

Part III Policies

Chapter 1 Development of free, fair and high-level trade rules

In Part II, we described the drastically changing global economy. In the midst of the change, it is becoming increasingly important to establish free, fair and high-level trade rules. In 2017, Japan made significant progress in this respect, as it signed TPP11 and successfully concluded the negotiations over the Japan-EU EPA, for example.

Chapter 1 will describe Japan's initiatives to establish free, fair and high-level trade rules, including the recent trends concerning mega-FTAs, the Japan-U.S. economic relationship, the WTO, G7, G20, the OECD, and APEC.

Chapter 2 will describe Japan's initiatives conducted mainly in fiscal 2017 with respect to China, the ASEAN-Pacific region, India, Russia, the Middle East and Africa, all of which were discussed in Part II in this white paper.

Regarding last year's White Paper on International Economy and Trade, in which the importance of an inclusive trade policy to expand the scope of people who enjoy the benefits of trade was discussed, Chapter 3 will explain the contents of the "Comprehensive TPP-related Policy Framework." The framework was compiled in order to enable second-tiers and small and medium-size enterprises (SMEs) to enjoy benefits from the effectuation of the forthcoming effectuation of TPP11 and the Japan-EU EPA. In addition, we will describe the efforts made by the "Consortium for New Export Nation," which supports overseas expansion and food exports of second-tiers and SMEs.

Section 1 Progress in mega-FTAs (CPTPP, Japan-EU EPA, RCEP, etc.)

1. Significance of economic partnership agreements and free trade agreements (EPAs and FTAs)

For export companies in Japan, promoting economic partnerships helps to maintain or increase the competitiveness of exports through the elimination or reduction of tariffs, among other measures. On the other hand, for companies owning investment assets or providing services abroad, economic partnerships put in place an environment that makes it easier to develop their business in other countries. 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. For the sake of companies doing business abroad, the legal stability of foreign investments is enhanced through commitments made between governments to protect investment assets and ensure 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.

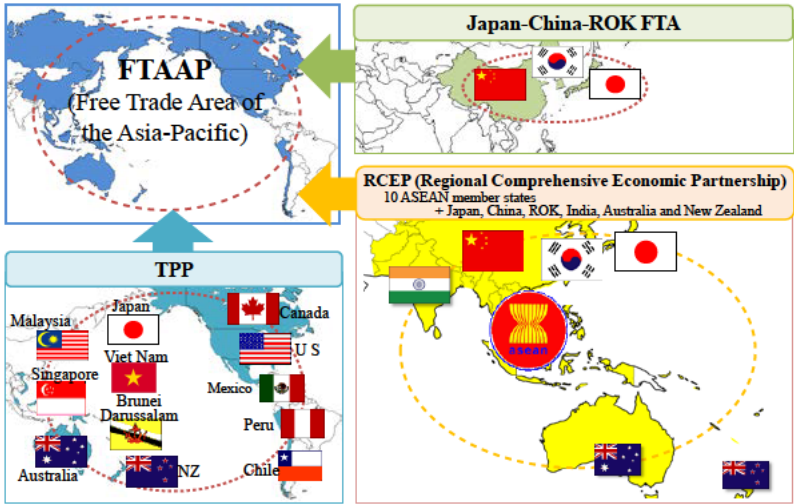
In addition, EPAs concluded by Japan contain a provision concerning the establishment of “Committee for the Improvement of the Business Environment” as a framework to improve the business environment in the contracting countries. “Committee for the Improvement of the Business Environment” is comprised 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. Developments related to EPAs/FTAs

Around the world, many countries have concluded EPAs/FTAs. Between 1948 and 1994, a total of 124 regional trade agreements (RTAs; including FTAs and customs union) were notified to GATT, and since 1995, when the WTO was established, more than 400 RTAs have been notified to the WTO. As of March 30, 2018, the number of RTAs notified to GATT/WTO stood at 456.¹

In the Asia-Pacific region in particular, the negotiations over the Trans-Pacific Partnership (TPP) started in March 2010 (Japan participated in the negotiations from July 2013). In March 2013, the negotiations on the Japan-China-ROK FTA started, and in May, the negotiations on the Regional Comprehensive Economic Partnership (RCEP) started. In addition, using these agreements as a pathway, Japan aims to establish the Free Trade Area of the Asia Pacific (FTAAP) together with APEC member countries/regions (Figure III-1-1-1).

Figure III-1-1-1 Pathway to FTAAP

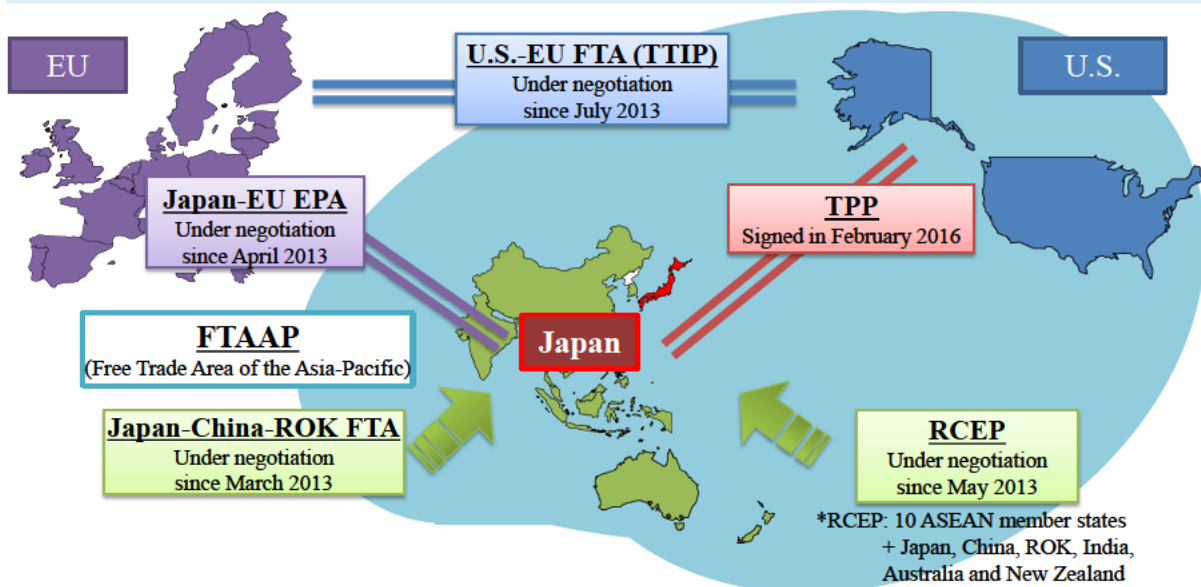


¹ See the WTO’s website (http://www.wto.org/english/tratop_e/region_e/region_e.htm). The number of RTAs cited here is a figure calculated by counting an RTA covering both goods and services as two RTAs in accordance with the WTO’s notification guidelines. If such an RTA is counted as one RTA, the number of EPAs that were in force as of March 30, 2018 is 285.

Moreover, various economic partnership initiatives to link North America, Europe and the Asia-Pacific region are ongoing in parallel. For example, in April 2013, Japan and the EU started negotiations on the Japan-EU EPA, and in July, the United States and the EU started negotiations on the Transatlantic Trade and Investment Partnership (TTIP) (Figure III-1-1-2).

Figure III-1-1-2 Global FTA trends

- As well as the Japan-EU EPA, the U.S.-EU FTA (TTIP) is under negotiation.
- In the Asia-Pacific region, initiatives such as the Japan-China-ROK FTA, the RCEP (*) and the TPP are in progress.
- The conclusion of high-level EPAs/FTAs between advanced economies will facilitate the development of worldwide rules for trade and investment.



Source: METI.

Through those multilayered economic partnerships, Japan must aim to expand a free and fair market throughout the world, including the Asia-Pacific region, as a standard-bearer of free trade.

3. Initiatives related to Japan’s economic partnerships

By March 2018, Japan has signed and/or put into force 17 EPAs and FTAs with 20 countries. In addition, Japan is now conducting negotiations concerning other EPAs/FTAs, including RCEP and the Japan-China-ROK FTA (Figures III-1-1-3 and III-1-1-4).

Figure III-1-1-3 History of Japan's EPA negotiations

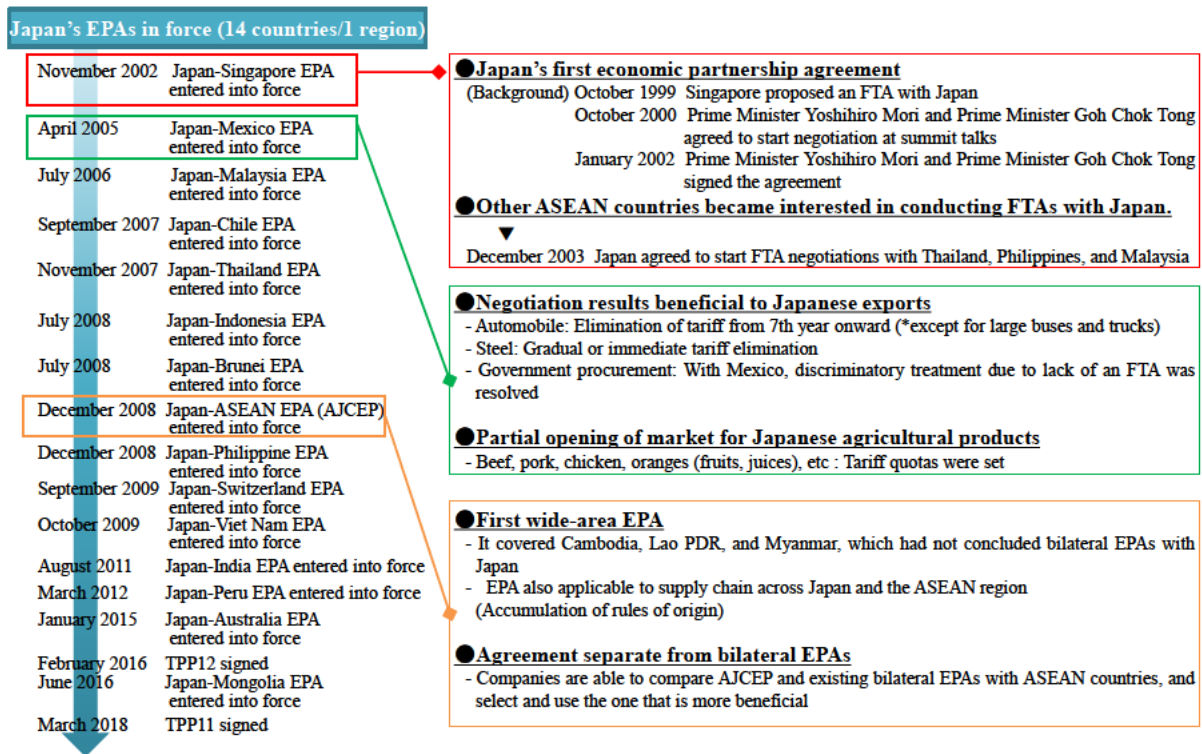
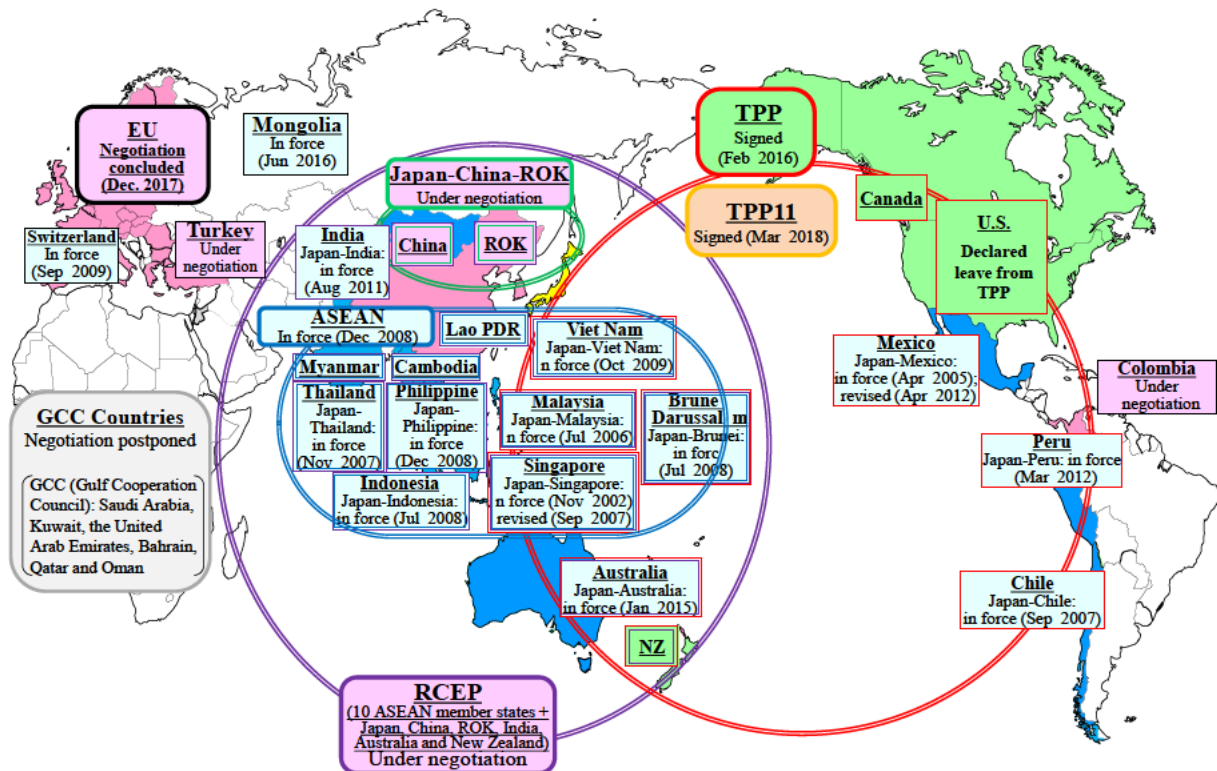


Figure III-1-1-4 Current situation of economic partnerships with Japan (as of March 2018)

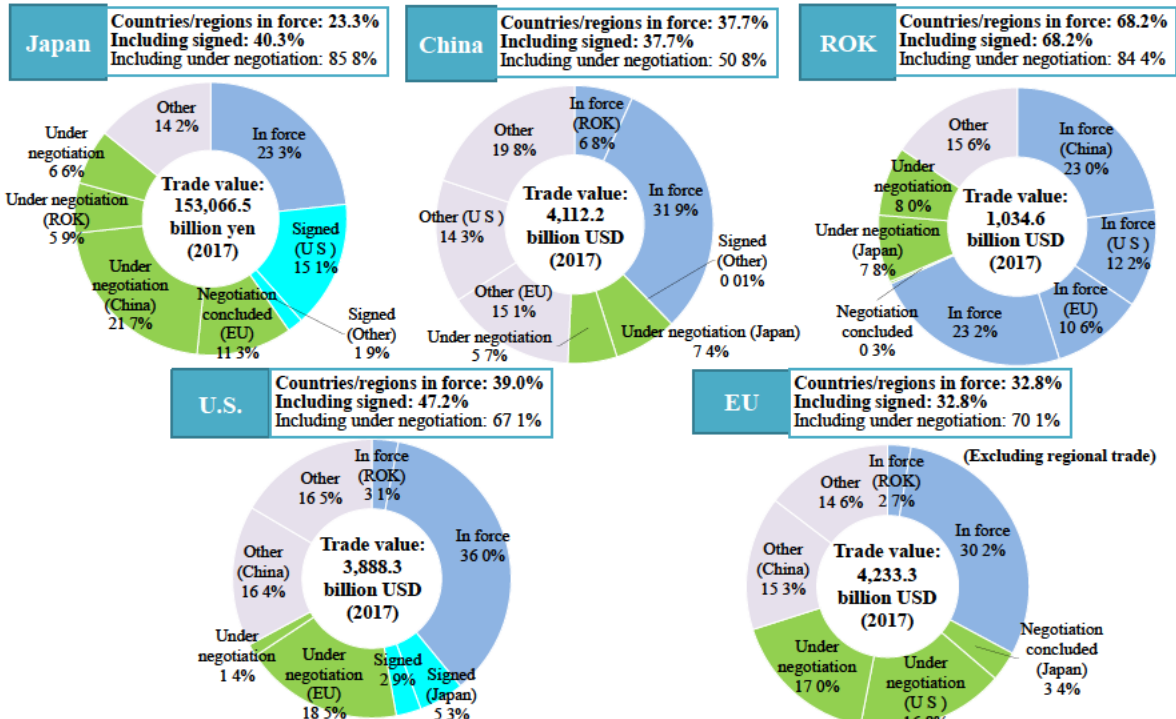


As expanding free trade and promoting economic partnerships form the pillar of Japan's trade policy, tapping into the Asia-Pacific region's growth and large markets by creating a global web of economic

partnerships is essential to the country’s growth.

The Investments for the Future Strategy 2017 (Cabinet decision on June 9, 2017) states as follows: “While engaging in initiatives to put the TPP agreement into effect, Japan will hold discussions on the expansion of the scope of participating countries/regions. Japan will also promote negotiations over economic partnerships, including the Japan-EU EPA, RCEP, and the Japan-China-ROK FTA in a strategic manner with a sense of urgency. As a standard-bearer of free trade, Japan aims to become a leader in developing comprehensive, well-balanced, high-level global rules by playing the central role in establishing a new cross-regional economic order in this way.” As Japan continues to aim to raise the FTA coverage ratio to 70% (from 18.9% in 2012) by 2018 under this strategy, it is holding negotiations to that end (Figure III-1-1-5).

Figure III-1-1-5 Comparison of FTA coverage ratio



- Status of enforcement, signature and negotiation is as of the end of March 2018
 - Figures representing the term “including negotiations” include those that already concluded the negotiations
 - For name of country and region, Japan, China, ROK, U.S. and EU28 are specified
 - When a country is engaged in negotiations for both bilateral and multilateral FTAs with the same country, trade values are counted in the order of progress (in the order of “in force,” “signed,” “under negotiation,” and “other”)
 - Source of the trade values: Japan: Trade Statistics of Japan (Ministry of Finance; final figures as of January-December 2017); China, ROK, U.S. and EU: Direction of Trade Statistics (IMF, April 17, 2018)
 - Figures do not sum up to 100% as they are rounded off to one decimal place

4. Economic partnerships being promoted by Japan

(1) Trans-Pacific Partnership (TPP) (signed in February 4, 2016)

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 Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Singapore, Peru, the United States, and Viet Nam. 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 Japan, the TPP was ratified by the Diet and a relevant law was passed and enacted on December 9, 2016. On January 20,

2017, Japan became the first country among the original 12 TPP signatory countries to notify the completion of its domestic procedures to New Zealand, which is the depositary of the TPP.

Meanwhile, the United States issued to New Zealand as the depositary of the TPP and the TPP signatory countries a letter stating its intention not to become a party to the TPP on January 30, 2017.

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

(signed on March 8, 2018)

After the United States notified participating countries in January 2017 of its withdrawal from the TPP, a TPP ministerial meeting was held in Chile on March 15 of the same year. As a result of the ministerial meeting, a joint statement reaffirming the intention of the 11 TPP signatory countries, excluding the United States, to continue to work together was issued.

In line with the joint statement, a TPP ministerial meeting was held in Viet Nam on May 21, 2017. At this meeting, an agreement was reached on completing a study on options for effectuating the TPP at an early time, including measures to encourage the original signatory countries to participate in the TPP, before the APEC leaders' meeting in November. Subsequently, meetings of chief negotiators were held in July in Japan, in August in Australia, and in September and October in Japan.

On November 9-10, a TPP ministerial meeting was held in Viet Nam. All cabinet ministers agreed (agreement in principle) on a package including the text of a new agreement and a list of suspended provisions on November 9. The following day, November 10, the contents of the ministers' agreement were confirmed and a ministerial statement was prepared. The points mentioned in the ministerial statement included: (A) that an agreement was reached on a TPP comprised of the remaining 11 countries (hereinafter referred to as "TPP11") and (B) that the TPP 11 maintains high standards and overall balance.

In January 2018, a meeting of chief negotiators was held in Tokyo, and the text of the TPP11 agreement was finalized by the 11 participating countries.

At 3 p.m. on March 8 (local time), the TPP11 agreement was signed in Chile. The participating countries will implement domestic procedures, with a view to an early effectuation.

The TPP11 agreement is comprised of a preamble and seven articles. Article 1 prescribes the incorporation of the TPP agreement and Article 2 prescribes the suspended provisions. The TPP11 is well balanced in that it is so designed as to facilitate an agreement by all participating countries while maintaining the high standards of the TPP agreement. The effectuation of the TPP11 is expected to promote not only the reduction or removal of tariffs on goods but also the liberalization of trade in services and investments and also to establish rules for the 21st century in a broad range of fields, including intellectual property, e-commerce, discipline of state-owned enterprises and the environment, thereby creating a huge free and fair market.

(3) Japan-EU EPA (negotiation concluded)

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 signed the Comprehensive Economic and Trade Agreement (CETA) with Canada, an advanced economy, in October 2016. In addition, negotiations over the EU-Mercosur Free Trade Agreement are ongoing.

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. Japan and the EU agreed during the March 2013 Japan-EU Summit Telephone Talks to launch negotiations concerning a Japan-EU EPA and a Strategic Partnership Agreement (SPA). In the negotiations, Japan requested the abolition of the EU's high tariffs on industrial and other products (e.g., tariffs of 10% on passenger cars and a maximum of 14% on electronic equipment) and improvements regarding regulatory problems faced by Japanese companies in Europe. On the other hand, the EU made requests related to improvements in market access concerning agricultural and other products, correction of non-tariff barriers (in such fields as automobiles, chemicals, electronic equipment, food safety, processed foods, medical equipment and pharmaceuticals), protection of geographical indications (GI), government procurement, and sustainable development.

After 18 rounds of negotiation were held by April 2017, an agreement in principle was reached in July of the same year and Prime Minister Abe and European Commission President Juncker held a telephone conversation and confirmed the conclusion of the negotiations in December of the same year.

(4) 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.

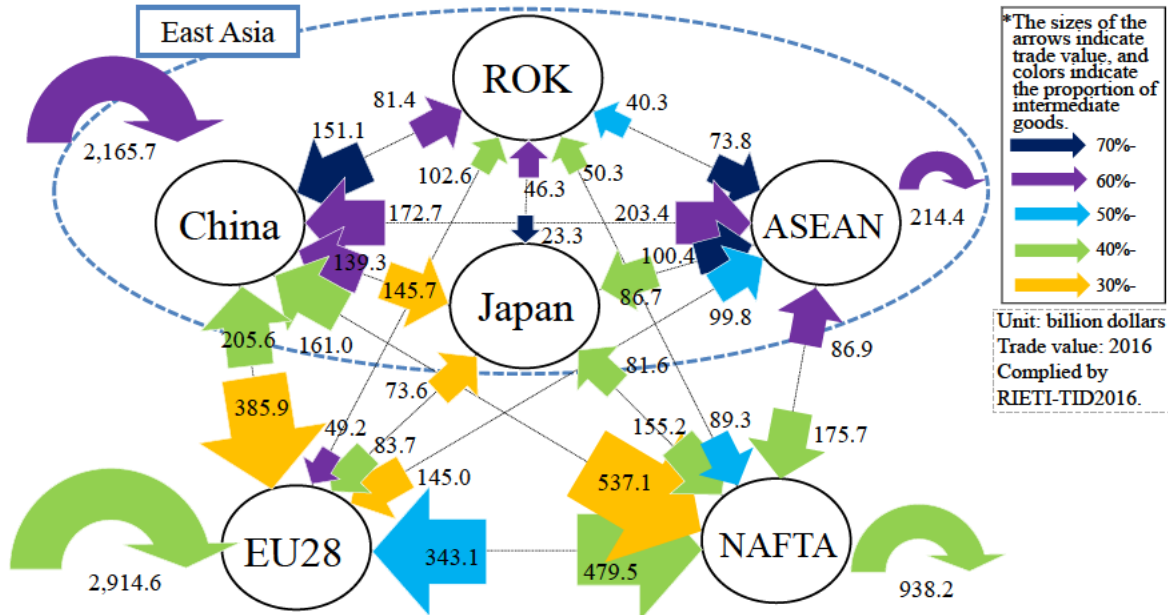
Advanced supply chains have already been built in East Asia (Figure III-1-1-6), but further liberalization of trade and investment within the region will play a crucial role in expanding and deepening regional economic integration.

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 (Figure III-1-1-7).

Figure III-1-1-6 Supply chains in East Asia

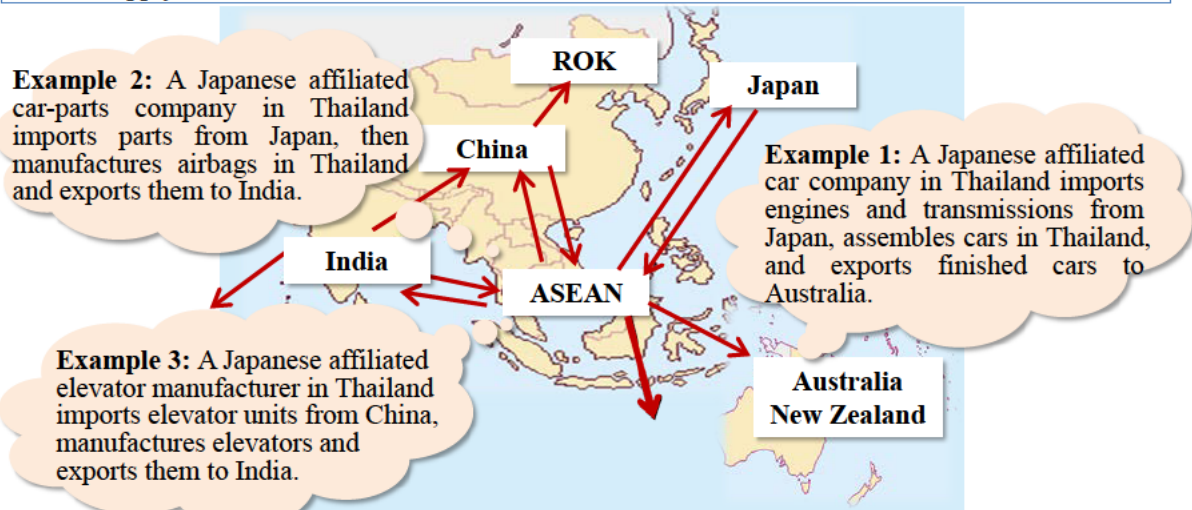
- A large volume of intermediate goods (components) is exported from Japan, ROK and ASEAN countries to China. After assembly in China, the completed goods are exported to large markets, such as North America and EU.
- It is important to establish economic partnerships that cover the supply chains across East Asia.



Source: METI.

Figure III-1-1-7 Meaning of participation in RCEP

- Integration of supply chains in East Asia**
- Companies need to integrate their supply chains to promote exports to growth markets inside and outside East Asia.
 - Currently, a variety of rules are stipulated depending on respective EPAs and this hinders companies' business (e.g., rules of origin). Under the RCEP, member economies will integrate these rules into simple and company-friendly ones and such rules are expected to promote establishment of cross-border supply chains networks.



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 Darussalam 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, ten ministerial meetings and 22 rounds of negotiations were held by May 2018. In November 2017, the RCEP summit meeting was held. After the meeting, a joint leaders’ statement was issued. The statement reaffirmed the leaders’ resolve to (A) conclude a high-quality agreement centered on the three pillars of market access, rules, and cooperation, and instructed ministers and negotiators to (B) intensify efforts in 2018 to bring the RCEP negotiations to conclusion.

Currently, in addition to negotiations at the Trade Negotiating Committee, negotiations are underway concerning a broad range of areas, including trade in goods, rules of origin , customs procedures and trade facilitation, sanitary and phytosanitary (SPS) measures, standards, technical regulations and conformity assessment procedures (STRACAP), trade remedies, trade in services, financial services, telecommunications services, movement of natural persons, investment, competition, intellectual property, electronic commerce (e-commerce), small and medium enterprises , economic and technical cooperation, government procurement and dispute settlement.

(5) 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 until March 2018, 13 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, technical barriers to trade (TBT), legal provisions, e-commerce, the environment, cooperation, government procurement, financial services, telecommunications, and the movement of natural persons.

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. In addition, at the Japan-China-ROK Trilateral Economic & Trade Ministers' Meeting in October 2016, it was confirmed that the three countries will make increased efforts to pursue values unique to the Japan-China-ROK FTA.

(6) ASEAN-Japan Comprehensive Economic Partnership (AJCEP) Agreement

(negotiations concluded 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 since December 2008 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. As a result of adjustments concerning the remaining technical points of debate, at an informal meeting of Japan-ASEAN economic ministers in November 2017, an agreement was also reached on the conclusion of ministerial-level negotiations over a revised protocol that adds provisions concerning services trade and investment to the AJCEP agreement. It was decided to conduct a legal examination in preparation for an early signing of the revised protocol.

(7) 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% (2016) of Japan's crude oil imports by volume, while the total value of Japan's exports to that region is approximately ¥2.1 trillion (2016). 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.

(8) 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.

(9) Japan-Colombia EPA (under negotiation)

In Colombia, a peace agreement between the government and the Revolutionary Armed Forces of Colombia (FARC) was approved by the parliament in November 2016. As a result, this country with a population of 49 million people is a market for which a favorable growth estimate was recently issued (the growth rate is estimated to accelerate from 1.8% in 2017 to 2.7% in 2018), so it is hoped that improving the trade and investment environment with an EPA will help to expand imports and exports and investment in the country by Japanese companies. Along with promoting the policy of economic

liberalization, Colombia has signed FTAs with countries in Latin America, the United States, Canada, the EU and the ROK, all of which 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 start EPA negotiations and held the first round of negotiations in December 2012.

Subsequently, by the end of March 2018, 13 rounds of negotiations were held. At the September and November 2016 Japan-Colombia Summit Meetings, the two countries' leaders confirmed that the negotiations were at a final stage and agreed to aim for an early conclusion of the negotiations.

(10) Japan-Turkey EPA (under negotiation)

With a population of 79.81 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 April 2018, the ninth 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.

(11) 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.

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

This section has 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,² the Japan Chamber of Commerce and Industry,³ 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,⁴ and;
- (iii) revision of the agreement in consideration of the use of and the need for existing EPAs, and international trends in the development of trade rules.⁵

2 Consultations concerning the use of EPAs (for Japanese companies) (<https://www.jetro.go.jp/theme/wto-fta/epa/>).

Advisory and other support services for Japanese affiliates abroad (for companies located abroad) (<https://www.jetro.go.jp/services/advisor/>).

3 A designated organization for the issuance of Type 1 specific certificates of origin (<http://www.jcci.or.jp/international/certificates-of-origin/>).

4 Committees on the Improvement of the Business Environment (http://www.meti.go.jp/policy/trade_policy/epa/about/business.html).

5 Discussions are ongoing with respect to the Japan-Thailand EPA (effectuated in 2007), the Japan-Indonesia EPA (effectuated in 2008) and the Japan-Philippines EPA (effectuated in 2008).