Chapter 2  Direction of Japan’s trade policy response

This chapter describes the direction of Japan’s trade policy response concerning the challenges pointed out in Parts I and II. Specifically, Section 1 describes the formation of rules, including the Trans Pacific Partnership (TPP), which was signed in February 2016, and other economic partnership and free trade agreements (EPAs/FTAs), while Section 2 describes initiatives to capture markets, including the emerging countries strategy and export of infrastructure systems.

Section 1  Formation of rules, including trade agreements

This section introduces the development of Japan’s EPAs/FTAs such as the signing of the TPP and the formulation of “Comprehensive TPP-related policy framework”, APEC and investment-related agreements.

1. Signing and use of TPP

(1) Signing of the TPP

Regarding the TPP, Japan announced its intention to participate in the TPP negotiations in March 2013. Starting in July of the same year, Japan participated in negotiations with 11 countries – Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Singapore, Peru, the United States, and Vietnam. After subsequent negotiations, the participants reached an agreement in principle in Atlanta, the United States, in October 2015 and signed it in February 4, 2016. In the market which covers approximately 40% of the global GDP and approximately 30% of export value from Japan, the TPP establishes new rules in a wide range of fields in addition to tariff elimination on goods. (Figure III-2-1-1 and Table III-2-1-2).

21 The chronology of events leading up to Japan’s participation in the TPP negotiations is as follows: In March 2010, the TPP negotiations began, with the participation of New Zealand, Singapore, Chile and Brunei (the four members of the Trans-Pacific Strategic Economic Partnership Agreement [commonly known as P4]) as well as the U.S., Australia, Peru, and Viet Nam. They were subsequently joined by Malaysia (October 2010), Mexico (October 2012), and Canada (October 2012), with Japan joining the negotiations in July 2013.
The TPP eliminates tariffs on 76.6\%\textsuperscript{22} of industrial products exported from Japan in terms of export value when the agreement goes into force, and tariffs on 99.9\%\textsuperscript{22} will be eliminated ultimately. For example, tariffs on more than 80\%\textsuperscript{22} of the export value of automotive parts to the United States (current

\textsuperscript{22} Calculated based on the value of imports from Japan into relevant countries in 2010.
tariff rate is mainly 2.5%) and slightly less than 90%\textsuperscript{22} of the export value of automotive parts to Canada (current tariff rate is mainly 6.0%) will be eliminated immediately. Such tariff reduction will not only expand exports by Japanese companies, including small and medium-size enterprises (SMEs), but also bring significant positive effects to SMEs through increases of job orders following the expansion of exports by client companies. In addition, the TPP has realized tariff elimination on items related to local SMEs, such as textiles and earthenware (e.g., tariffs on 75%\textsuperscript{22} of export value of earthenware to the United States will be immediately eliminated, and the tariff on towels exported to the United States [current tariff rate is 9.1%] will be eliminated in the fifth year, while the tariff on towels exported to Canada [current tariff rate is 17%] will be immediately eliminated).

On the rules of origin, a full cumulation system (Figure III-2-1-3) will be adopted. Under this system, judgment concerning origin will be made based on the aggregation of added value and processes implemented in multiple contracting countries. This system will make it possible to meet the rules of origin through the aggregation of added value created within the TPP region, rather than in a single country, and thus will enable the use of the TPP in a greater variety of production networks. This will benefit companies exporting goods, such as parts, from Japan.

\textsuperscript{22} Calculated based on the value of imports from Japan into relevant countries in 2010.
Furthermore, the TPP will liberalize investments and cross-border provision of services. For example, countries receiving investments will be prohibited from setting the technology transfer requirement (requirement for transfer of specific technologies, manufacturing processes and knowledge with property value to domestic entities) or the royalty requirement (e.g. requirement that the fees specified by licensing agreements be set at a prescribed rate or amount). In addition, the introduction of the procedure for investor-state dispute settlement (ISDS) will make it possible for Japanese companies to directly apply for international arbitrations when they have suffered damage because of unfair treatment by governments of the counterpart countries.

In Vietnam and Malaysia, restrictions on foreign investment in convenience stores and other retailers will be relaxed. In Vietnam, restrictions on foreign investments will also be relaxed in a broad range of areas, including businesses related to the Cool Japan initiative, such as theaters and live music clubs, as well as tourism-related businesses, such as travel agencies. Such deregulation measures are expected to bring positive effects on overseas business expansion in a broad range of areas, including services industries. For example, SMEs manufacturing foods and local specialty goods may be able to achieve overseas business expansion through cooperation with convenience stores. Other examples of positive effects to be brought by the TPP are summarized in Table III-2-1-4.
### Table III-2-1-4  Examples of benefits of TPP agreement

<table>
<thead>
<tr>
<th>Facilitation of customs procedures (accelerated customs clearance, etc.)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>● Principle that allows receipt within 48 hours (exempt express: 6 hours) from the arrival of cargoes</td>
<td>→ Risk of delay in delivery to foreign delivery destination is reduced. Beneficial to online shopping, etc.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Strengthening of measures against counterfeits and pirated goods</th>
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<tbody>
<tr>
<td>● Granting Ex Officio right to suppress counterfeits at the water's edge to authorities of each country</td>
<td></td>
</tr>
<tr>
<td>● Making criminal penalties mandatory for the use of a label or package that infringes the trade mark or for unauthorized recording of films, etc.</td>
<td>→ Beneficial to the prevention of counterfeits of products and protection of brands and technologies, while about 20% of SMEs are suffering from counterfeits.</td>
</tr>
<tr>
<td>→ Beneficial to the prevention of the pirating of digital contents.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Introduction of regulation on temporary entry of business-related visitors</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>● For example, each country promises a length of stay for short-term business visitors, contract-based service providers, representatives working at overseas branches of companies, investors, spouses.</td>
<td>→ Beneficial for companies which have negotiations, provide services or assign employees to the office abroad.</td>
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</tbody>
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<table>
<thead>
<tr>
<th>Introduction of regulation on e-commerce</th>
<th></th>
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<tbody>
<tr>
<td>● Liberalization of transborder information flow</td>
<td></td>
</tr>
<tr>
<td>● Prohibition of requiring establishment of servers</td>
<td>→ Beneficial for companies in Japan which sell products utilizing IT.</td>
</tr>
</tbody>
</table>

<table>
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<tr>
<th>Introduction of regulation on state-owned enterprises</th>
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</thead>
<tbody>
<tr>
<td>● Principle that state-owned enterprises give non-discriminatory treatment, ensuring transparency of state-owned enterprises</td>
<td>→ Beneficial for the companies which attempt to do business with state-owned enterprises abroad.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Introduction of regulation on government procurement</th>
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</thead>
<tbody>
<tr>
<td>● Countries that are not participating in the WTO Agreement on Government Procurement, such as Malaysia and Viet Nam, are subject to the rules in TPP.</td>
<td></td>
</tr>
<tr>
<td>● Some electricity-related entities in U.S. and Malaysian Investment Development Authority (MIDA) newly listed under the rules.</td>
<td>→ Improvement of access to the infrastructure market and procurement market of government organizations</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Introduction of regulation on SMEs</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>● Each contracting country must open its own website to publish the text of the TPP agreement</td>
<td></td>
</tr>
</tbody>
</table>
and include information for SMEs

- Regulating the establishment of a subcommittee to specify how to support SMEs to take advantage of business opportunities according to the agreement
  - Cooperation among countries toward the promotion of SME's utilization of TPP agreement

(2) Formulation of Comprehensive TPP-related Policy Framework

In light of the agreement in principle reached on the TPP, the TPP Task Force was established on October 9, 2015, in order to formulate comprehensive policies intended to implement the TPP. At the second meeting of the TPP Task Force, held on November 25, 2015, Comprehensive TPP-related Policy Framework was formulated.

The Comprehensive TPP-related Policy Framework set the goal of realizing a “new export nation,” which will export not only industrial products but also agricultural, forestry and fishery goods and foods, and will actively promote not only goods exports but also contents and services abroad. The Framework also aims to use the TPP as an opportunity to turn Japan into a “global hub” that will lead the global economy in various areas, including trade, investment, production, tourism, and research and development, and it contains various measures to achieve such goals (Figure III-2-1-5).
(3) Promotion of the use of TPP

As described above, the TPP brings significant positive effects not only to large companies but also to SMEs. Using the TPP as an opportunity to support SMEs’ overseas business expansion is also important for Japan’s economic growth.

Explained below are initiatives conducted by the government to support the use of the TPP.

(A) Provision of information for the use of TPP

When supporting SMEs’ overseas business expansion, the provision of information is first and
foremost important. The staff members of the Ministry of Economy, Trade and Industry provide explanations concerning the contents of the agreement on the TPP at the seminars held by METI’s regional bureaus, JETRO and chambers of commerce and industry, among other organizations. Since the TPP was agreed on in principle, a total of more than 100 seminars have been held in all 47 prefectures (as of the end of March 2016). Furthermore, the staff members of the ministry provide explanations for Japanese affiliates operating abroad at the seminars held in Vietnam, Singapore and Malaysia under the sponsorship of JETRO. In addition, 65 TPP consultation counters were established at METI’s regional bureaus, JETRO and the Organization for Small & Medium Enterprises and Regional Innovation. Since October 2015, the counters have handled requests for consultations from various companies.

(B) Consortium for New Export Nation

In order to realize a “new export nation,” it is important to support the overseas business expansion of SMEs, whose activities underpin the initiative.

Meanwhile, as Japanese SMEs are engaging in various businesses, they face a variety of challenges when seeking overseas business expansion. According to a questionnaire survey conducted by JETRO, many companies cited a variety of challenges related to overseas business expansion, including securing local business partners and personnel responsible for conducting business abroad (securing human resources) and obtaining information concerning foreign legislative systems and local markets (obtaining information) (Figure III-2-1-6).

Figure III-2-1-6  Results of questionnaire survey on challenges of overseas expansion
Therefore, when supporting SMEs’ overseas business expansion, it is necessary to provide comprehensive, meticulous support in activities ranging from product development and international standardization to development of new sales channels in accordance with the needs of individual companies. Based on such recognitions, on February 26, 2016, the Consortium for New Export Nation, which brings together relevant support organizations in the public and private sectors, was established.

Under the Consortium for New Export Nation, support will be provided as follows for SMEs utilizing the TPP as an opportunity to seek overseas business expansion.

(a) Support through cooperation between support organizations

Membership certificates will be issued to companies wishing to receive support from the Consortium for New Export Nation; when a company presents the membership certificate, all organizations can provide support smoothly while cooperating with each other (Figure III-2-1-7).

Figure III-2-1-7 Support through mutual cooperation between support organizations under Consortium for New Export Nation

(1) With the request for consultation from second-tier and SMEs, support organizations grant membership certificates with an ID number, which is valid among support organizations. This ensures smooth consultation and support at all support organizations.
(2) Support organizations share information with each other by means of the ID numbers and provide support combined with policy instruments to second-tier and SMEs.
(3) Support to individual second-tier and SMEs is provided through mutual communication and arrangements between respective support organizations.

Support organizations provide support according to needs through mutual communication and arrangements.

Japan
- Second-tier and SMEs
- Support organizations
- Executive office (JETRO)
- Support organization A
- Support organization B
- Support organization C
- Manage ID numbers
- Consultation
- Ensuring smooth consultation and support by presenting certificates
- Information sharing

Overseas
- Second-tier and SMEs
- JETRO offices
- Overseas diplomatic offices
- HIDA/ AOTS
- Other organizations
- Consultation
- Ensuring smooth consultation and support by presenting certificates
- Cooperation
(B) Support by experts

Experts well-versed in foreign businesses are responsible for supporting individual companies concerning the formulation of foreign business plans, securing of cooperation from support organizations, business negotiations abroad and opening of foreign stores. When requesting support from experts, companies can file an application with JETRO through counters of support organizations at financial institutions, chambers of commerce and industry, etc. (Figure III-2-1-8).

Figure III-2-1-8  Support through experts under Consortium for New Export Nation

1. Experts well-versed in foreign business are allocated to JETRO offices (up to 400 experts are secured according to companies' needs). Experts are in charge of individual SMEs and provide comprehensive support as follows:
   a. Advice on utilizing TPP or other EPAs, support for companies' development of overseas business strategy
   b. Coordinate support organizations to provide companies with appropriate support measures
   c. Support for companies to find overseas business partners, cultivate their sales channels, launch overseas factories and shops, secure human resources, etc.
   d. Individual consultation support in specialized fields (legal, accounting etc.)
2. SMEs desiring support from experts are to be allowed to submit their application to JETRO via support organizations such as financial institutions, and the Chamber of Commerce and Industry.
3. The respective support organization considers preferential treatment, such as point addition on examination or simplification of process to receive subsidies, etc., for those operators that are to be genuinely engaged in overseas expansion.

(C) Council to Promote JETRO-Convenience Store Collaboration

The TPP is expected to provide significant opportunities for service industries, including the retail industry, to seek overseas business expansion.

Regarding convenience stores in particular, restrictions on foreign investments will be relaxed under the TPP, so a further business expansion is expected, mainly in Asia. If Japanese SMEs facing difficulty exporting their products on their own can develop new sales channels using the networks of convenience stores as a result, it will produce very significant positive effects.

Against this backdrop, in order to promote the development of new sales channels by resolving problems faced by convenience stores when seeking overseas business expansion, the Council to Promote JETRO-Convenience Store Collaboration was established on January 18, 2016, with a view to formulating specific measures concerning the promotion of collaboration between convenience stores and JETRO. From now on, JETRO will play a central role in implementing specific measures formulated by this council, in order to create as many examples of success as possible.
Japan’s traditional craftwork industry has passed down master artisans’ skills and expertise cultivated through a long history and culture and has enriched the Japanese people’s everyday life. This industry has also contributed to the development of local economies based on local resources and techniques and is also a symbol of Japan’s superior monozukuri (manufacturing) culture. Various production regions of craftwork products are engaging in a variety of activities in order to capture foreign demand.

For example, under the Trans Pacific Partnership (TPP), which was signed in February 2015, tariffs on items which account for some 75% (as of 2010) of earthenware products exported to the United States, which takes 20% of such products exported from Japan, in terms of export value will be immediately eliminated, and this may provide a significant opportunity to expand sales of superior Japanese craftwork products worldwide.

In order to support overseas sales of traditional craftwork products, the Ministry of Economy, Trade and Industry is implementing such measures as supporting participation in foreign trade fairs and enhancing awareness about such products. In fiscal 2014, on the occasion of the international exposition in Milan, the ministry demonstrated the attractions of Japanese traditional craftwork products to many people abroad by displaying such products at the Japanese pavilion and establishing pop-up shops of such products in Milan. The ministry also conducted local test marketing there. In fiscal 2016, the ministry will implement a METI Auxiliary Project for "Business Promotion by Branding the Production Regions of Traditional Craft Products"—"CraftMeet Project" in order to support the development of new overseas sales channels for such products and help attract tourists to production regions. Specifically, experts in such fields as apparel and food (managers of major foreign apparel companies, cooks, etc.) will be invited to production regions, and techniques and stories related to such products that are known only locally will be re-evaluated from the viewpoint of experts in each field in order to promote traditional craftwork products and production regions through public relations activities. In addition, manufacturers in production regions will aim to establish brands in order to develop new overseas sales channels and attract foreign tourists.

In the traditional craftwork industry, some companies have already achieved overseas business expansion and are selling worldwide their own products using traditional Japanese manufacturing methods and materials.

(A) Cooperative of hardware wholesalers in Ono (Ono City, Hyogo Prefecture)

In the Banshu region in the southwestern part of Hyogo, there has been a hardware industry for around 250 years. The industry started with the production of hardware products for daily use,
including razor blades, and now, the range of products has expanded to include blades used in a variety of fields, including apparel, beauty care and gardening.

A group of members of the cooperative of hardware wholesalers in Ono, mainly younger people, has launched “the Banshu Hamono” brand by taking advantage of traditional techniques for making blades. The cooperative has exhibited products of this brand at international trade fairs held in Japan and abroad, including the Interior Life Style in Tokyo and the Paris Design Week, and has announced a series of products which have high designability in cooperation with designers. It has also developed new sales channels, mainly in the United States and Europe and also in Singapore. “Coelacanth Shokudou”, a limited liability company in Ono City, which did design work for the Banshu Hamano brand, is selling products through Internet sales on its website and Amazon and other Internet shopping sites (Column Figure 17-1).

Column Figure 17-1   Website of Banshu Hamono

Source: Extract from website of Coelacanth Shokudou. LLC. design company

(B) Nousaku Corporation (Takaoka City, Toyama Prefecture)

Nousaku Corporation manufactures copperware (Takaoka copperware) using tin, brass and bronze and sells interior and miscellaneous products suited to foreign cultures while taking advantage of traditional Japanese manufacturing methods and materials. When it was founded in 1916, the company was mainly making Buddhist altar fittings, tea utensils and flower ware, but in recent years, it has been making tableware, interior and miscellaneous products, lighting equipment, and architectural hardware. Nousaku Corporation has expanded into overseas markets because it wanted to create a global brand of metalwork products, of which Europe is the major production region, and also because it intended to become the pioneer among manufacturers in Takaoka in overseas expansion and pave the way for others to follow suit. The company now has a store in Milan, Italy. It is actively exhibiting in foreign trade fairs, using such events as opportunities for marketing activity and encounters with foreign brands. Nousaku Corporation also engages in Internet sales via a website providing information in foreign languages, selling products
not only in Milan, where it has a store, but also in the United States, China, Spain and France, among other countries (Column Figures 17-2 and 17-3).

**Column Figure 17-2** KAGO that is making the most of softness of tin.

**Column Figure 17-3** internet sales using website in foreign languages

Source: Extract from website of NOUSAKU CORPORATION
2. Initiatives related to Japan’s economic partnerships

By February 2016, Japan has signed and/or put into force 16 economic partnership agreements (EPAs) and free trade agreements (FTAs) with 20 countries. In addition, Japan is now conducting negotiations concerning other EPAs/FTAs, including the Japan-EU EPA, RCEP and the Japan-China-ROK FTA (Figures III-2-1-9 and III-2-1-10).

Figure III-2-1-9  History of Japan’s EPA negotiations

- November 2002  Japan-Singapore EPA entered into force
- April 2005  Japan-Mexico EPA entered into force
- July 2006  Japan-Malaysia EPA entered into force
- September 2007  Japan-Chile EPA entered into force
- November 2007  Japan-Thailand EPA entered into force
- July 2008  Japan-Indonesia EPA entered into force
- July 2008  Japan-Brunei EPA entered into force
- December 2008  Japan-ASEAN EPA entered into force
- December 2008  Japan-Philippines EPA entered into force
- September 2009  Japan-Switzerland EPA entered into force
- October 2009  Japan-Viet Nam EPA entered into force
- August 2011  Japan-India EPA entered into force
- March 2012  Japan-Peru EPA entered into force
- January 2015  Japan-Australia EPA entered into force
- February 2016  TPP Signed
- June 2016  Japan-Mongolia EPA entered into force

- October 1999  Singapore proposed an FTA with Japan.
- October 2000  Prime Minister Yoshiro Mori and Prime Minister Goh Chok Tong agreed to start negotiations at summit talks.
- January 2002  Prime Minister Junichiro Koizumi and Prime Minister Goh Chok Tong signed the agreement.

- Other ASEAN countries became interested in concluding FTAs with Japan
  - December 2003  Japan agreed to start FTA negotiations with Thailand, Philippines, and Malaysia.

- Negotiation results beneficial to Japanese exports
  - Automobile: Elimination of tariffs from 7th year onward (*except for large buses and trucks)
  - Steel: Gradual or immediate tariff elimination
  - Government procurement: With Mexico, discriminatory treatment due to the lack of an FTA was resolved.

- Partial opening of market for Japanese agricultural products
  - Beef, pork, chicken, oranges (fruits, juices) etc.: Tariff quotas were set.

- First wide-area EPA
  - It covered Cambodia, Lao PDR, and Myanmar, which had not concluded bilateral EPAs with Japan.
  - EPA became also applicable to supply chains across Japan and the ASEAN region.
  (Accumulation of rules of origin)

- Agreement separate from bilateral EPAs
  - Companies are able to compare AJCEP and existing bilateral EPAs with ASEAN countries, and select and use the one that is more beneficial.
The expansion of free trade and the promotion of economic partnerships are the key pillars of Japan’s international trade policy. Tapping into the Asia-Pacific region’s growth and major markets by establishing an economic partnership network across the entire globe is essential to Japan’s growth.

In Japan Revitalization Strategy 2016 — Toward the 4th Industrial Revolution (decided by the Cabinet on June 2, 2016), it is stated that “The Government will push forward to achieve early entry into force of the TPP and expand its member countries/regions, and strategically and expeditiously promote negotiations on other economic partnerships, including the Japan-EU EPA, Regional Comprehensive Economic Partnership (RCEP), and Japan-China-Republic of Korea FTA. Playing central roles in building such wide-area new economic order, Japan aims to take the lead in establishing comprehensive, well-balanced and high-level global rules.” The strategy also sets the goal of achieving the FTA coverage ratio of 70% by 2018 (18.9% in 2012), so Japan is conducting negotiations to that end (Figure III-2-1-11).
Below, current initiatives related to Japan’s economic partnerships will be described, focusing on (1) the effects of economic partnerships (EPA/FTA), (2) economic partnerships with multiple countries and regions, and (3) bilateral economic partnerships.

(1) The effects of economic partnerships (EPA/FTA)

Promoting economic partnerships brings significant positive effects to Japanese companies.

On the export side, the competitiveness of Japanese export products can be enhanced through tariff reduction. A tariff rate of 20% is imposed on passenger cars in Mexico, 30% on air conditioners in Malaysia and 10% on bulldozers in Indonesia. However, if the EPA is utilized, these tariff rates are reduced to zero. Moreover, the conclusion of wide-area EPAs between multiple countries or regions has the advantage of making EPAs more user-friendly for companies within the region, because they unify the requirements and procedures that are determined separately for each EPA. For example, the unification of the requirements and procedures to receive the benefits of tariff reduction by using EPAs (rules of origin) reduces companies’ administrative costs and makes it easier to expand the scope of countries in which EPAs can be utilized. Other positive effects of wide-area EPAs include making it easier to apply EPAs to products manufactured in multiple countries within the relevant regions and enabling consolidation of cargoes at distribution hubs within the region and installment shipment of the
cargoes from the hubs.

For the sake of companies doing business abroad, the legal stability of foreign investments is enhanced through commitments made between governments to protecting investment assets and ensuring the freedom of repatriating profits earned through foreign businesses to Japan, restricting or prohibiting the requirement for companies to employ local workers and banning governmental intervention in the amount of fees involved in technology transfer contracts between private sector companies and the effective period of such contracts.

Regarding services businesses conducted abroad, in order to make it easier for Japanese companies to do business abroad, rules have been set that stipulate the obligations, for example, to prohibit restrictions on foreign investment and the requirement for the establishment of facilities and to ensure the transparency of procedures through the public comment program and other means.

In addition, EPAs concluded by Japan contain a provision concerning the establishment of “Committee for the Improvement of the Business Environment” as a framework to improve the business environment in the contracting countries. “Committee for the Improvement of the Business Environment” is comprised of representatives of governments and private companies, providing opportunities for the Japanese side to discuss various business issues faced by Japanese companies operating abroad directly with government officials of the counterpart countries. The achievements made so far through “Committees for the Improvement of the Business Environment” include the conclusion of an agreement with Mexico on the establishment of an anti-counterfeiting hotline, and an agreement with Malaysia on strengthening patrols and increasing surveillance cameras installed in the country to enhance security.

(2) Economic partnerships with multiple countries

(A) Japan-EU EPA (under negotiation)

Among Japan’s economic partnership initiatives with major countries and regions outside the Asia-Pacific region are Japan-EU EPA negotiations. Japan and the EU are important economic partners that together account for around 10% of the world’s population, around 30% of the value of global trade (20% if intra-EU trade is excluded), and 30% of global GDP. Accordingly, it would be fair to say that the Japan-EU EPA would not only bring about economic growth for Japan by expanding trade and investment between it and the EU but also lead the effort to create rules for trade and investment worldwide.

Previously, the EU concluded FTAs mainly with neighboring countries and former colonial territories of the EU member states, but since the 2000s, it has placed emphasis on FTAs with countries which offer market potential or which retain trade barriers, including the ROK. The EU is also moving to strengthen trade relationships with developed countries. For example, it has been negotiating with the U.S. concerning the Transatlantic Trade and Investment Partnership (TTIP) since July 2013, and it concluded negotiations with Canada about the Comprehensive Economic and Trade Agreement (CETA) in September 2014.

Regarding the Japan-EU EPA, at the May 2009 Japan-EU Summit, summit leaders announced their intention to cooperate in strengthening economic integration between Japan and the EU. A joint High-Level Group was established at the Japan-EU Summit in April 2010, and the leaders agreed to begin a
joint examination of ways of comprehensively strengthening and integrating economic relations between Japan and the EU. Based on the results of work by the joint High-Level Group in a wide range of fields, summit leaders agreed at the May 2011 Japan-EU Summit to begin the process for negotiations. They decided that the Japanese government and the European Commission would together carry out a scoping exercise, to define the framework (scope and level of ambition of negotiations).

Following the completion of the scoping exercise in 2012, at a meeting of the Foreign Affairs Council in November that year, the European Commission received a mandate from EU member countries to proceed with negotiations. Upon receipt of this mandate, Japan and the EU agreed during the March 2013 Japan-EU Summit Telephone Talks to launch negotiations concerning a Japan-EU EPA and a political agreement (which is now called a Strategic Partnership Agreement [SPA]). Between May and June 2014, the European Commission conducted the one-year-on review as an internal EU process and decided to continue the negotiations. After the start of negotiations in April 2013, 16 rounds of negotiations were held by the end of May 2016, with a view to reaching an agreement in principle at the earliest possible time in 2016.

Reference: Press release concerning the Japan-EU Summit Meeting (November 5, 2015, Antalya)

President Juncker explained that he attaches importance to the negotiations on the Strategic Partnership Agreement (SPA) and the Economic Partnership Agreement (EPA) with Japan, a strategic partner for the EU, and that there is a need to accelerate the negotiations. Prime Minister Abe replied that there has been certain progress, but there are still areas where further progress in the discussions is required. The two leaders shared the view that they would instruct their respective chief negotiators to accelerate the negotiations and continue to do their utmost efforts to reach an agreement in principle this year, and, if not, to achieve such agreement at the earliest possible time over the course of the following year.

Source: Website of the Ministry of Foreign Affairs of Japan

On May 3, 2016, Prime Minister Shinzo Abe held Japan-EU Leaders Meeting with President Donald Tusk of the European Council and President Jean-Claude Juncker of the European Commission. The Japanese and EU leaders agreed to instruct their respective negotiators to accelerate the ongoing negotiations between Japan and the EU as strategic partners to reach agreement in principle as soon as possible during this year on the Economic Partnership Agreement. On May 26, on the occasion of the G7 Ise-Shima Summit, Prime Minister Shinzo Abe, President Donald Tusk of the European Council, President Jean-Claude Juncker of the European Commission, President François Hollande of the French Republic, Chancellor Angela Merkel of the Federal Republic of Germany, Prime Minister Matteo Renzi of the Italian Republic, and Prime Minister David Cameron of the United Kingdom issued the Joint Statement on the Japan-EU Economic Partnership Agreement, reaffirming their strong commitment to reach agreement on the Japan-EU EPA as early as possible in 2016.

"We, the Leaders of Japan, the European Union, France, Germany, Italy and the United Kingdom, in the margins of the G7 Summit in Ise-Shima welcome the view shared by the leaders of Japan and the European Union on the occasion of their meeting on 3 May 2016 to instruct their respective negotiators to accelerate the negotiations on the Japan-EU Economic Partnership Agreement (EPA)/Free Trade Agreement (FTA) and reaffirm our strong commitment to reach agreement in principle as early as possible in 2016.

"We commend the work of our negotiators over the last 3 years, and for the substantial progress already made. With our full backing, the negotiators are entrusted to make the efforts necessary in the coming months to move forward with the negotiations, paving the way for reaching agreement encompassing all key issues including all types of tariffs and non-tariff measures, in line with the timeline committed above in a constructive manner, based on mutual trust, toward a comprehensive, high-level and balanced agreement which further consolidates our solid trade and economic partnership.

"Recognizing the strategic importance of the Japan-EU EPA/FTA, we remain committed to creating a free, fair and open international trade and economic system, which will promote stronger, sustainable and balanced growth and contribute to the creation of more jobs and economic opportunity in Japan and the European Union and to the increase of our international competitiveness."

Source: Website of the Ministry of Foreign Affairs of Japan

(B) Regional Comprehensive Economic Partnership (RCEP) (under negotiation)

The RCEP aims to create a wide-area economic zone that covers about half of the world’s population and accounts for about 30% of its GDP. It is one of the key regional initiatives that will ultimately assist in bringing the FTAAP (Free Trade Area of the Asia Pacific) to fruition.

Advanced supply chains have already been built in East Asia, but further liberalization of trade and investment within the region will play a crucial role in expending and deepening regional economic integration.

If a wide-area EPA covering the whole region is concluded, companies will be able to build production networks that realize optimal strategies for the allocation and siting of production, and it is anticipated that this would strengthen the international competitiveness of industries in East Asia. The standardization of rules and streamlining of procedures would also alleviate the burden on companies making use of EPAs (III-2-1-12).
Figure III-2-1-12  Meaning of participation in RCEP

Integration of supply chain networks in East Asia

- Integration of companies’ supply chains is necessary in order to promote exports to growth markets both within and outside the East Asia region.
- Currently, each EPA has different rules, and this interferes with corporate activities (e.g. rules of origin, etc.). Under the RCEP, the development of cross-border supply chain networks will be promoted by integrating those rules into more simple and easy-to-use ones for companies.

Example 1:
Japanese motor vehicle companies in Thailand import engines and transmissions from Japan, assemble them in Thailand and export the completed vehicles to Australia.

Example 2:
Japanese motor vehicle component companies in Thailand import parts from Japan to manufacture airbags in Thailand and then exports them to India.

Example 3:
Japanese elevator manufacturers in Thailand import lifts from China to manufacture elevators in Thailand and export them to India.

Source: METI

At the November 2012 meeting of the leaders of ASEAN member states and relevant countries, the leaders of the 16 countries concerned (the 10 ASEAN member states, plus Japan, China, ROK, India, Australia, and New Zealand) endorsed the Guiding Principles and Objectives for Negotiating the RCEP (hereinafter referred to as “the Guiding Principles”) and announced the launch of RCEP negotiations.

The Guiding Principles calls for achieving a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement and states that the areas of negotiation concerning RCEP will cover trade in goods and services, and investment, as well as intellectual property, competition, economic and technical cooperation and dispute settlement.

The first round of RCEP negotiations took place in Brunei in May 2013; as well as a plenary meeting of Senior Economic Officials, working group meetings on trade in goods, trade in services, and investment also took place.

Since the first round of negotiations was held, 11 rounds of negotiations and four ministerial meetings (including one interim meeting) were held by February 2016. At the second ministerial meeting held in Myanmar in August 2014, discussions were held on how to proceed with initial offers related to trade in goods and the method of liberalization of services and investment. At the third ministerial meeting held on August 24, 2015, an agreement was reached on the level of initial offers concerning trade in goods. In the tenth negotiating meeting held in October of the same year and the subsequent meetings, specific negotiations started in the three major fields, namely goods, investment and services, in response to the achievements of the ministerial meetings. Currently, in addition to negotiations at the
Trade Negotiating Committee, negotiations are underway about a broad range of areas, including trade in goods and services, investment, intellectual property, competition, economic and technical cooperation, legal and institutional matters, e-commerce, STRACAP (Standards, Technical Regulations and Conformity Assessment Procedures), SPS (Sanitary and Phytosanitary Measures), rules of origin, trade facilitation and customs procedures, finance, and telecommunications. As it was difficult to achieve the goal of concluding the negotiations by the end of 2015, which was set when the negotiations were launched, a joint statement expressing hopes for the conclusion of the RCEP by the end of 2016 was issued at the meeting of the leaders of ASEAN member states and relevant countries in November 2015.

Column 18  About ERIA
ERIA (Economic Research Institute for ASEAN and East Asia) is an international organization comprised of 16 countries in East Asia (10 ASEAN countries, Japan, China, ROK, India, Australia and New Zealand) that was established in Jakarta, Indonesia in June 2008 with the aim of promoting the East Asian economic integration. ERIA is conducting surveys and research and holding a symposium and other events based on the three pillars — deepening economic integration in East Asia, narrowing development gaps and achieving sustainable development — in order to realize an affluent economy and society, and resolve common regional challenges in Asia, which is a global growth center. It presents policy proposals on such occasions as East Asia and ASEAN Summits. ERIA's proposals concerning the ASEAN Economic Community, which was launched at the end of 2015, have been highly appreciated by ASEAN and governments in East Asian countries. ERIA has come to play a significant role in implementing medium- and long-term Japanese policies concerning East Asia through policy proposals regarding the RCEP negotiations and the promotion of infrastructure development. In the future, ERIA is expected to play a more active role in resolving East Asia-wide challenges in a broad range of fields, including the deepening of the ASEAN integration, narrowing of development gaps in the region, resolution of environmental issues, and promotion of innovation.

(C) Japan-China-ROK FTA (under negotiation)
Japan, China, and the ROK are major economic players worldwide, together accounting for about 20% of the world’s GDP and trade value. The Japan-China-ROK FTA is an important regional initiative that would not only encourage trade and investment between the three countries but also help to bring the FTAAP (Free Trade Area of the Asia Pacific) to fruition.

Since the start of the negotiations in March 2013, nine rounds of negotiations among the chief delegates were held to discuss a broad range of areas, including trade in goods, rules of origin, customs procedures, trade remedies, trade in services, investment, competition, intellectual property, SPS (sanitary and phytosanitary measures), TBT (technical barriers to trade), legal provisions, e-commerce, the environment, and cooperation.

At the Japan-China-ROK Trilateral Economic & Trade Ministers' Meeting in October 2015 and the Japan-China-ROK trilateral summit in November of the same year, it was confirmed that the
negotiations should be accelerated in order to realize a comprehensive, high-quality agreement.

(D) ASEAN-Japan Comprehensive Economic Partnership (AJCEP) Agreement (substantive agreement on chapters on trade in services and investment)

Negotiations concerning the ASEAN-Japan Comprehensive Economic Partnership (AJCEP), which is an EPA with all ASEAN member countries, began in April 2005 on the basis of an agreement reached between the relevant leaders in November 2004. Having been signed in turn by each country on April 14, 2008, it has been gradually entering into force between Japan and ASEAN member countries. Negotiations regarding the AJCEP chapters on trade in services and investment began in October 2010, and a substantive agreement on the rules for these was reached after three years. This outcome was welcomed by the leaders of the relevant countries at the ASEAN-Japan Commemorative Summit Meeting in December 2013. The parties concerned will continue to work on the coordination of the remaining technical points and other matters.

(E) Japan-GCC FTA (negotiations postponed)

Negotiations regarding an FTA with the countries of the GCC (Gulf Cooperation Council), which consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates began in September 2006, with two official meetings and four inter-sessional meetings taking place by March 2009. However, negotiations were postponed at the request of the GCC in July that year; Japan is currently lobbying the member countries for the resumption of the negotiations.

This region accounts for approximately 77% (2014) of Japan’s crude oil imports by volume, while the total value of Japan’s exports to that region is approximately ¥2.6 trillion (2014). Furthermore, population growth is giving rise to demand for large-scale infrastructure development, so the public and private sectors in many countries are proactively promoting business in this area. Forming and maintaining friendly relations – including economic relations – with the countries of this region is vital from the perspectives of both the expansion of trade and investment, and Japan’s energy security.

(3) Bilateral economic partnerships

(A) Japan-Mongolia EPA (put into force on June 7, 2016)

Regarding the EPA negotiations between Japan and Mongolia, an agreement in principle was confirmed at the Japan-Mongolia summit in July 2014. At the Japan-Mongolia summit in February 2015, the countries’ leaders signed the Japan-Mongolia EPA and the implementing agreement concerning the EPA. The Japan-Mongolia EPA went into force on June 7, 2016. As the relationship between Japan and Mongolia, which is rich in natural resources, is very close and important, this agreement is an important framework for promoting trade and investment between the two countries. The Japan-Mongolia EPA is the first EPA/FTA concluded by Mongolia. This is an important step toward further strengthening the Strategic Relationship that is advocated in the Japan-Mongolia Joint Statement issued in November 2010.

(B) Japan-Canada EPA (under negotiation)
Four joint studies concerning negotiations on the Japan-Canada EPA were carried out between March 2011 and January 2012, and a report on these studies was prepared. Taking into account this report, the leaders of the two nations agreed at the March 2012 Japan-Canada Summit Meeting that negotiations concerning a bilateral EPA should begin, to pave the way for substantive economic benefits for both countries. The first round of negotiations took place in November 2012, with the seventh round taking place in November 2014.

(C) Japan-Colombia EPA (under negotiation)

With a population of 46 million people, Colombia is a market that is expected to achieve high growth (a growth rate of more than 4% on average over the next five years), so it is hoped that improving the trade and investment environment with an EPA will help to expand imports and exports. Along with promoting the policy of economic liberalization, Colombia has signed an FTA with the ROK, in addition to FTAs with countries in Latin America, the United States, Canada and the EU that have entered into force.

In accordance with an agreement reached at the September 2011 Japan-Colombia Summit Meeting, a joint research project focused on the Japan-Colombia EPA started. The report on the joint study compiled in July 2012 stated that the possible EPA would help to bring significant benefits to both countries. In light of the joint research report, the two countries agreed at the September 2012 Japan-Colombia Summit Meeting that they would hold EPA negotiations and held the first round of negotiations in December 2012.

Subsequently, at the July 2014 Japan-Colombia Summit Meeting, the two countries’ leaders confirmed that they would accelerate the negotiations with the aim of reaching an agreement as soon as possible. By the end of March 2016, 13 rounds of negotiations were held.

(D) Japan-Turkey EPA (under negotiation)

With a population of 77 million, Turkey has an attractive market that is expected to achieve high growth (a growth rate of more than 5% on average over the next five years). The improvement of the trade and investment environment is expected to lead to growth in imports and exports, so there is great interest in this matter among Japanese companies. Japan aims to improve the bilateral trade and business environment between the two countries and develop trade liberalization measures and rules that are not inferior to those under EPAs between Turkey and third-party countries.

In July 2012, Turkey and Japan held the First Japan-Turkey Trade and Investment Summit, at which the two countries agreed to begin joint research concerning the Japan-Turkey EPA. Following two joint research sessions, which were held in November 2012 and February 2013, a joint research report recommending that EPA negotiations be initiated was submitted to the governments of Japan and Turkey in July 2013.

In light of the joint research report, the two countries agreed at the January 2014 Japan-Turkey Summit Meeting that they would begin EPA negotiations and held the first round of negotiations in December of the same year. In January 2016, the fourth round of negotiations was held. The Japan-Turkey EPA is intended to promote exports to Turkey by Japanese companies by quickly leveling
competitive conditions for them and their competitors, including European and ROK companies. It is also intended to improve Turkey’s institutional frameworks related to the investment environment in order to enhance the country’s competitiveness as a hub for companies aiming to export products into and enter markets in the neighboring countries.

(E) Japan-ROK EPA (negotiations suspended)

Although negotiations with the ROK regarding an EPA began in December 2003, they have effectively been suspended since the sixth round of negotiations, which took place in November 2004. However, following the 2008 Japan-ROK Summit Meeting, working-level discussions began with a view to the resumption of negotiations. At the October 2011 Japan-ROK Summit, the two countries agreed to begin the full-fledged working-level discussions required for the resumption of negotiations, and coordination activities, including director-level discussions, have continued with a view to the resumption of negotiations.

(4) Use and revision of EPAs (life cycle)

The previous section described the EPAs/FTAs currently under negotiation and those regarding which an agreement has been reached to begin negotiations. To respond to requests from businesses engaged in global expansion, it is vital not only to undertake initiatives aimed at the conclusion of such new agreements but also to facilitate the utilization of existing EPAs/FTAs and improve (renegotiate) their content.

At present, companies are increasingly making use of the EPAs that Japan has already put into force, so it would be fair to say that they have entered the utilization and operation phase.

In the future, it will be vital to enhance the quality of EPAs by using and revising them throughout what might be termed the “EPA life-cycle.” Initiatives in this regard include:
(i) proactive efforts not only by the government but also by JETRO, the Japan Chamber of Commerce and Industry, and various industry groups to promote broad use of EPAs, increase the rate of use, and facilitate their proper implementation;
(ii) discussions involving representatives of the governments and private sector companies of both countries in such forums as the Committees for the Improvement of the Business Environment; and;
(iii) revision of the agreement in consideration of the use of and the need for existing EPAs.

3. Promoting regional integration and economic growth through APEC

24 Consultations concerning the use of EPAs (for Japanese companies):
https://www.jetro.go.jp/services/advice/
Advisory and other support services for Japanese affiliates abroad (for companies located abroad):
https://www.jetro.go.jp/services/advisor/
25 A designated organization for the issuance of Type 1 specific certificates of origin
http://www.jcci.or.jp/international/certificates-of-origin/
26 Committees on the Improvement of the Business Environment
27 The Japan-Singapore EPA went into effect in 2002 and was revised in 2007. The Japan-Mexico EPA went into effect in 2005 and was revised in 2012.
At the ministerial and summit meetings in 2015, which were chaired by the Philippines, discussions were held concerning the multilateral trade system, promotion of FTAAP and other regional economic integration initiatives, APEC’s growth strategy and cooperation regarding services (Figure III-2-1-13). Regarding the multilateral trade system, a separate document calling for efforts toward making a success of the Tenth WTO Ministerial Conference in Nairobi in December 2015 was issued in order to encourage an early ratification of the agreement on trade facilitation. With respect to the progress in regional economic integration, the APEC countries reaffirmed the vision of the Pathways to FTTAP, which prescribes that the FTAAP should be pursued as a comprehensive free trade agreement based on ongoing regional initiatives and that FTAAP should be a high-level partnership and deal with next-generation trade and investment challenges. In relation to this, they called for early conclusion of the RCEP negotiations in consideration of the progress in the TPP negotiations toward an agreement in principle. Regarding services, the APEC Services Cooperation Framework was formulated, setting forth the principles and direction of services cooperation within APEC. In addition, the APEC leaders instructed that a roadmap covering actions that should be taken and benchmarks and goals that should be achieved by 2025 should be formulated in 2016. They also welcomed actions plans concerning manufacturing-related services and environmental services, which were prepared under Japan’s leadership.
Concerning APEC’s growth strategy, the APEC Strategy for Strengthening Quality Growth, which was based on the APEC Growth Strategy, formulated in 2010, and which also included the viewpoints of institution building, social cohesion and environmental impact was adopted.

Concerning comprehensive connectivity, Japan is promoting quality infrastructure and is conducting initiatives to contribute to strengthening regional connectivity. In particular, Japan reviewed legal systems related to infrastructure development investments in individual economies from the viewpoint of the quality of infrastructure and proposed a system to provide capacity building assistance in accordance with the needs for such assistance that have been thus identified. This proposal was welcomed in a ministerial statement.

In 2016, with Peru serving as the chair, discussions are being held concerning four priority challenges — (i) advancing regional economic integration and quality growth, (ii) enhancing the regional food market, (iii) modernizing micro, small and medium-size enterprises in the Asia-Pacific region and (iv) developing human capital — under the theme of “Quality Growth and Human Development.” The results of the discussions are scheduled to be summarized at the APEC leaders’ meeting and ministerial meetings to be held in Lima in November.

Japan will promote and strive to further develop regional economic integration initiatives, including the FTAAP, in the Asia-Pacific region by implementing specific initiatives concerning the liberalization and facilitation of trade in services, including manufacturing-related services and environmental services, and the promotion of quality infrastructure development and investment while steadily building on the results of the debate based on the Yokohama Vision, which was adopted in 2010. Based on that, the government will implement trade policies that will bring affluence and vitality to Japan by tapping into this region’s strong growth potential, strong demand for infrastructure and the huge purchasing power of the middle class.

4. Investment-related treaties concluded by Japan
(1) Situation surrounding investment-related agreements concluded by Japan
In recent years, the number of Japanese companies owning business bases abroad has been increasing, reaching 68,573 in 2014. The amount of foreign direct investments made by Japan has increased by a factor of about 2.6 compared with 2000, and since fiscal 2005, the income account balance has been recording better figures than the trade balance.

As shown above, foreign investments by Japan are growing further. At the same time, amid the rapidly expanding global market, mainly in emerging countries, Japanese companies and Japanese affiliates abroad are exposed to intensive competition to capture foreign markets. In order to make Japan’s economic growth stronger and more sustainable, it is necessary for the country to further improve the business environment around the world with a view to achieving development as a trade and investment-oriented country. From this viewpoint, investment treaties and economic partnership agreements (EPAs)/free trade agreements (FTAs) containing investment chapters (hereinafter referred to as “investment-related treaties”), which prescribe the protection of investors and investment assets, enhancement of regulatory transparency and the expansion of opportunities, among other matters, are becoming increasingly important as investment support tools. As well as tax treaties and social security treaties, investment-related treaties are important for resolving problems related to cross-border movements of capital and people, and companies’ needs for such treaties are strong.

Investment-related treaties are expected to play a role in improving the investment environment that extends across the domestic and foreign markets and promoting overseas business expansion by Japanese accompanies and foreign direct investments in Japan, in addition to ensuring appropriate protection of Japanese investors abroad. The government of Japan intends to improve the investment environment by further accelerating the conclusion of investment-related treaties as well as the revision of existing treaties while implementing other economic policies.

In 1978, Japan’s first investment treaty, which was concluded with Egypt, went into effect. Since then, Japan has concluded investment-related treaties mainly with the Asian countries with which it has important economic relationships. By now, Japan has signed 41 investment-related treaties, of which 35 have gone into effect (as of June 2016) (Table III-1-2-1-1). Japan has started earnest efforts to conclude investment-related treaties relatively recently, but it is necessary to more actively promote negotiations about the conclusion of new treaties and revision of existing ones in accordance with the needs of Japanese industry and the circumstances of the counterpart countries.

<table>
<thead>
<tr>
<th>Table III-2-1-14</th>
<th>Investment-related treaties concluded by Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Partner country/region</strong></td>
<td><strong>Signed</strong></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>March 1, 1982</td>
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<tr>
<td>China</td>
<td>August 2, 1988</td>
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<tr>
<td>Turkey</td>
<td>February 12, 1992</td>
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<tr>
<td>Hong Kong</td>
<td>May 5, 1997</td>
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<tr>
<td>Pakistan</td>
<td>March 10, 1998</td>
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<tr>
<td>Country</td>
<td>Agreement Type</td>
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<td>----------------------------------------------</td>
<td>-----------------------------------------------------</td>
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<tr>
<td>Russia</td>
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<tr>
<td>Mongolia*1</td>
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<tr>
<td>Singapore (Economic Partnership Agreement)</td>
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<tr>
<td>ROK</td>
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<td>Viet Nam</td>
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<td>Mexico (Economic Partnership Agreement)</td>
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<td>Malaysia (Economic Partnership Agreement)</td>
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<td>Thailand (Economic Partnership Agreement)</td>
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<td>Cambodia</td>
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<td>Brunei Darussalam (Economic Partnership Agreement)</td>
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<td>Indonesia (Economic Partnership Agreement)</td>
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<td>Uzbekistan</td>
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<td>Peru</td>
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<tr>
<td>Viet Nam (Economic Partnership Agreement)*2</td>
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<tr>
<td>Switzerland (Economic Partnership Agreement)</td>
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<td>India (Economic Partnership Agreement)</td>
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<tr>
<td>Peru (Economic Partnership Agreement)*3</td>
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<tr>
<td>Papua New Guinea</td>
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<td>Colombia</td>
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<td>Kuwait</td>
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<tr>
<td>Japan-China-ROK</td>
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<td>Iraq</td>
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<td>Saudi Arabia</td>
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<td>Mozambique</td>
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<td>Myanmar</td>
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<td>Kazakhstan</td>
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<td>Uruguay</td>
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<td>Ukraine</td>
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<td>Oman</td>
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<tr>
<td>TPP (Economic Partnership Agreement)</td>
<td></td>
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<tr>
<td>Iran</td>
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</table>

Note 1: Terminated on 7 July 2016 when Japan-Mongolia Economic Partnership Agreement became
effective. As for investments and profits acquired before termination, however, some of the regulations of the Investment Treaty are valid for 15 years from the date of termination.

Note 2: Incorporates the content of the Japan-Viet Nam Investment Treaty, which entered into force on December 19, 2004.

Note 3: Incorporates the content of the Japan-Peru Investment Treaty, which entered into force on December 10, 2009.

Note 4: In addition, an agreement with Taiwan was signed on September 22, 2011, by the private sector bodies that act as a conduit for bilateral relations, and the procedures were completed on January 20, 2012.

Note 5: As of June 2016.

Source: METI

(2) New initiatives related to investment-related treaties (formulation of an action plan concerning investment-related treaties)

In May 2016, the Action Plan for improvement of investment climate through promoting the conclusion of investment-related treaties was formulated. From now on, Japan will promote the improvement of the investment climate through the conclusion of investment-related treaties based on this plan. As the overview of the action plan, first, Japan aims for signature and entry into force of investment-related treaties with 100 countries and regions by 2020 through intensive efforts to promote the conclusion of such treaties. Second, on the selection of negotiating partners, Japan will consider negotiation partners every year by comprehensively taking into account actual investment from Japan and prospects of its expansion in the counterpart countries and regions, requests from Japanese industry, consistency with Japan’s diplomatic policy and the needs and situations of the counterpart countries and regions. Third, on the negotiations concerning investment-related treaties, Japan will pursue high-quality treaties while bearing in mind the “investment liberalization” treaties that require non-discriminatory treatment from the stage of new entry into the investment market. On the other hand, Japan will negotiate flexibly, valuing speed and taking into account the specific needs of the Japanese industry and the situations of the counterpart countries. Fourth, Japan will actively promote negotiations concerning bilateral and plurilateral investment-related treaties, and at the same time, will contribute to international discussion for improvement of the investment climate in multilateral forums. Fifth, Japan will aim to achieve economic growth through the creation of an investment climate suited to new business activities by considering the inclusion of such sectors as trade in services and e-commerce in investment-related treaties in consideration of economic and social changes in recent years.

(3) Tasks for the Future

Disputes concerning investment-related treaty provisions are subject to state-to-state dispute settlement (SSDS) or investor-to-state dispute settlement (ISDS) procedures, under certain conditions. The provisions concerning SSDS in Japan's investment-related treaties prescribe procedures for resolving disputes between the contracting parties regarding the interpretation and application of the investment-related treaty concerned.
In the event that an investor incurs loss or damage to his/her investment due to a breach of the investment-related treaty by the host country, ISDS provisions make it possible to refer the matter to international arbitration in accordance with the ICSID\textsuperscript{28} Arbitration Rules or the UNCITRAL\textsuperscript{29} Arbitration Rules.

According to UNCTAD, although just 14 cases of ISDS based on international investment-related treaties (number of cases referred to an arbitration body) were brought between 1987, when the first case\textsuperscript{30} was brought, and 1998,\textsuperscript{31} there was a sharp rise in the latter half of the 1990s\textsuperscript{32} and the total number of cases stood at 608 as of the end of 2014. On the other hand, Japanese companies have resorted to the investment arbitration procedure in just two publicly announced cases.\textsuperscript{33} According to a private-sector survey,\textsuperscript{34} 80\% of major Japanese companies have never used international commercial arbitration. Currently, Japanese companies are not actively using international investment arbitration and international commercial arbitration.

In international arbitration cases based on an investment-related treaty, there is a tendency for the arbitral tribunal to refer to similar arbitral awards made in the past although arbitral awards are not biding as precedents. While a collection of precedents has been built up, as the number of cases of international arbitration based on investment-related treaties has surged since 2000, there are quite a few points on which awards vary. Arbitral awards in international investment arbitration could affect Japan’s future strategy in investment-related treaty negotiations. Another task for the future is to establish an environment that enables international arbitration to be proactively utilized by Japanese companies as a means of settling disputes with the host country.\textsuperscript{35}

International rules concerning corporate activities are

\textsuperscript{28} International Centre for Settlement of Investment Disputes: A permanent arbitration body that is a member of the World Bank Group. It is based in Washington, D.C.
\textsuperscript{29} United Nations Commission on International Trade Law: Based in Austria (Vienna).
\textsuperscript{30} Asian Agricultural Products Limited v. Republic of Sri Lanka (ICSID Case No. ARB/87/3).
\textsuperscript{31} UNCTAD (2005), INVESTOR-STATE DISPUTES ARISING FROM INVESTMENT TREATIES: A REVIEW
\textsuperscript{32} Growing interest in investment arbitration is believed to have been triggered by the Ethyl case under NAFTA (a case brought by a U.S. company on the grounds that the Canadian government’s environmental regulation constituted “expropriation” under NAFTA. The Canadian government paid the company a sum of money to settle the case out of court) in 1996.
\textsuperscript{33} The first was a case in 1998 relating to measures taken by the Czech government against a Czech bank that the London-based subsidiary of a Japanese securities company had acquired via a corporation established under Dutch law. It was submitted to arbitration under the United Nations Commission on International Trade Law (UNCITRAL) Arbitration Rules, based on the bilateral investment treaty between the Czech Republic and the Netherlands. In the second case, a Japanese company applied for arbitration at the International Centre for Settlement of Investment Disputes (ICSID) in 2015 concerning a change made by the government of Spain to a renewable energy-related system based on the Energy Charter Treaty.
\textsuperscript{34} Nihon Keizai Shimbun, January 20, 2014, p.16
\textsuperscript{35} Many have highlighted concern that ISDS procedures impede the public interest, but there are those who take the view that such opinions are not based on an accurate understanding of arbitral awards. See pp.31-33 of the Report on Arguments Concerning the Issues Connecting the Investment Treaty Arbitration System (ISDS) and the Public Interest, compiled by the Special Subcommittee on International Investment Disputes, within the ADR (Alternative Dispute Resolution) Center of the Japan Federation of Bar Associations. This report outlines the frequently-cited Ethyl case and Metalclad case, and points out certain problems with the arguments in question (it should be noted that the report was compiled by the aforementioned Special Subcommittee as a reference material for discussions within the Japan Federation of Bar Associations and does not represent the opinion of the Federation).

The analysis in the report states, “As can be understood from close scrutiny of both cases, neither ISDS
dynamic, rather than being set in stone, so international investment arbitration and international commercial arbitration are important as fields for the establishment of rules. Proactive involvement of Japanese academicians and practitioners in international investment arbitration and international commercial arbitration is also desirable from the perspective of influencing the formation of international business rules.

In utilizing international arbitration, it is also vital to put in place rules and places for arbitration. Hitherto, Singapore and Hong Kong have been the main places of arbitration in Asia, but ROK has been focusing its energies on developing the arbitration environment in recent years, establishing the Seoul International Dispute Resolution Center in May 2013. These countries are striving to promote the development of the arbitration environment as an essential measure for them to serve as international business hubs. As a result of such efforts, the number of arbitration cases in the ROK is on an uptrend.

5. Tax conventions / social security treaties
(1) Tax conventions
(A) The role of tax conventions
Tax conventions adjust the scope of taxable income related to investment and economic activities between two countries, to avoid international double taxation. Concluding such conventions also establishes a framework for a Mutual Agreement Procedure between the tax authorities of both countries, as well as for the exchange of information and assistance in the collection of taxes, thereby helping to resolve disputes in the taxation field and prevent tax evasion and avoidance.

It is hoped that concluding tax conventions will not only ensure the legal stability of the taxation of companies operating overseas but also contribute to the facilitation of repatriation of income earned overseas by Japanese companies to Japan, so as to further promote investment and economic exchange.

(B) Conclusion of new tax-related conventions and revision of existing conventions
As of March 1, 2016, Japan had concluded 65 tax-related conventions, applicable to 96 countries and regions.

In recent years, new tax conventions have been concluded with resource-rich countries such as the
Middle East, and existing conventions with developed countries have been revised. Tax conventions focused primarily on the exchange of information to aid in preventing international tax evasion and avoidance have also been concluded. In particular, as for revisions of conventions with developed countries, such as New Zealand, the U.S., Sweden, the UK, and Germany, an arbitration system has been introduced to encourage a resolution in which a third party that is not the tax authority is involved, if the case is not settled after a fixed period of time from the start of the mutual agreement procedure between tax authorities while tax at the source principle for investment income (such as dividends or interest) is reduced or waived. These revisions also cover the reduction or waiving of taxation on investment income (dividends, interest, etc.) in the source country. Japan introduced into tax conventions concluded with the UK and Germany a provision stipulating that, when calculating the business income attributable to the permanent establishment (branch office etc. of a foreign corporation or nonresidents), a more stringent view would be taken toward internal transactions between the head office and branch office, based on the “arm’s length” principle, in accordance with the 2010 revision of the OECD Model Tax Convention.

It will be vital to expedite initiatives for upgrading and expanding the network of tax-related conventions that assist in supporting the overseas expansion of companies, taking into consideration the overall perspective in terms of the needs of Japanese industry and appropriate means of securing Japan’s right of taxation. More specifically, as well as moving forward with the conclusion of new conventions with countries with which Japan has not previously done so, it will be necessary to revise existing conventions, enhancing them by such means as clarifying the scope of income from overseas business activities that is subject to taxation, lowering the tax rate limit for the source country of investment income, and introducing arbitration systems.

(2) Social security treatments

As international personnel exchanges become increasingly active in line with the expansion of overseas activities by Japanese companies, the following problems have emerged regarding Japanese nationals dispatched from Japan to other countries and foreign nationals dispatched to Japan from abroad: (i) such people may have to make double payments of social security premiums due to double enrollment with public pension and other systems and (ii) such people may make payments of premiums abroad without becoming eligible for future provision of benefits if they fail to meet the requirement concerning the duration of the enrollment period necessary for eligibility for benefits. Concerning such problems, social security treaties (i) prevent double payments of premiums by making enrollment adjustments (application adjustments) between Japanese and foreign public pension systems and (ii) secure eligibility for receiving pension benefits by aggregating the periods of enrollment with Japanese and foreign pension systems (aggregation of the insurance periods). As a result, it is expected that the burden on Japanese companies and people will be reduced, leading to the facilitation of personnel exchanges with the counterpart countries and deepening of bilateral relationships, including economic exchange.

Social security treatments so far concluded mainly prescribe the following two matters:
(a) Application adjustments

When the period of dispatch of employees to the counterpart country is expected not to exceed a certain length (usually five years), the application of laws and regulations of the counterpart country is waived and only domestic laws and regulations are applied during the same period. When the period of dispatch is expected to exceed a certain length, only laws and regulations of the counterpart country are applied.

(b) Aggregation of insurance periods

It is so arranged that if the aggregated length of periods of enrollment with pension systems in both countries is longer than the necessary minimum period, pension benefits are paid from each country’s system in accordance with the length of the period of enrollment with each system.

As each country designs its social security system in a way that reflects its own circumstances, the contents of the system differ from country to country. As a result, the scope and contents of the system covered by bilateral treaties differ from treaty to treaty. When companies dispatch employees to other countries, they need to check the contents of the relevant social security treaty and the contents of the social security systems of Japan and the country to which the employees are dispatched.

6. Formation of rules

(1) Growing initiatives to form global rules

In recent years, in line with the expansion of companies’ overseas activities, international rules, including not only international agreements such as the WTO agreements and EPAs but also domestic laws in other countries, voluntary rules set by industry groups and procurement standards set by multinationals, are having increasing effects on corporate activities. As a result, in the United States and Europe, there are increasingly active moves by companies to gain a competitive advantage by proactively forming broad international rules that affect corporate activities. In particular, there are many initiatives aiming to capture foreign markets, mainly in emerging countries, through strategic involvement in the formation of international rules that would lead to appropriate evaluation of non-price competitiveness possessed by companies, such as the quality of products and services (Column 19).

(2) Approach to international rule-making

In many cases international rule-making starts with the identification of various problems and the formularization of them through concepts and principles. If Japan fails to participate in discussions about such matters from the initial stage, it will be unable to take part in the process of rule-making in an effective manner. In that case, even if Japan has superior products and services, it may be unable to fully exercise its advantage because it has to follow existing rules. Therefore, in order to prevent such a situation, both the Japanese government and companies need to actively participate in the designing of institutional programs, such as identifying problems and developing concepts, through discussion from the initial stage so as to create institutional programs and mechanisms that appropriately evaluate Japanese products and services. When doing so, it is important to form international rules that
appropriately evaluate not only the economic value but also the non-price competitiveness of products and services contributing to the resolution of social challenges related to the environment and safety in view of the growing importance of such social challenges around the world.

(3) Example case in Japan

Here, the change in the international classification concerning the labeling of air conditioner coolant gases is discussed as an example case of Japan’s involvement in the formation of international rules. In order to protect the ozone layer, a shift to alternative fluorocarbons is ongoing in the use of air conditioner coolant gases. However, the Global Warming Potential (GWP) differs depending on the type of fluorocarbon. The Globally Harmonized System of Classification and Labelling of Chemicals (GHS), which is used as a reference by countries in their legal regulation of transportation, storage, construction, labor safety, etc. related to chemicals, uses ignition concentration alone as a classification criterion, and as a result, gases which do not easily spread flames due to a low combustion speed even if they are ignited are classified in the same category as highly dangerous gases with a high combustion speed. This is promoting excessive regulation in various countries and obstructing the diffusion of some coolant gases with a relatively low risk and a low GWP. Therefore, in response to a request from Japanese companies, a working group was established in 2014 at the United Nations based on a proposal jointly made by the governments of Japan and Belgium, and discussions are now ongoing. The formation of such new rules is expected to strengthen the competitiveness of coolant gases with a low GWP, regarding which Japanese companies have an advantage.

(4) Summary

Incorporating the viewpoint of international rule-making into business management is one of the critical keys to the future survival of Japanese companies in the global market. More specifically, it is necessary to grasp the trend in international rule-making, analyze the relationship between businesses and international rules, develop optimal internal systems by positioning international rule-making as a business management strategy, propose agenda concerning international rule-making and forge consensuses with stakeholders. On the other hand, there are limits to activities that can be conducted by companies, so governmental approaches are essential. Therefore, the government of Japan will continue to raise awareness about the importance of international rule-making and to support Japanese companies’ activities by approaching various actors, including foreign governments, in accordance with the phase of rule-making.
(A) An auto parts maker’s involvement in the introduction of the obligation to install the Antilock Brake System

In India, there was previously strong opposition, mainly from automakers, to introducing the obligation to install ABS, which would lead to a cost increase. “Auto parts maker B” was in a position to exert its influence on the opinion of industry groups because one of its officials was serving as deputy representative of the Automotive Component Manufacturers Association of India (ACMA) while another was serving as an executive of the Indo-German Chamber of Commerce in India. In addition, “B” was donating more than 150,000 dollars annually to the FIA Fund, in which the Fédération Internationale de l’Automobile (FIA) invested. “B” strived to create a favorable environment for the introduction of the obligation to install ABS by using the FIA fund to support a traffic safety campaign called Make Roads Safe, which has been conducted in India and other emerging countries since 2006 and organizing the Safety Drive Symposium, to which it invited senior officials of India’s standardization organization, officials of the Indian auto parts industry and the Duke of Kent of the British Royal Family. Partly because of such initiatives, in June 2013, the government of India decided to introduce the obligation to install ABS in buses and trucks in 2015. As a result, new demand for ABS was created in the Indian bus and truck market, resulting in a situation where sales were likely to increase for “B,” which has an advantage in ABS-related parts.

(B) A food package maker’s involvement in the establishment of procurement standards for major food makers.

In the UK food industry, there was not any particular detailed rule concerning packages under the standard for methods of food risk management (ISO22000: food safety management), and the needs were growing for the formulation of a detailed standard covering such items as the use of chemicals, materials processing and exclusion of harmful substances. Seizing this opportunity, “food package maker A,” together with food and beverage makers and major grain companies as well as other food package makers, started in 2010 to prepare a publicly available specification (PAS) as prescribed by the British Standards Institution (BSI) under the sponsorship of an influential non-government organization (NGO). In 2011, the BSI issued PAS223 (prerequisite programs and design requirements for food safety in the manufacture and provision of food packaging). This benefits food and beverage makers by enabling them to lower the cost of selecting suppliers of high-quality food packages by paying attention to the acquisition or non-acquisition of the PAS223 certification as the basis of the selection, so the move to require the acquisition of the PAS223 certificate as the prerequisite for business transactions is growing. As described above, “A,” in cooperation with an NGO, has turned an issue in which it has a significant stake, into a cross-sectoral agenda item and has created a business environment that is expected to lead to an increase in the supply of its products by conducting a study together with food and beverage makers, which are its clients, starting in the initial stage of the process of formulating the standard.
(C) The German Association of the Automotive Industry’s proposal for revising the excise tax in Thailand

In Thailand, before the German Association of the Automotive Industry (VDA) called for the revision of the excise tax, the tax was imposed depending on the vehicle structure – whether the vehicle was a hybrid car or a diesel car, for example – as a way to promote the diffusion of eco-friendly vehicles. Under this system, consideration was not given to environmental technology performance, such as CO2 emission volume in the driving mode, so gasoline- and diesel-powered vehicles provided by German automakers were subject to a higher rate of tax than hybrid vehicles, putting the companies at a competitive disadvantage. Therefore, the VDA proposed several tax system options, including the review of the effectiveness of the proposed tax systems on a CO2 emission basis and the estimate of tax revenues, thereby indicating that such tax systems would not only contribute to environmental preservation but also result in a tax revenue increase for the government of Thailand. In this way, the VDA led the government to decide on the revision of the tax system that would improve the competitive conditions for the German automobile industry. According to media reports, the ensuing tax system revision may be made by the end of 2016. This rule-making initiative narrowed the tax advantage of Japanese automakers over German ones in Thailand, raising the possibility that the latter will expand sales in the Thai market.

7. Initiatives using the WTO’s dispute settlement procedure

Japan has been actively using the WTO dispute settlement procedures in addition to bilateral consultations in order to settle the trade concerns arising from measures taken by other WTO members which are inconsistent with the WTO rules and to develop the rules on a case-by-case basis. Japan has requested consultations as a complaining party in 21 cases. Many of the cases in recent years involve emerging countries as respondents. Of the 18 cases, excluding three ongoing cases, 17 have been settled along the lines of Japan’s claims (as of the end of March 2016). From the viewpoint of developing the rules through the establishment of precedents, Japan has also participated in 162 cases as a third party (third-party participation) and stated its positions concerning important issues for the settlement of disputes.

The following are recent cases which have been referred by Japan as a complaining party to the WTO’s dispute settlement procedure and in which the Ministry of Economy, Trade and Industry has been involved in resolution efforts.

(1) The ROK’s anti-dumping duties on pneumatic valves from Japan

The government of ROK initiated an anti-dumping investigation against imports of pneumatic valves from Japan in February 2014 and started imposing anti-dumping duties in August 2015.

As this measure had a possibility of being inconsistent with the Anti-Dumping Agreement with respect to the determination of an injury and causal relationship, Japan requested consultations in March 2016.

(2) Brazil’s tax advantages concerning automobiles and other products that are discriminatory
against foreign products in favor of domestic ones

The government of Brazil raised the rates of the Industrial Product Tax (IPI) on automobiles by 30% in December 2011 and announced a new automobile policy (Inovar-Auto) in October 2012, offering to reduce the IPI by up to 30% for domestic automakers if they meet certain requirements, such as carrying out certain manufacturing processes in the country and using domestic parts. Furthermore, in the field of information and communication technology, Brazil has introduced a measure to grant a significant reduction of indirect taxes on information and communication products if companies manufacture certain parts and assemble final products using such parts in the country.

As these measures had a possibility of being inconsistent with the national treatment requirement under the GATT, Japan requested consultations with Brazil in July 2015 and for the establishment of a panel in September of the same year. Since the EU had also brought the case to dispute settlement (and requested the establishment of a panel in October 2014), a joint panel was composed and is currently examining the case.

(3) China’s anti-dumping duties on high-performance stainless steel seamless tubes.

In September 2011, the government of China initiated an anti-dumping investigation against imports of high-performance stainless steel seamless tubes (HP-SSST) from Japan and the EU, and started imposing anti-dumping duties in November 2012.

As this measure had a possibility of being inconsistent with the Anti-Dumping Agreement, Japan requested consultations with China in December 2012 and for the establishment of a panel in April 2013 (later, the EU also made a request for the establishment of a panel). In February 2015, the WTO issued a panel report, which upheld Japan’s claim and determined the Chinese measure to be inconsistent with the Anti-Dumping Agreement. However, the panel rejected Japan’s claims concerning some points. Therefore, in May 2015, Japan appealed to the WTO Appellate Body on certain issues of law and legal interpretation in the panel report, and China and the EU also made an appeal later. In October of the same year, the Appellate Body issued the report, which upheld all of Japan’s claims (currently, China is in the process of implementation).

(4) Ukraine’s safeguard measures on motor vehicles

In July 2011, the government of Ukraine initiated a safeguard investigation against imported passenger cars (passenger cars with engine displacement of between 1,000 c.c. and 1,500 c.c. and between 1,500 c.c. and 2,200 c.c.) and started to apply safeguard measures in April 2013.

This measure had a possibility of being inconsistent with the Safeguards Agreement because there were defects in the approval of the requirements for imposing the measure and also because an increase in imports was recognized even though there was a sharp decline in the import volume during the investigation period. Therefore, Japan requested consultations with Ukraine in October 2013 and for the establishment of a panel in February 2014. In June 2015, the WTO issued a panel report which upheld all of Japan’s claims, so Ukraine revoked the safeguard measure at the end of September of the same year.
(5) Argentina’s import restrictions

The government of Argentina introduced a non-automatic licensing system in November 2008 and followed by import-export balancing requirements against importers. In February 2012, it became necessary for importers to make a prior application concerning imported products and obtain approval for importation. However, as the requirements for the approval were not specified, there was the possibility that this system was being operated arbitrarily at the discretion of the authorities. Although the non-automatic licensing system was abolished in January 2013, the other measures were maintained.

As these measures were possibly inconsistent with the ban on restrictions on imports and exports under the WTO agreements, Japan requested consultations in August 2012, along with the US, the EU and Mexico (though Mexico withdrew its request for the establishment of a panel), and requested for the establishment of a panel in December of the same year. In August 2014, the WTO issued a panel report upholding all of the claims by Japan, the US and the EU. Even though Japan’s claims were upheld, Japan appealed to the AB regarding certain issues concerning law and the interpretation of the panel. In January 2015, the WTO issued the Appellate Panel’s report, which supported the panel report’s ruling. Japan will keep a careful watch on the situation so as to ensure that Argentina will promptly redress the measures to bring them into conformity with the recommendations made by the DSB.