment rules and the expansion of human exchanges.

Examples 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 important markets through elimination of

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<sup>1</sup> [http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](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 January 4, 2019, the number of RTAs that have come into force is 291.

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

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.

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## GLOBAL TRENDS OF ECONOMIC PARTNERSHIP

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### *1. GLOBAL TRENDS<sup>3</sup>*

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

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<sup>3</sup> The status of FTA conclusion by country/territory is available on the websites of the WTO and JETRO.  
<http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>  
<http://www.jetro.go.jp/theme/wto-fta/reports/07001093>

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, which entered into force in December 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 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).

## ***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**

#### ***(a) Overview of the North American Free Trade Agreement (NAFTA) and the United States-Mexico-Canada Agreement (USMCA)***

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.

On May 18, 2017, the Trump administration of the United States notified Congress of the recommencement of NAFTA negotiations in accordance with the Trade Promotion Authority (TPA) Act, which recommenced on August 16. Seven rounds of negotiations were held by March 2018. The United States was aiming to come to an agreement by mid-May 2018. However, despite the several trilateral ministerial conferences that took place from April to May 2018, no agreement could be concluded as per the desired deadline. On May 31, the United States announced that it would impose tariffs on the import of steel and aluminum products from Canada and Mexico under section 232 of the Trade Expansion Act. From June 1, 2018, import tariff of 25% on steel products and 10% on aluminum products became applicable.

Taking opportunity that President Peña Nieto's term in office will definitely expire at the end of November due to the victory of Mr. Lopez Obrador from the opposition party at the Mexico's presidential election held on July 1, discussions have taken place between the United States and Mexico since the end of August concerning the rules of origin for automobiles, which has notably been a main point of dispute between the two countries. The "Preliminary Agreement in Principle" between the United States and Mexico was announced on August 27. Later, the United States held bilateral discussions with Canada, and the United States, Canada and Mexico came to an agreement on September 30. At that occasion, President Trump announced that the agreement was renamed as USMCA (United States-Mexico-Canada Agreement). On the sidelines of the G20 summit held in Buenos Aires on November 30, President Trump, Prime Minister Trudeau and Mexico's President Nieto signed the USMCA.

**(i) Main points of USMCA**

(Automobiles)

- The Regional Value Content (RVC) for automobiles is set at 66% beginning January 1, 2020 (or from the date when the agreement is enforced), and gradually rises to 75% in 2023 (or three years after the date when the agreement is enforced).
  - The RVC for automobile components is divided into three categories. Beginning January 1, 2020 (or from the date when the agreement is enforced), the RVC is set at 66%, 62.5% and 62% for each of the categories and subsequently will rise. In 2023 (or three years after the date when the agreement is enforced), the RVC shall be 75%, 70% and 65% for each of the categories.
  - 40 to 45% of automobile shall be manufactured by workers earning more than 16 US dollars per hour.
  - More than 70% of the steel and aluminum used in the vehicle must be sourced from North America.
- \* Side letters Announced by U.S. Lighthizer Trade Representative addressed to Canadian Foreign Affairs Minister Freeland/Mexican Economy Secretary Guajardo
- Despite the imposition of tariffs by the United States under section 232 of the Trade Expansion Act, (1) up to 2.6 million passenger vehicles per year, (2) light trucks from both Canada and Mexico and (3) Automobile parts worth 108 billion US dollars from Mexico and 32.4 billion US dollars from Canada would be excluded.

(Agricultural Goods)

- The United States and Mexico will mutually maintain zero tariffs on agricultural products.
- The United States and Canada will mutually set country specific tariff rate quota (tax free) (the United States for dairy products and salt, and Canada for dairy products, poultry and egg). The number of quotas will be gradually expanded up to maximum year 19.
- Six months after the enforcement of the agreement, Canada will partially review the way in which the producer's price in the dairy products supply management system is set.
- The United States and Canada will agree to the rules concerning the fairness in the application of tariff rate quota and securing transparency.
- The three nations will agree on the new set of regulations concerning geographical indications such as strengthening transparency in objection procedures of geographical indications.
- The three nations will agree to commit to curtail trade distorting policies such as export subsidies.

(Intellectual Property)

- Protection period of data on biomedicine extended to 10 years.
- Copyright protection period extended to 70 years.

(FTA with "Non-economic market countries")

- The contracting country must notify three months prior to the commencement of negotiations when conducting negotiations on FTA with a “Non-market economy country\*”. When the relevant FTA is enforced, the other contracting countries (two countries) can terminate this agreement by giving six months’ notice and can replace this agreement with the agreement signed between the two countries. (\*Note) Definition of “Non-market economy country” in the agreement: A country, which on the date of signing of agreement is determined as a non-market economy country by at least one of the contracting countries and also which has no FTA with any of the contracting countries.

(Currency)

- Based on the agreement with the International Monetary Fund (IMF), the contracting countries are duty bound to prevent the manipulation of exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage.
- The agreement stipulates that the contracting countries shall implement/maintain the market-driven exchange rate system, refrain from competitive devaluation (including the ones through the interventions in the foreign exchange market), and strengthen the fundamentals for firmly setting the conditions for a stable macro-economy and exchange rate.

(Review and extension)

- The agreement shall remain in force only for 16 years after it has enforced unless all the countries confirm that they intend to extend beyond 16 years. In the 16th year after the agreement has been enforced, the intentions of the countries as whether they intend to extend the agreement will be verified and if all countries agree to extend, the agreement will be automatically extended. Review once in every six years after the decision to extend.

#### ***(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; Venezuela’s membership has been suspended since 2017). Regarding trade agreements outside the region, 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 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, negotiations with countries such as Canada, South Korea, Singapore have started in 2018. Also, efforts for possible future FTA negotiations are being made through Preferential Trade Agreements (PTAs) negotiations and joint study with other countries. 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 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 in February 2014.

The 10th leaders meeting was held in July 2015 and the members adopted the Declaration of Paracas that 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.

The declaration adopted by the members at the Pacific Alliance Summit held in 2018, clearly indicates that they are satisfied with the progress being made on the negotiations with the above mentioned four associate countries and welcomes South Korea as the next candidate for the affiliate membership. The declaration states that the negotiations with South Korea shall commence in the future.

***(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 February 2018, FTAs have come into force with 20 countries. 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. Although the United States signed the TPP in February 2016, its trade policies radically changed their direction with the end of the presidency of Barack Obama and inauguration of Donald Trump in January 2017. 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 and signed a new agreement in November 2018. In December 2018, the United States and South Korea ratified the US-Korea FTA which both countries has agreed to commence negotiations on the amendments to the FTA in October 2018. Also, the EU was of the view to suspend the discussions with the United States on the FTA, however, in October 2018, the USTR notified the U.S. Congress of the commencement of trade negotiations with the EU.

### **(ii) Mexico**

As of February 2019, Mexico has concluded fifteen 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 February 2018, Canada is a party to ten 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) 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. 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. The Treaty Establishing the Constitution for Europe was adopted in 2004, 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 ratification by all member countries.

After the European Parliament election held in May 2014, Juncker from Luxembourg became the President of the European Commission in November and Tusk from Poland became the President of the European Council in December.

As of February 2019, the procedures for the withdrawal of United Kingdom from the EU are underway. Following the referendum of June 23, 2016, the United Kingdom notified the EU of its withdrawal in March 2017. Negotiations between the United Kingdom and the EU started in June 2017. In November 2018, the “Withdrawal Agreement” and “Political Declaration on the Future Relationship” were agreed to by the United Kingdom and the EU and approved by the British Cabinet and European Council. According to the Withdrawal Agreement, during the “Transition Period”, which expires at the end of 2020, the EU laws will continue to apply to the United Kingdom. Also, while the EU is bound to an international treaty, which it signed with a third country, the United Kingdom can negotiate/sign/ratify FTAs, which it wants to bring into effect after the expiry of the transition period, with a third country other than the EU.

The “Political Declaration” stipulates that the United Kingdom and EU shall cooperate with each other to maintain international order based on rules. To summarize, the United Kingdom and EU will, put in their best efforts to maintaining close relations for trading in goods, establish a joint comprehensive FTA by cooperating with each other on rules and customs, avoid imposing of tariffs or volume restrictions, and continue to cooperate in regulations. There also specified that the United Kingdom will, review conformity with EU rules, put in place a comprehensive and ambitious arrangement that surpass the existing FTA of the EU for trade in services and investment sector, and permit the temporary entry and stay of natural persons for business purposes.

### ***(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 and was enforced in July 2016. The EU commenced negotiations with India in June 2007 and the last round of negotiations was held in 2013. 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 status of the FTA negotiations with each of the ASEAN countries is varied. The EU has signed an FTA with Singapore in October 2018, entered into trade and investment agreement with Viet Nam and still negotiating with Malaysia and Indonesia.

As for African countries, the EU executed several regional integrations and interim agreements 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 were discontinued in 2012, however it was recommenced from October 2016. 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 2017. The agreement must be approved by nations of the region for it to be completely enforced.

The commencement of EU-US FTA negotiations was scheduled in July 2013; however, European Commissioner for Trade Malmström commented in January 2017, that the negotiations have been suspended due to the inauguration of the Trump administration. However, deliberations were once again held on whether to carry on trade discussions and during the summit meeting in July 2018, both the EU and the United States agreed to have trade discussions subject to conditions. The USTR notified the U.S. Congress of the commencement of trade negotiations with the EU on October 16 and accordingly the negotiations could legally start after mid-January 2019.

### **(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 Co-operation 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 commenced in 2005 and after 2008 the EPAs were subsequently enforced. Currently, the agreements have entered into force with all the parties (for details, see Efforts in Japan in Economic Partnerships, 3. 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 (P4) with Brunei, New Zealand and Chile and led the negotiations for the TPP Agreement. Negotiations with the EU commenced in March 2010, and an agreement on trade and investment was signed in October 2018. Singapore is conducting negotiations with Pakistan, Canada and Ukraine, etc. The FTA with Turkey entered into force in October 2017.

#### ***(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.

Thailand has showed interest in participating in the CPTPP on multiple occasions including at the Japan-Thailand summit held in October 2018.

#### ***(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.) Malaysia officially became a member state of the TPP negotiations in December 2010, and commenced FTA negotiations with the EU in 2010. After temporary suspension, the negotiation was finally concluded in December 2015..

#### ***(iv) Korea***

As of 2017, Korea has entered into EPAs/FTAs with twelve countries and three regions, and is also negotiating 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. The first round of

negotiations for MERCOSUR was held in September 2018. As for the US-Korea FTA, the renegotiations were concluded in March 2018, and thus the agreement was signed in September and ratified by both countries in December accordingly..

Also, as for the Korea-China FTA, 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. The first round for reviewing the negotiations was held in March 2018.

#### **(v) China**

China aggressively promotes the reinforcement of economic partnerships with many countries and regions. As of 2017, eighteen EPAs/FTAs have come into force. 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 GCC, and the Japan-China-Korea framework. China is implementing or discussing joint research on bilateral FTAs/EPAs with seven countries. Looking at EPAs/FTAs that have already come into force, upgrading negotiations for EPAs/FTAs with the ASEAN, Chile and Singapore have already been completed, while those for EPAs/FTAs with New Zealand and Peru are still ongoing. With Switzerland, joint research for EPA/FTA upgrading is underway. Moreover, the Economic Cooperation Framework Agreement concluded with Taiwan has already come into force. China signed the FTA with Hong Kong in December 2018.

#### **(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 and regions with whom India is negotiating include the EU, New Zealand, Canada, Australia, Thailand 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 2018, eleven 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, since September 2015 negotiation meetings have not been held. Australia

agreed to commence negotiations for FTA with Indonesia in November 2011. In September 2012, CEPA negotiations commenced between the two countries and then in August 2018, the Australian and Indonesian governments declared that they had concluded a substantial settlement. Australia commenced negotiations for the FTA with the EU in June 2018. 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. Australia concluded negotiations for the FTA with Hong Kong in November 2018. Australia signed a FTA with Peru in February 2018. Also, in June 2017, Australia commenced FTA negotiations with the Pacific Alliance (Mexico, Colombia, Peru, and Chile).

**(viii) New Zealand**

As of 2018, New Zealand has entered into ten CEPs/FTAs. New Zealand had finally agreed to the FTA negotiations with GCC in October 2019, however the FTA is yet to be signed. Also, FTA negotiations with India commenced in April 2010, however since February 2015, negotiation meetings have not been held. On the other hand, New Zealand commenced negotiations with the EU in July 2018, which proceeded swiftly and both sides that agreed that they intend to bring the negotiations towards settlement within two years. With regard to China, although New Zealand had signed a bilateral FTA in 2008, from 2016 onwards, both sides had started renegotiations in nine sectors of cooperation. These sectors include customs procedures and E-Commerce. Also, New Zealand is negotiating a FTA with the Pacific Alliance (Mexico, Colombia, Peru, and Chile) similar to Australia. Both sides are accelerating negotiations to arrive at a settlement within the year.

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.

**(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). This agreement entered into force in January 2006. 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, 21 rounds of negotiation have been held on tariff reduction, custom cooperation, trade in services and investment. At the 21st round of negotiations held on 18 and 19 November, 2018, substantial progress towards concluding the drafts on goods tariff agreement, customs cooperation agreement and dispute resolution agreement, was made. Also, at the negotiations, progress was also made on investment, service and trade facilitation agreements.

### **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) reported to 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) reported 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 welcomed ASEAN’s proposal on Framework for Regional Comprehensive Economic Partnership (RCEP) which stipulated the general principles on the future regional integration based on the work on EAFTA and CEPEA.

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.

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, resuming the WTO's negotiation functions was called for, which was supported by many ministers. 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, 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.

At the APEC Ministerial Meeting and Summit in 2018, for the first time since the APEC was established, the meeting concluded without any Ministerial Declaration or Leader's Declaration being adopted. A few days later, the chairman's statement reflecting the chair's assessment of the prevailing views of all APEC member economies was issued from Papua New Guinea. In the statement, APEC emphasizes the importance of free flow of information and data. Also, it will advance trade in a free, fair, and open manner, welcomed the initiatives towards FTAAP, confirmed its contribution to the multilateral trading system and will cooperate to improve the functioning of the WTO.

## 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 2019, Japan has entered into 17 EPAs/FTAs and signed the TPP. Meanwhile, Japan is currently promoting negotiations such as RCEP and China-Japan-Korea FTA.

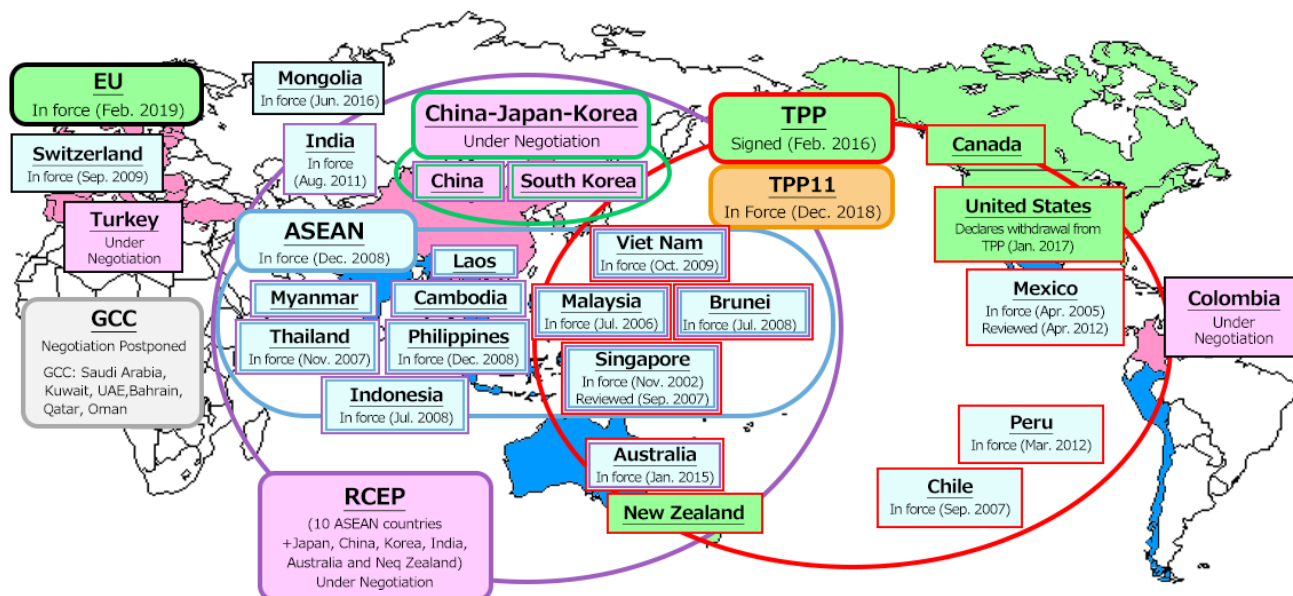
This section describes EPAs/FTAs both in force and under negotiation, and Japan's economic partnership initiative status.

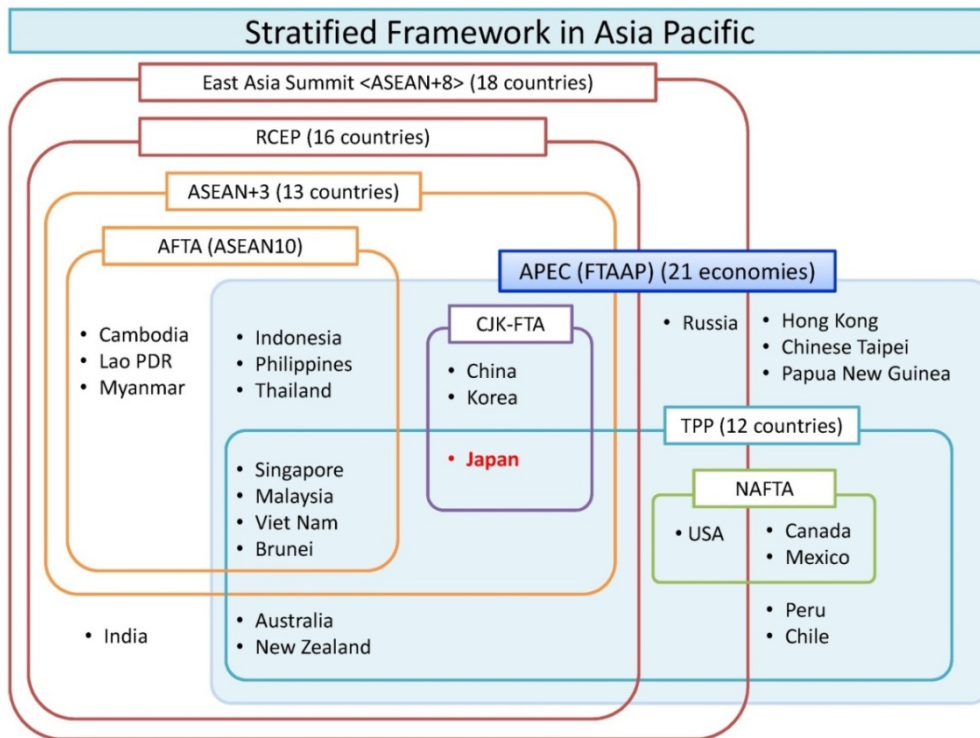
### Japan's Promotion of Economic Partnerships

**Effective:** Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN, Philippines, Switzerland, Viet Nam, India, Peru, Australia, Mongolia, TPP11, EU

**Signed:** TPP

**Under negotiation:** RCEP, China-Japan-Korea, Colombia, Turkey, GCC (negotiations deferred), Canada, Republic of Korea





## **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.<sup>4</sup> 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.<sup>5</sup> 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).<sup>6</sup> 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 2018, 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 50%.

Ever since Japan had shown interest in the TPP in Autumn 2010,<sup>7</sup> 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.

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<sup>4</sup> Calculated from the IMF World Economic Outlook April 2018.

<sup>5</sup> 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](http://www.esri.cao.go.jp/jp/sna/data/data_list/kakuhou/files/h28/sankou/pdf/kokusaihihaku_20171222.pdf)

<sup>6</sup> White Paper on International Economy and Trade 2011 (p. 96)

<sup>7</sup> 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 (11)	EU
Tariffs	o	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	o
Antidumping and Countervailing Duty	o	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	o
Standards and Conformity Assessment Systems	o	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	o
Movement of Natural Persons	o	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	o
Investment	o	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	o
Government Procurement	o	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	o
Energy	—	—	—	—	—	—	o	o	—	—	—	—	—	o	—	—	—
Labour	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	o	o
Environment	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	o	o
Electronic Commerce	—	—	—	—	—	—	—	—	—	—	o	—	—	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	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 2019, Japan has entered into EPAs/FTAs with 17 countries and regions. 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 above (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, nine 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) Agreement, based on the November 2004 agreement of the leaders of the involved countries. From 2008 onwards, the agreement gradually came into force with all countries. 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. As of February 2019, domestic procedures are proceeding 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.<sup>8</sup>

#### **(17) Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) (In force)**

In January 2017, U.S. President Trump notified the TPP members of the United States’ withdrawal

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<sup>8</sup> 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.

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, Vietnam. 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.

On March 8, the eleven member states signed the TPP11 in Santiago, Chile. Then, on June 28, Mexico notified the depository, which is New Zealand. In continuation, Japan, Singapore, New Zealand and Canada notified on July 6, July 19, October 25 and October 25 respectively. With Australia have sent its notifications to New Zealand on October 31, the domestic procedures of minimum six countries required for enforcing as stipulated in the agreement, was completed. Viet Nam also completed its domestic procedures on November 15.

On December 30, 2018, the CPTPP become effective among the six countries namely Mexico, Japan, Singapore, New Zealand, Canada and Australia and from January 14, 2019 onwards Viet Nam also participated. Moreover, the first meeting of the TPP Committee was held in Tokyo on January 19, 2019, in which the procedures for future new members were discussed and policies were determined.

#### **(18) JAPAN-EU EPA (In force)**

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. Later on July 17, 2018, Japan and the EU signed the agreement and on December 21, 2018, Japan and the EU mutually informed that their domestic procedures for bringing the agreement into force were completed and on February 1, 2019 the agreement came into force. Japan and the EU are also continuing discussions on investment protection provisions and investment dispute resolution procedures.

### **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 underway with their backgrounds are described below.

#### **(1) 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 February 2019, ministers' meetings were held fourteen times (including six intersessional meetings) and negotiation meetings twenty-five times. In November 2018, the second RCEP Summit was held in Singapore. After the meeting, the leaders issued a joint statement, in which they welcomed the substantial progress made in RCEP negotiations in 2018 and also expressed their determination that in 2019 they would make the RCEP a modern, comprehensive, high-quality and mutually advantageous partnership. The joint statement issued by the leaders also contained a report on the progress of the negotiations. To date, chapters on Economic and Technical Cooperation, Small and Medium Enterprises, Customs Procedures and Trade Facilitation, Government Procurement, Institutional Provisions, Sanitary and Phytosanitary, and Standards, Technical Regulations and Conformity Assessment Procedures were concluded. 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, Electronic Commerce, Rules of Origin, Financial Services, Telecommunication Services, 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 enable companies to build advanced supply chains in the East Asia region and contribute to strengthening international competitive power. Moreover, companies under the EPA will greatly benefit from the

unification of rules for customs procedures, trade facilitation and E-Commerce, intellectual property and streamlining procedures.

## **(2) 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 21.7 and 5.9% 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 2017).

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 February 2019, fourteen rounds of negotiation meetings have been held since the commencement of the negotiations in March 2013.

## **(3) NEGOTIATIONS OF JAPAN'S OTHER EPAS/FTAS**

### ***(a) Japan-Canada EPA (under suspended)***

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.

### ***(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 thirteen negotiation meetings have been held by February 2019.

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.

***(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.