

OVERVIEW

Establishment of Disciplines on Formation of Economic Partnerships

1. Reasons for Discussing Economic Partnership Agreements in this Report

Since first being issued in 1992, this Report has been monitoring the status of compliance with internationally agreed upon rules, establishing such rules as a basis for analysis and identification of trade policies and/or measures of other countries which have problems in such respect. A rules-oriented approach to WTO Agreements has been widely shared internationally due to (i) the accumulated panel practices from the GATT period, and (ii) since the coming into effect of WTO Agreements in 1995, each country exploiting the WTO dispute settlement procedures. The subjects of the disciplines of WTO Agreements are not only in respect of the trade in goods ruled by GATT, but also in respect of various phases of trade policies (such as services, and intellectual property). Thus, in this Report, until the 2006 edition, we have assessed the trade policies of major countries from the viewpoint of the rights and obligations set forth in WTO Agreements.

However, internationally agreed upon rules are not limited to WTO Agreements. Within international agreements other than WTO Agreements, and basic principles of international law, there exist trade-related international rules that complement WTO Agreements. With respect to the matters agreed to by foreign countries through negotiation in international fora, or to those obligations mutually agreed to be performed as a result of negotiations between the countries, it is necessary to aim to establish a more stable world trade framework by pointing out any breach thereof and requesting corrections thereof.

Recently, the number of Free Trade Agreements (“FTAs”) and Economic Partnership Agreements (“EPAs”) entered into has been rapidly increasing. The number of notifications to the WTO regarding FTAs/EPAs sharply increased from 27 in 1990 to 211 as of September 2006.¹ It is also believed that there are many FTAs/EPAs that are not notified to the WTO. We presume that such increase in the number of FTAs/EPAs goes beyond the intentions of the drafters of GATT, which persistently positioned FTAs and customs unions as exceptions.

Such rapid increase in FTAs/EPAs can be attributed to several factors. It is possible that the establishment of the EC (a very large common market) and its expansion inspired the establishment of NAFTA and AFTA (the ASEAN Free Trade Area). The establishment of a customs union or an FTA/EPA gives non-member countries that are disadvantaged thereby an incentive to enter into a regional trade agreement with such customs union or FTA/EPA. With respect to countries such as Singapore, Mexico, or Chile, which have entered into FTAs/EPAs with relatively many countries, the extent of the disadvantage in competition to non-member countries becomes large; and therefore, the incentive for non-member countries to enter into regional trade agreements is likely to be greater. Thus, the FTA/EPA network is able to expand through a snowball effect. It is attractive for countries to enter into a regional trade agreement with an FTA/EPA which consists of a large economic area

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

(i.e., AFTA, which came into effect in 1992). Consequently, East Asia is experiencing a trend of economic partnership, where, in addition to China-ASEAN, which already is in effect (Agreement on Trade in Goods came into effect in 2005), and Korea-ASEAN, which is already signed (Agreement on Trade in Goods signed in 2006), Japan-ASEAN, India-ASEAN, and Australia-New Zealand-ASEAN are under negotiation. (see the next section “Review/Trends of Regional Integration” for global trends in FTAs/EPAs.) Thus, taking a global view, the trend of developing regional trade agreements in the big three trade areas (centering on the United States, EC, and Asia), and the trend of regional cooperation advancing in the Asia Pacific region with APEC as an axis, are expected to support the WTO framework for multilateral trade liberalization and ultimately contribute to the liberalization of trade and investment throughout the world.

As indicated above, the efforts toward multilateral trade policies in the WTO and the efforts for bilateral agreements in EPAs are complementary to each other. However, subject to international economic rules, under the WTO framework (which sets forth the most-favored nation treatment as the primary principle), EPAs (which provide for special agreements for certain areas) are persistently positioned as an exception. In addition, GATT and GATS provide requirements for cases where establishing FTAs is permitted on an exception basis for the purpose of preventing FTAs for goods and services from eroding the WTO’s multilateral trade framework. (see Part II, Chapter 15 “Regional Trade Agreements”).

Japan has been aggressively attempting to enter into EPAs since the Japan-Singapore EPA, which came into effect in 2002. If FTAs are strictly understood to eliminate import duties on goods or liberalize trade in services within the region, the EPA concept may more widely include maintenance of the investment environment, reinforcement of intellectual property protection, technical cooperation, and the like. Bilateral Investment Treaties (BITs), which provide for investment protection, liberalization, transparency, and so forth may be broadly regarded as being a part of EPAs.

Focusing on investment treaties, there were purportedly 2,495 BITs in the world as of the end of 2005.² As of June 2006, Germany, the United Kingdom, the United States and China have entered into 135, 105, 46 and 115 BITs respectively.³ Many BITs provide investment-related terms as part of FTAs/EPAs. In addition, although under WTO Agreements, the TRIMs Agreement and GATS regulate measures related to investment to a limited extent, it is important, as with FTAs/EPAs, to secure compliance with investment treaties and to secure harmonization of such investment treaties with the WTO Agreements.

As stated above, since first being issued in 1992, this Report has been advocating the basic policies of examining each country’s international trade policies by setting internationally agreed upon rules (such as WTO Agreements) as a basis for analysis. From this fundamental viewpoint, it is important for this Report to focus on the rapidly increasing rules prescribed in FTAs/EPAs or BITs, securing compliance of national governments with such rules, and the harmonization of the rules themselves with the WTO Agreements.

From this perspective, in Part III, the contents of the disciplines for international economic rules are explained and relative measures taken in each country are examined, focusing mainly on FTAs/EPAs and investment treaties which Japan has entered into. Recent major examples of FTAs/EPAs or investment treaties entered into between third party countries are also introduced where appropriate.

² UNCTAD World Investment Report 2006.

³ <http://www.unctad.org/Templates/Page.asp?intItemID=2344&lang=1>.

2. Global Trends of Economic Partnership (as of March 2007)

(1) Global Trends

Since the 1990s, regional integration has accelerated, and the number of regional trade agreements (including free trade agreements (“FTAs”)) notified to the World Trade Organization (“WTO”) reached 211 in September 2006, rising from 27 in 1990.

Following the collapse of the non-western cold war regimes, and with the pursuit of a new international economic system, western countries first accelerated regional integration. With the establishment of a single market through the intra-regional market integration plan within the European Economic Community (“EEC”) (1992) and the inauguration of the North America Free Trade Association (“NAFTA”) (1994), European and North American countries actively promoted efforts aimed at (i) increased corporate income through market expansion and productivity improvements, and (ii) economic structural reforms through high-level trade and investment liberalization and facilitation with those neighboring regions with which it has close economic relationships.

The breakdown of the Seattle WTO Ministerial Conference (1999) revealed the difficulties of promoting multilateral free trade within the WTO, and further accelerated the trend of pursuing bilateral or regional FTAs and economic partnership agreements (“EPAs”). After the Seattle Ministerial Conference, new trends were also seen in FTAs/EPAs.

First, there were more cases involving, not only the elimination of tariff and non-tariff barriers to trade, but also the establishment of rules in new areas (such as investment, competition, environment, economic cooperation and the movement of natural persons). In Japan, EPAs mean bilateral or plurilateral agreements that cover the usual matters with respect to trade, but also address matters such as the elimination of border controls and domestic restrictions, and the harmonization of various economic frameworks to further liberalize and facilitate the movement of persons, goods, services, and/or money. An advantage of FTAs/EPAs over WTO multilateral negotiations is that, under FTAs/EPAs, it is possible to establish international economic rules promptly and flexibly while taking into consideration actual economic conditions among the contracting parties with respect to the rules of various areas in respect of which it is difficult for multilateral negotiations in the WTO to reach agreement on.

A second feature of recent FTAs/EPAs is that they are increasingly likely to be among countries and regions that do not neighbor each other, rather than being of the exclusively “regional integration” type (for example, there are the EU-Mexico FTA, EFTA-Mexico FTA, Korea-Chile FTA and EU-South Africa FTA). We presume that the motivations underlying such FTAs/EPAs between non-neighboring countries are to (i) function as a trade “hub” by obtaining favorable conditions in connection with access to economically important countries/regions, (ii) increase employment by enhancing the attractiveness of a member country as a target for investment, and (iii) remove disadvantages that would exist in the absence of an FTA/EPA.

Certain trends in “regional integration” type FTAs/EPAs can also be seen. Remarkable progress has been made in the Americas after the breakdown of the Cancun WTO Ministerial Conference (September 2003). In November 2003, 34 countries in the Americas agreed on a framework to establish the Free Trade Area of the Americas (“FTAA”) (negotiation thereof is currently suspended). In December 2003, the Southern Cone Common Market and the Andean Community (the “MERCOSUR/MERCOSUL”) signed a framework agreement aiming to establish free trade areas (currently in process of being ratified). The FTA between the United States and certain Latin American countries (“DR-CAFTA,” more precisely defined below) was signed in August 2004 and has come into effect.

In East Asia, where efforts had previously stalled, regional integration is rapidly progressing. This is especially true for the Association of Southeast Asian Nations (“ASEAN”). With regard to ASEAN intra-regional trade, promotion of the “ASEAN Free Trade Area” was agreed upon in 1992 and tariff reduction commenced from the following year. There are plans to establish an economic community amongst member countries of the ASEAN by 2015. Currently, the “ASEAN Charter,” which will bind the member countries, is being drafted. In addition, in November 2004, the ASEAN and China signed an agreement regarding the liberalization of trade in goods and commenced tariff reduction from July 2005. The ASEAN and the Republic of the Republic of Korea signed an agreement regarding an FTA framework in December 2005. In April 2006, nine ASEAN countries (all except Thailand) agreed on the liberalization of trade in goods. The ASEAN is also negotiating an FTA with India.

Japan agreed to a comprehensive economic partnership framework with ASEAN, signed an agreement to such effect in October 2003, and, based on the agreements at the meeting of the heads of Japan and the ASEAN reached in November 2004, commenced negotiations in respect thereof in April 2005. It was agreed at the meeting of the economic ministers and other heads of summits between the ASEAN countries and Japan to work to complete negotiations within two years of the commencement of negotiations. Japan and the ASEAN countries also put an emphasis on bilateral EPAs. The EPAs Japan entered into with Singapore and Malaysia have come into effect, Japan’s EPA with the Philippines was signed, and negotiations by Japan with Thailand, Indonesia, Brunei, and Vietnam are underway. (see “3. Efforts in Japan.”)

Australia and New Zealand (ANZ-CER) commenced negotiations with the ASEAN in February 2005, and agreed to complete negotiations within two years. Both countries are also promoting bilateral efforts concurrently, and an agreement between Australia and Thailand came into effect in January 2005. With respect to New Zealand, an agreement with Singapore came into effect, and substantial agreement with Thailand was reached in November 2004. In addition, the United States commenced negotiations with Thailand in June 2004, following the coming into effect of its agreement with Singapore.

In the East Asia region, in addition to the FTAs/EPAs between the ASEAN and various countries, efforts at broad regional economic partnerships are being advanced within the frameworks of ASEAN+3 (Japan, China, the Republic of Korea, and ASEAN), ASEAN+6 (ASEAN+3, India, Australia, and New Zealand), and APEC (Asia-Pacific Economic Cooperation). Japan’s proposal in 2006, to conduct research on the “Comprehensive Economic Partnership in East Asia (East Asian EPA, CEPEA)” among the member countries of the ASEAN+6, was agreed to at the Second East Asia Summit held in January 2007 (at the same time they welcomed the establishment of the Economic Research Institute for the ASEAN and East Asia (“ERIA”, which provides intellectual support such as policy proposals for East Asia’s sustainable growth.)).

Thus, subject to the progress of the efforts regarding regional integration in the regions of the American States, East Asia, Oceania, and so on, the Best Practices for FTAs was adopted at the APEC Ministerial Meeting held in November 2004. As such, FTAs entered into by the APEC member countries are expected to be consistent with both APEC’s principles and WTO agreements (featuring comprehensiveness, transparency, trade facilitation, and the like). In addition, in November 2006, the United States proposed an APEC-wide FTA (FTAAP). Including this development, the methods for promoting regional economic integration became a subject for examination, the result of which will be reported to the meeting of the heads of APEC scheduled in 2007.

(2) Summary of Major Regional Integration and Trends in Individual Country

1) The Americas

(a) Overview of the North American Free Trade Agreement (“NAFTA”)

NAFTA, which includes three countries (Canada, the United States, and Mexico), was signed in December 1992 and came into effect in January 1994. This agreement provides for the regulation of commerce in goods and services (including the elimination of intra-regional tariffs and quantitative restrictions, and the unification of rules of origin), and rules in respect of investment, intellectual property, and competition policies. NAFTA has been reinforcing relationships with Latin American countries. All three NAFTA member countries (Canada, the United States and Mexico) have entered into FTAs with Chile.

(b) Overview of the Free Trade Area of the Americas (FTAA)

The idea behind the FTAA is to establish a free trade area among the 34 countries in the Americas (excluding Cuba). Such countries negotiated with the aim of concluding an agreement by December 2005, but negotiations progressed slowly because Brazil opposed the treatment of investment, intellectual property rights, labor, the environment, and other areas supported by the United States, and because the United States opposed the elimination of agricultural subsidies, which MERCOSUR/MERCOSUL demanded, claiming that such should be dealt with under the WTO framework. At the Miami Ministerial Conference in November 2003, therefore, the FTAA participant countries agreed to aim for the conclusion of FTAA Light, which was to provide for minimal obligations to be applied commonly to all the agreeing countries, and requires individual negotiation between countries for liberalization beyond such requirements. However, the discussions for FTAA Light regarding the negotiation method reached a deadlock at the 17th Trade Negotiations Committee in February 2004, and were suspended.

No substantial negotiations were conducted thereafter. At the Summit of the Americas (conference of the 34 American Countries excluding Cuba) held in Mar del Plata in November 2005, MERCOSUR/MERCOSUL opposed promotion of the FTAA stating that there were differences in economic strength within the Americas, and therefore the conditions necessary for a fair FTAA did not exist. Venezuela also rejected the idea of an FTAA and insisted that a program different from the FTAA should be pursued. Consequently, FTAA negotiations have ceased, and it is unknown if or when they will restart.

(c) Overview of the Southern Cone Common Market (MERCOSUR/MERCOSUL: Mercado Comun del Sur/Mercado Comun du Sul)

MERCOSUR/MERCOSUL, which came into effect in January 1995, is a customs union among five countries (Brazil, Argentina, Uruguay, Paraguay, and Venezuela (which officially joined in July 2006)). Thereunder, Venezuela is required to adopt the common external tariff and to eliminate its intra-regional tariffs. It entered into the “Acuerdos de Complementación Económica” (Economic Complementarity Agreements) with Chile and Bolivia in 1996, with Peru in 2003, and with Colombia and Ecuador in 2004, each such country being an associate member of MERCOSUR/MERCOSUL. There is also an initiative to include Mexico as an associate member of MERCOSUR/MERCOSUL.

With respect to the integration of MERCOSUR/MERCOSUL, Uruguay and Paraguay are expressing dissatisfaction with the imbalance within the region, stating that they have not been able to enjoy the benefits of MERCOSUR/MERCOSUL. Uruguay is independently seeking FTAs with the United States, China, India, and others. Furthermore, taking into account Venezuela’s entry into

MERCOSUR/MERCOSUL, which appears primarily politically motivated, MERCOSUR/MERCOSUL is now facing questions of how it should maintain, expand, and cultivate integration.

The FTA negotiations between MERCOSUR/MERCOSUL and the EU reached a deadlock with respect to the treatment of agricultural products, but agreement to continue the negotiations was reached at the EU-Mercosur Ministerial meeting of September 2005. However, no substantial negotiation was conducted thereafter. Many believe that this situation exists because both sides decided to watch the progress of the agricultural negotiation in the WTO rather than progress the FTA negotiations. MERCOSUR/MERCOSUL and the Andean Community entered into an FTA in December 2003, and at the MERCOSUR/MERCOSUL summit meeting in June 2005, it was confirmed that members of each respective agreement would treat the members of the other agreements as associate member countries, with the goal of reinforcing the South American common market. In addition, an FTA negotiation between MERCOSUR/MERCOSUL and Israel has been underway since 2006, and efforts for possible future FTA negotiations are being made through Preferential Trade Agreements (PTAs) negotiations and cooperative research with China, the Republic of Korea, India, Pakistan, the Gulf Cooperation Council (“GCC,” the members of which are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and United Arab Emirates), Egypt, Morocco, Canada, Mexico, Panama, Cuba, the Commonwealth of Dominica, the Central American Integration System (“SICA” - Sistema de la Integración Centroamericana; comprised of Guatemala, El Salvador, Costa Rica, Nicaragua, Honduras, Panama, and Belize), and the Caribbean Community (“CARICOM”; comprised of 14 Caribbean countries and one region).

With respect to MERCOSUR/MERCOSUL’s member countries’ relationships with Japan, at its 11th meeting in May 2005, the Japan-Brazil Economic Cooperation Committee released a Joint Communiqué regarding the establishment of a joint workshop for a Japan-Brazil EPA. The economic organizations of both countries (Nippon Keidanren (Japan Business Federation) and Brazilian National Confederation of Industry) agreed to make efforts to execute a Japan-Brazil EPA. The Japan-Argentina FTA workshop of the Japan Chamber of Commerce and Industry in Argentina and the Japanese Commission of the Japan-Argentina Economic Commission submitted a request for early execution of the Japan-MERCOSUR/MERCOSUL FTA to the Japanese government in March 2004.

(d) Overview of the Andean Community (“CAN” - Comunidad Andina)

The Andean Community, established in 1996 by a reorganization of the Andean Subregional Integration Agreement (which came into effect in 1969), is a customs union consisting of four countries: Colombia, Peru, Bolivia, and Ecuador. Venezuela announced its withdrawal in April 2006, but the commerce-related system has remained in force and continues to apply to Venezuela for five years from the date of its withdrawal. Chile joined the CAN as an associate member country in September 2006.

Colombia, Bolivia, and Ecuador eliminated intra-regional tariffs by 1993. Peru commenced reductions of tariffs from 1997 and achieved complete elimination thereof at the end of December 2005. The free trade market started in January 2006.

Under CAN, a new common external tariff with four levels was planned to be applied by 2004, but the discussion in respect thereof has temporarily stagnated due to conflicting interests among the member countries, and due to Colombia, Peru, and Ecuador conducting FTA negotiations with the United States. Agreement has thus been reached to suspend the implementation of common external tariffs until January 31, 2007.

As a major trend, the four member countries of CAN signed a letter at their summit in June 2006, addressed to the head of EU which requested the commencement of negotiations for an EPA, and such negotiations are now planned. In April and November of 2006, Peru and Colombia signed FTAs with the United States. However, Ecuador’s negotiations with the United States have

been interrupted due to the cancellation of an entry agreement with a United States petroleum company, which occurred in May 2006.

(e) Major Movements of Countries Aiming for Regional Integration

(i) United States

Until recently, the United States did not enter into any FTAs other than NAFTA and bilateral FTAs with Jordan and Israel. However, following the establishment of the Trade Act of 2002 (including the Trade Promotion Authority (TPA)), the United States has been aggressively pursuing FTA negotiations, starting with Chile and Singapore. This trend has been accelerating since the breakdown of the Cancun WTO Ministerial Conference in September 2003. The United States does not consider FTAs merely from the economic viewpoint of trade liberalization, but also as tools to establish political alliances both to support countries emerging from poverty and to conduct economic reform and implement security and anti-terrorism measures. The United States has shown its intention to develop FTAs on a global scale, covering areas such as Latin America, Asia/Oceania, the Middle East, and Africa. As of January 2007, in addition to NAFTA and FTAs with Jordan and Israel, the FTAs with Singapore and Chile (January 2004), Australia (January 2005), Morocco (January 2006), and Bahrain (January 2006) are also in effect.

In addition, FTAs between the United States and five Central American countries (El Salvador, Guatemala, Nicaragua, Honduras, and Costa Rica) and the Commonwealth of Dominica (“DR-CAFTA”) were signed in August 2004 and these agreements were approved by the US Congress in July 2005. FTAs with all these countries (other than Costa Rica) are now in effect.

Furthermore, negotiations completed with respect to an FTA with Oman. With respect to FTAs with the Andean countries (i.e. Colombia, Peru, and Ecuador), negotiations with Peru were completed in December 2006, the FTA with Colombia was signed in November 2006, and negotiations with Ecuador have been suspended since May 2006.

The US’s FTA with Panama was agreed upon in December 2006, but discussions continue regarding labor provisions.

The following FTAs are under negotiation: the FTAA; the 34 countries of the Americas, excluding Cuba); the Southern African Custom Union (Botswana, Lesotho, Namibia, South Africa, and Swaziland); and FTAs with Thailand, Malaysia and the United Arab Emirates.

In addition, the United States officially announced in February 2006 that it will start FTA negotiations with the Republic of Korea from May 2006, and held the eighth such negotiation in March 2007. Also, in November 2006, the United States proposed an APEC-Wide FTA (“FTAAP”).

(ii) Mexico

In addition to the Japan-Mexico EPA, which came into effect in April 2005, Mexico has thus far entered into FTAs with various countries including the United States, Canada, the EU (see the section referring to the EU), EFTA, Israel, and a few Latin American countries. Mexico also agreed with the Republic of Korea to aim at entering into a comprehensive “Strategic Economic Complementation Agreement” in September 2005. This, however, will be a preferential trade agreement, with limited areas of liberalization compared to an FTA.

(iii) Chile

Chile has signed or already has in effect FTAs with various countries (including Canada, Mexico, Costa Rica, El Salvador, the EU, the United States, the Republic of Korea, EFTA, China, Panama, Peru, and Colombia); an economic framework agreement with the EU and the P4 (Singapore,

New Zealand, and Brunei), and Economic Complementarity Agreements or partial tariff agreements with other Latin American countries and India. Cooperative research aiming to enter into FTAs is underway with Thailand and Malaysia.

Negotiation for entering into an EPA with Japan commenced in February 2006 and an agreement in such respect was signed by Chile and Japan in March 2007.

2) Europe

(a) Overview of the European Union (EU)

The EEC, which was established in January 1958 by the Treaty of Rome signed in March 1957, aimed to establish a common market, and had led to a customs union and common agricultural policy by 1968. Following the elimination of intra-regional barriers to trade and liberalization of the movement of “goods, persons, services, and capital,” the Treaty of Maastricht (which promotes economic/currency integration as well as integration in political phases) came into effect in November 1993, and the European Union (“EU”) (consisting of 12 countries) was born. In January 1995, Austria, Finland, and Sweden joined the EU and the number of member states became 15. In addition, the Treaty of Amsterdam and the Treaty of Nice, which were amendments to the Treaty of Maastricht, came into effect in May 1995 and February 2003, respectively. An additional 10 countries, mainly from Central and Eastern Europe (Poland, Hungary, Czech, Slovakia, Slovenia, Estonia, Lithuania, Latvia, Cyprus, and Malta), joined the EU and became official member states thereof in May 2004, resulting in the 25 country regime. Negotiations for the memberships of Croatia and Turkey commenced in October 2005. Rumania and Bulgaria joined the EU and became member states thereof in January 2007, resulting in the 27 country regime.

As part of a steadily expanding EU, the Treaty Establishing the Constitution for Europe was adopted in 2004 with the purpose of maintaining forward momentum and deepening integration. In October of the same year, said Treaty was signed by all EU member states. Each such member state was then to ratify such Treaty subject to its domestic laws, but referendums on the ratification of such Treaty in France and the Netherlands, respectively, rejected such ratification. Accordingly, at the European Council (EU Summit) held in June 2005, it was agreed that the effective date for the Constitution of Europe, which was set to be November 1, 2006, would be delayed. Continuous efforts to enact the Constitution of Europe are being made, but it is up to each member country to determine whether it will still continue ratification thereof, and the prospect of ratification is uncertain due to the differences in opinion among the EU member states. It is possible that such Treaty will be partially enacted.

(b) Trends of the EU Aiming to Enter into FTAs

In January 1994, the EU established the European Economic Area (“EEA”) with the EFTA Member States (Norway, Iceland, and Liechtenstein, and non-member states of the EU as of 1994 (Sweden, Finland, and Austria), a total of six countries), excluding Switzerland, with the intention of “reinforcing and expanding cooperation in the areas of free movement of persons, goods, capital, and services; research and development; environment; and so forth.” Such was aggressive as compared to a free trade area.

The EU is making progress in its efforts to reinforce economic relationships with the non-European Mediterranean countries. To replace the agreements entered into in the 1970s, the EU is advancing negotiations for new FTAs among the European countries and such non-European Mediterranean countries. These agreements will provide for trade liberalization, and liberalization of investment and services, and the EU is aiming to establish a free trade area with such non-European Mediterranean countries by 2010.

There is also a trend to establish regional cooperation relationships in wide areas with member countries other than neighboring member countries.

The EU and the 77 countries of the African, Caribbean and Pacific states (all three, the ACP states) entered into the Cotonou Agreement in June 2000. The Cotonou Agreement replaced the Lomé Convention, which had the major feature of the EU offering development and support to the ACP states by providing them with preferential treatment. The purpose of the Cotonou Agreement, which consists of an FTA and a Generalized System of Preferences (GSP), was to form a new cooperative relationship between the EU and the ACP states. Subject to this agreement, negotiations between the EU and the regional integration groups within the ACP states (four regions in Africa, Caribbean region, and the Pacific countries region; a total of six regions) commenced in September 2002. There are plans to maintain and reinforce several regional integrations within the ACP, to enter into EPAs with integrated regions by the end of 2007, and, following a 12-year transition period, to establish a complete free trade area by 2020.

With respect to Latin American countries, the Mexico-EU FTA, which also includes political cooperation, was agreed upon in November 1999 and came into effect in July 2000. This is a comprehensive agreement in respect of subjects including intellectual property rights, governmental procurement, competition, and investment. In the area of market access, non-agricultural products are fully liberalized, and services are mostly liberalized (except for audiovisual services, air transport services, and marine transport services). However, the liberalization schedule varies depending on the sensitive nature of the domestic industry of goods and the economic development of the EU and Mexico. Since Mexico is a member country of NAFTA, the Mexico-EU FTA allowed the EU to gain a foothold, not only in Latin America, but also in NAFTA. On the other hand, Mexico can now reduce excessive dependence on the United States, as well as expect further expansion of trade and investment, serving as a trade hub, by entering into FTAs with two large markets (the United States and the EU). An economic framework cooperation agreement between Mexico and Chile, including an FTA, came into effect in November 2002.

The EU and MERCOSUR/MERCOSUL, with the aim to establish a comprehensive political and economic union, entered the Inter-regional Framework Cooperation Agreement, which came into effect in December 1995. This agreement includes improvement of the legal environment for promoting both technical cooperation and investment. There is a significant difference in opinion between the two sides regarding opening the agricultural products market, and negotiations came to a temporary deadlock. However, the two sides agreed at the EU-Mercosur Ministerial meeting of September 2005 to continue negotiations. While the EU requests MERCOSUR/MERCOSUL to make larger concessions on investment and services, MERCOSUR/MERCOSUL requests the EU to further open the markets for agricultural and food products.

The EU and the GCC commenced FTA negotiations in 1990. No significant progress was made at first, but at the EU-GCC Ministerial meeting in 2005, it was agreed to accelerate negotiations by (i) focusing on the areas of trade in services, import duties on industrial goods, and public procurement, and (ii) conducting negotiations in a “Single Undertaking method,” which requires agreement in all areas for settlement.

With respect to the EU’s relationship with Asia, the EU has conducted studies regarding the FTA with the ASEAN since April 2005, and in May 2006, made public a report proposing the execution of an FTA with the ASEAN. The EU also agreed with the Republic of Korea in May 2006 to commence studies with respect to an FTA between them. Preliminary discussions in respect thereof commenced in June 2006. There was confirmation at their summit in September 2006 to continue such discussions.

The EU agreed with China at the EU-China Summit in September 2006 to commence the negotiation of a new partnership cooperation agreement to replace the Agreement on Trade and

Economic Cooperation between the European Economic Community and the People's Republic of China entered into in 1985.

With respect to India, at the EU-India Summit held on October 13, 2006, The EU endorsed commencing negotiations for a comprehensive trade and investment agreement.

As stated above, the EU is currently reinforcing relationships, particularly with Asia.

3) Asia

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

AFTA is a free trade area covering over 10 member countries of the ASEAN, and its promotion was agreed upon at the ASEAN Summit of January 1992. Tariff reduction in respect thereof commenced from January 1993. Due to the Common Effective Preferential Tariff (CEPT) framework, it was planned to gradually reduce the intra-regional tariff, ultimately to 0-5%, by 2003. It was also planned to eliminate the quantitative restrictions for CEPT products (all those manufactured products and agricultural products in respect of which 40% or more of whose added value was produced in the ASEAN region) by 2003, but at the ASEAN Summit in December 1998, it was agreed to expand the scope of CEPT products and to accelerate the target year from 2003 to 2002 in respect of a reduction of intra-regional tariffs on CEPT products. Accordingly, for the ASEAN-6 (Philippines, Thailand, Malaysia, Singapore, Brunei, and Indonesia), the target was accelerated by a year to 2002, and the AFTA Council, at its meeting in September 2002, noted that, for the ASEAN-6, the target to reduce the intra-regional tariff was effectively achieved on January 1, 2002. Vietnam sets 2003, Laos and Myanmar set 2005, and Cambodia sets 2007 as the target year for the reduction of tariffs to 5% or below for as many products as possible.

The ASEAN Industrial Cooperation (AICO) scheme came into effect in November 1996, preceding the CEPT. Under such system, 0-5% preferential tariff rates are mutually applied to trade between two or more countries within the region of the products which the member countries authorize as AICO Products that meet certain conditions (including the minimum 30% national equity (for manufacturers) and the minimum 40% local content in the ASEAN countries). At the ASEAN Economic Ministerial Meeting in 2002, Brunei, Cambodia, Indonesia, Malaysia, and Singapore agreed to reduce the AICO tariff rate to 0% by January 2003. A protocol was signed in April 2004 at the ASEAN Economic Ministerial Meeting, and processes for the implementation thereof (such as preparing administrative guidance introducing the new AICO tariff rate) are currently underway in each member country of the ASEAN.

Apart from above, at the ASEAN Summit and the ASEAN Economic Ministerial Meeting held in 1999, the following were declared for the first time: targets to eliminate the intra-regional tariffs among the ASEAN-6 by 2010, and to eliminate the same among the remaining four countries of the ASEAN (Cambodia, Laos, Myanmar, and Vietnam) by 2015. At the ASEAN Summit held in November 2004, with a view to establishing the ASEAN Economic Community (AEC), it was agreed that out of 11 priority sectors (wood-based products, automotives, rubber-based products, textiles and apparel, agro-based products, fisheries, electronics, IT, healthcare, air travel, and tourism), the nine manufacturing business sectors (i.e. those other than air travel and tourism) would eliminate intra-regional tariffs by 2007 for the original member countries of the ASEAN, and by 2012 for the new member countries thereof. This accelerates the original plan by three years. Furthermore, at the ASEAN Economic Ministerial Meeting held in September 2005, it was agreed to complete liberalization by 2015 in all service areas.

With respect to the ASEAN economic integration, it was agreed in 2003 to establish the ASEAN Economic Community by 2020. At the ASEAN Summit in January 2007, it was agreed to accelerate the establishment of an "ASEAN Community," including an economic community, by changing the deadline to 2015, and to draft the binding "ASEAN Charter" by November 2007. Re-

examination of the principles of “consensus” and “non-intervention,” which so far has resulted in the characterization of the ASEAN as a loose association, is now becoming an issue. The ASEAN, therefore, may undergo a change in character as a regional community.

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

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

(i) China-ASEAN FTA

At the meeting of the heads of the summit between China and the ASEAN held in November 2000, Premier Zhu Rongji proposed a China-ASEAN FTA. At the meeting of such parties in November 2001, the following was agreed to: 1) the building of an “economic cooperation framework” between China and the ASEAN, and the establishment of “China-ASEAN Free Trade Area (FTA)” within 10 years; and 2) the conducting of consultations to determine the items in respect of which liberalization measures would be accelerated (“early harvest” measures). Following the working-level meetings, which commenced in January 2002, discussions were held at the Trade Negotiation Committee, which started from June 2002. At the meeting of the heads thereof in November 2002, the “Framework Agreement on Comprehensive Economic Co-operation” was signed, and it included the establishment of a China-ASEAN FTA within 10 years. Such framework agreement came into effect in July, 2003. At the meeting of the heads of China and the ASEAN in November 2004, the parties signed an agreement on the liberalization of the trade in goods provided for in the “Framework Agreement on Comprehensive Economic Co-operation.” Tariff reduction commenced in July 2005.

(ii) Korea-ASEAN FTA (for the avoidance of doubt, all references herein to “Korea” are to the “Republic of Korea”)

The Korea-ASEAN FTA Experts Group Meetings were held from March to August of 2004. Later, at the Korea-ASEAN Summit in November 2004, it was agreed to commence negotiations and to eliminate tariffs on 80% of all products by January 1, 2009 (separately set for CLMV). Following the eight-round negotiations after the commencement of negotiations in February 2005, the “Framework Agreement on Comprehensive Economic Cooperation” was signed at the Korea-ASEAN Summit in December 2005. Also, the “Agreement on Dispute Settlement Mechanism” was signed at the Korea-ASEAN Economic Ministerial Conference, which was held during the same period. Apart from this, the ASEAN (excluding Thailand) and the Republic of Korea agreed on a tariff reduction method for the FTA on goods, and as of December 2005, agreed in principle that they would extend the range of tariff elimination to 90% (or more) of all products by January 1, 2010.

(iii) India-ASEAN FTA

In November 2002, at the first summit between the ASEAN and India, both India and the ASEAN agreed to reinforce economic cooperation and to set liberalization of trade and investment as a long-term objective. They established an intergovernmental task force, signed the Framework Agreement in October 2003, and commenced negotiations from January 2004. An FTA between India and the ASEAN countries is planned to be established by 2011 (for some countries, the target is 2016). While the original intention was to complete negotiations regarding the trade in goods in June 2005, the negotiations for the rules of origin made slow progress and are still underway.

India is also conducting negotiations for a bilateral FTA with Thailand, and signed the Framework Agreement in October 2003. Both countries commenced tariff reduction on 82 early harvest products from September 2004 (with tariffs to be eliminated by 2006). The Comprehensive

Economic Cooperation Agreement (CECA) between India and Singapore came into effect in August 2005.

(iv) Australia-New Zealand (ANZ-CER)-ASEAN FTA

At the ASEAN-CER Economic Ministerial Meeting in September 2002, Australia-NZ (CER) and ASEAN signed the “AFTA-CER CEP” Joint Ministerial Declaration (such agreement did not include an FTA between such parties). The establishment of the framework to promote trade, investment, and regional economic integration was agreed to by and between the ASEAN and CER. In addition, they agreed to, by 2010, cooperate in each field with the purpose of doubling the trade and investment between the ASEAN and CER. Thereafter, it was agreed at the ASEAN-Australia and New Zealand Commemorative Summit held in November 2004 to commence negotiations for an FTA between the ASEAN and Australia-NZ in early 2005, and to complete such negotiations within two years. Such negotiations commenced in February 2005, and four meetings have been held thus far.

The Australia-Thailand FTA was signed in July 2004, and came into effect in January 2005.

(c) Major Movements of Countries Aiming for Regional Integration

(i) Singapore

Singapore is aggressively pursuing the objective of entering into FTAs/EPAs. The FTAs/EPAs it entered into with New Zealand (January 2001), Japan (November 2002), EFTA (January 2003), Australia (July 2003), the United States (January 2004), Jordan (August 2005), India (August 2005), the Republic of Korea (March 2006), Panama (July 2006), and the EPA among the four Pacific countries (May 2006 - New Zealand, Singapore; July - Brunei; November - Chile) have already come into effect. The negotiation between Singapore and Peru is substantially completed, negotiations are underway between Singapore and Pakistan, Sri Lanka, and Canada, and it agreed to commence negotiations with Egypt, China, and the GCC. Efforts with respect to Qatar, Kuwait, Bahrain, and the United Arab Emirates have been incorporated into the negotiations with GCC.

(ii) India

India entered into the Framework Agreement on Comprehensive Economic Cooperation with the ASEAN, and commenced FTA negotiations therewith in October 2003. India entered into a similar agreement with Thailand, commenced FTA negotiations therewith simultaneously, and conducted an early harvest with respect to 82 specified products from September 2004. The CECA between India and Singapore came into effect in August 2005.

The South Asian Association for Regional Cooperation (SAARC) Summit was held in January 2004, and the seven member countries thereof signed the South Asian Free Trade Area (“SAFTA”) framework agreement. This agreement came into effect in January 2006, and provides for establishing a South Asian Free Trade Area by 2016 (discussed later). India has already entered into an FTA with Sri Lanka, and has entered into FTA framework agreements with MERCOSUR/MERCOSUL, Chile, South Africa, GCC, SACU (the Southern African Customs Union), and Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (“BIMSTEC,” discussed later). India has entered into PTAs with MERCOSUR/MERCOSUL (March 2005) and Afghanistan (March 2003), and negotiations in respect of a PTA are underway with Egypt. In addition, India held workshops for FTAs/EPAs with China, the Republic of Korea, Japan, and Mauritius. A report was submitted in 2005 stating that a workshop with China was to be held again. A report was also submitted in January 2006, proposing a Comprehensive Economic Partnership Agreement (CEPA) with the Republic of Korea, and the negotiations for such CEPA commenced in February 2006 (currently under negotiation). In June 2003, an FTA framework agreement was entered into between India and MERCOSUR/MERCOSUL.

India also commenced EPA negotiations with Japan in January 2006 (see the section referring to Japan's efforts).

(iii) Thailand

Recently, Thailand has been active in reinforcing economic partnerships with many countries. In July 2004, Thailand officially signed an agreement with Australia, which came into effect in January 2005. An agreement with New Zealand came into effect in July 2005. Thailand has entered into framework agreements with Bahrain, Peru, and India. With respect to China, in November 2002, as a part of the effort of the ASEAN as a whole, Thailand entered into the China-ASEAN Framework Agreement on Comprehensive Economic Co-operation, and implemented an early harvest. Agreements are currently under negotiation with Japan (broadly agreed to in September 2005) and the United States (negotiations commenced in June 2004).

(iv) Malaysia

Malaysia was lagging compared to the other ASEAN countries in its efforts relating to FTAs, but since its EPA negotiations with Japan (which commenced in January 2004), it is now making efforts with other countries. The Japan-Malaysia EPA came into effect in July 2006. Malaysia also entered into the Trade and Investment Framework Agreement (TIFA) with the United States in May 2004, established the Joint Council pursuant to such agreement, and commenced FTA negotiations with the United States in June 2006. From May 2005, Malaysia commenced FTA negotiations with Australia and New Zealand. FTA negotiations with Pakistan commenced in April 2005, and Malaysia conducted (on the Malaysia side) an early harvest (specifically, reduction of tariffs on 114 products whose tariff rate is 10% or below) in January 2006. Negotiations with India for a CECA commenced in December 2004, and a Meeting of the Joint Study Group is being held with Chile.

(v) The Republic of Korea

The Republic of Korea is accelerating the execution of its FTAs/EPAs by newly establishing an FTA Bureau under the Ministry of Foreign Affairs and Trade in December 2004 for the purpose of efficiently responding to the global proliferation of FTAs/EPAs. Accordingly, from 2005, it was simultaneously negotiating FTAs/EPAs with multiple countries and regions.

The EPA negotiation with Japan has been effectively suspended since November 2004 due to differences between the countries regarding tariff concessions. Agreements which the Republic of Korea had entered into came into effect in April 2004 with Chile, in March 2006 with Singapore, and in September 2006 with EFTA. The Republic of Korea signed a basic agreement regarding the FTA framework with the ASEAN-10 in December 2005, and in April 2006, agreed with nine of the ASEAN-10 countries (except for Thailand) on the liberalization of trade in goods. The Republic of Korea signed the Joint Study Group Report with India in December 2005, commenced negotiations therewith from March 2006, and aims to enter into an FTA with India at the end of 2007. With Canada, preliminary negotiations began in January 2005, and true negotiations started in July 2005. The Republic of Korea agreed to commence negotiations on the Strategic Economic Complementation Agreement with Mexico in September 2005, and then commenced negotiations therewith in February 2006. With the United States, negotiations commenced in June 2006, with a view to arriving at an agreement by the end of March 2007 and to having an agreement come into effect in 2008. A government joint study with MERCOSUR/MERCOSUL commenced in April 2005.

In order to study the possibility of a new FTA, the Republic of Korea planned to hold a one-year industry-academia-government joint study program with China from the beginning of 2007. A co-research program is also being conducted by the research institutes of Japan, China, and the Republic of Korea. The Republic of Korea commenced preliminary working-level discussions with the EU for the commencement of FTA negotiations in July 2006. It is also examining the launch of a joint study program with Australia.

(vi) China

China aggressively promotes the reinforcement of economic partnerships with many countries and regions. In November 2006, China entered into an FTA with Pakistan following six rounds of inter-governmental negotiations. As a result thereof, China will reduce the tariffs on all trade items with Pakistan in two stages. Such agreement is the third FTA China has entered into, following the ASEAN FTA (2004) and the Chile FTA (2005). So far, China has conducted inter-governmental negotiations with New Zealand, Australia, and the GCC, and newly agreed to commence inter-governmental negotiations with Singapore in August 2006, and with Iceland in December 2006. In November 2006, China also agreed to commence an industry-academia-government joint study program with the Republic of Korea. China agreed to the fourth round of a CEPA with Hong Kong in June 2006. As a result, tariffs on 37 Hong Kong products are to be eliminated (in addition to the previous 1,370 products), and a further opening of the market is to be advanced in the area of services.

(vii) SAFTA

In January 2004, the South Asian Association for Regional Cooperation (SAARC) Summit was held, and the SAFTA Framework Agreement was signed by seven member states (India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan, and Maldives). This agreement came into effect in January 2006. Under such agreement, the Non-LDC (defined below) states (India, Pakistan, and Sri Lanka) shall, except in respect of certain exceptional items, reduce the maximum tariff rates to 20% by the end of 2007. Under such agreement, the least developed countries ("LDC" states) shall similarly reduce maximum tariff rates to 30%. The agreement states that the member states will establish a South Asian free trade area by 2016, under which the maximum tariff rates will be reduced to 0-5%.

(viii) BIMSTEC

BIMSTEC is comprised of seven countries: Bangladesh, India, Myanmar, Sri Lanka, Thailand, Nepal, and Bhutan. In February 2004, the FTA Framework Agreement was entered into by all member countries except Bangladesh, and in June of the same year, was signed again, but with Bangladesh included. BIMSTEC planned to commence tariff reduction from July 2006, and to eliminate tariffs by June 2012 for member countries, but by June 2015 for LDC states (Bangladesh, Nepal, and Bhutan).

Negotiations for agreements on the liberalization of trade in goods commenced in August 2004, with an intention to complete them by December 2005. Negotiations on investments and services were planned to commence at an appropriate time in 2005 and to be completed by 2007.

(d) Broad Regional Economic Partnerships in East Asia/Asia Pacific Region

In the Asia Pacific region (including East Asia as a center), various efforts to establish broad regional economic partnerships are being made in a multi-layered manner through the following frameworks: ASEAN+1 (as mentioned earlier), ASEAN+3 (Japan, China, the Republic of Korea, and ASEAN), ASEAN+6 (ASEAN+3, India, Australia and New Zealand), and APEC (Asia-Pacific Economic Cooperation).

(i) East Asian Community (ASEAN+3 and ASEAN+6)

The trend of economic integration and political cooperation in East Asia was triggered by the East Asia Economic Centre ("EAEC") framework proposed by Malaysia in 1991. In 1997, the year of Asia's financial crisis, the first ASEAN+3 Summit was held (thereafter established as a standing summit), and at the third ASEAN+3 Summit, the "Joint Statement on East Asia Cooperation," which provided for the basic policy for future cooperation in East Asia, was issued. Furthermore, the East Asia Vision Group ("EAVG") advised the ASEAN+3 Summit with respect to institutionalization for

the purpose of establishing an integrated East Asian community. In 2002, the East Asia Study Group (“EASG”) advised on specific measures to take in such respect, including 17 measures which should be achieved in the short term and 9 measures which should be achieved in the medium and long term. Thus, the impetus to establish the East Asian Community grew. The Tokyo Declaration was adopted at the ASEAN-Japan Commemorative Summit held in 2003, and it confirmed the intention to deepen cooperation for the establishment of the East Asian community as one of the common strategies between Japan and the ASEAN.

In December 2005, subject to the agreement at the ASEAN+3 Summit of the preceding year, the first East Asia Summit (“EAS”) was held with the ASEAN+6 as the participating countries, and a joint declaration was issued at such summit confirming, amongst other things, that the EAS would be convened regularly and that it would play a “significant role” in establishing a community in this region (the second EAS was held in January 2007). The ASEAN+3 Summit was also held, and in its joint declaration, stated that ASEAN+3 was the “main vehicle” for establishing the East Asian Community. In the discussion at the EAS, Japan and Singapore insisted that both the EAS and the ASEAN+3 are important vehicles through which to establish the East Asian community. Meanwhile, countries such as China insist that the ASEAN+3 is the major vehicle through which to establish the East Asian community.

(ii) East Asian Economic Integration (EAFTA, CEPEA, ERIA)

The EASG report mentions the East Asia Free Trade Area (“EAFTA”) as a goal to be met in the medium to long term. In April 2005, based upon China’s proposal, research regarding the feasibility of EAFTA by experts of the ASEAN+3 commenced. In July 2006, they completed a report stating that discussions between governments should be launched in order to establish an FTA for the ASEAN+3. At the ASEAN+3 economic ministerial meeting held in August 2006, many representative of the member countries thereof expressed the view that discussions between governments are premature, and at the ASEAN+3 Summit held in January 2007, it was decided that further research in this respect should be undertaken by experts.

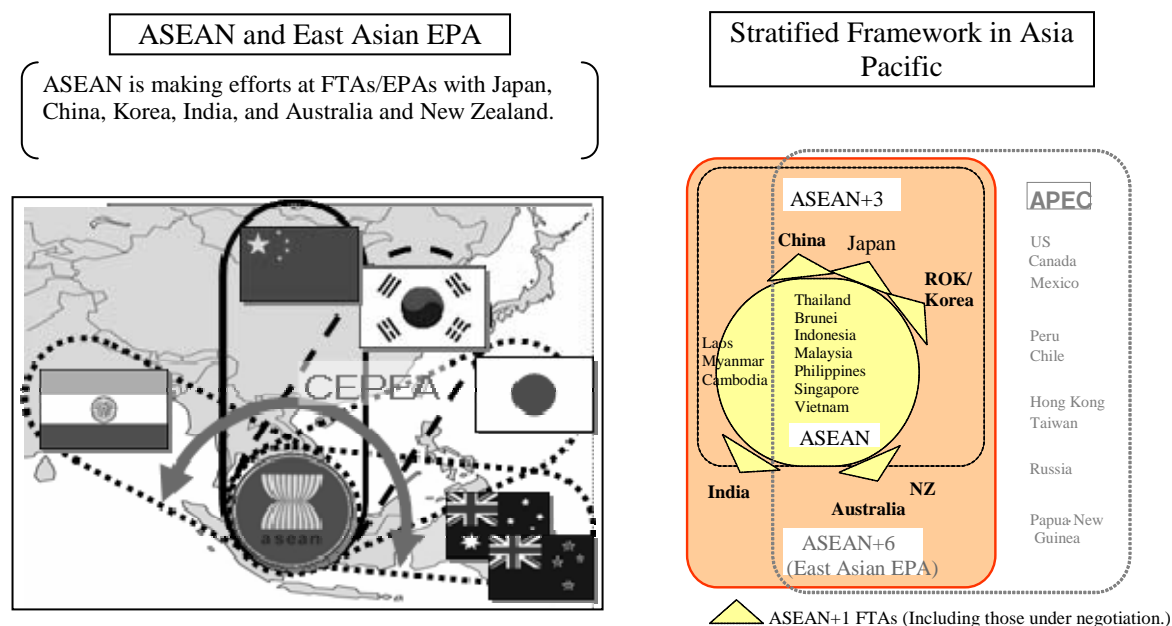
With respect to the ASEAN+6, firmer connections in the form of actual economic conditions (such as rapidly increasing trade within the region, and expansion of a transnational production network) have been established. There is, therefore, a strong impetus to attempt institutionalization of such economic conditions, and efforts at FTAs/EPAs between the ASEAN and Japan, China, the Republic of Korea, India, Australia and New Zealand are progressing. Because it is able to attempt broad regional economic partnerships based on such FTAs/EPAs, in August 2006, Japan proposed a study to be conducted on the Comprehensive Economic Partnership in East Asia (“CEPEA,” an East Asian EPA) by the ASEAN+6. After obtaining general approval from each economic minister of the member countries thereof, it was agreed by the heads of the Second EAS held in January 2007 to commence research by experts in respect of CEPEA.

Japan also proposed the establishment of the Economic Research Institute for the ASEAN and East Asia (“ERIA”), which provides support (such as policy proposals) in respect of policies for the purpose of East Asia’s sustainable growth, and it was similarly welcomed at the Second EAS. This institute is expected to respond to a broad range of subjects common in the region, such as trade and investment, and energy and the environment, and to gradually develop into the “East Asian version of the OECD” (which facilitates policy coordination, etc.) in the future.

(iii) APEC (Asia-Pacific Economic Cooperation)

APEC was established in 1989. At the Economic Leaders’ Meeting held in Bogor, Indonesia in 1994, APEC set as a goal (“Bogor Goal”) free and open trade and investment amongst the industrialized economies thereof by 2010 (and by 2020 in respect of developing economies). FTAs are an effective measure to achieve the Bogor Goal. In this respect, as a specific effort to improve the quality of FTAs within the region, “model measures for FTAs” are being developed to serve as a

reference for FTA negotiations in regard to major areas of FTAs (to be completed by 2008). Furthermore, at the Economic Leaders Meeting held in November 2006, the United States proposed an APEC-wide FTA (“FTAAP”). It was also agreed upon at such meeting to consider methods for promoting regional economic integration (including an FTAAP) as a long term objective, and to report its conclusion at the Economic Leaders Meeting in 2007. Japan has been independently contributing to the promotion of regional cooperation in the Asia Pacific region through APEC since its establishment, and plans to host the Economic Leaders Meeting in 2010. Japan should be aggressive in leading the discussion on how efforts with respect to the liberalization of trade and investment in East Asia, as building blocks, should be extended to the Asia Pacific region, and further extended globally through the WTO framework.



3. Efforts in Japan

Japan's basic trade policy is to maintain and reinforce common international rules by (i) actively participating in relevant trade mechanisms (including the WTO New Round), and (ii) maintaining a free and transparent environment for international economic activities. However, in the WTO, efficient negotiations and expeditious agreements are becoming difficult due to the increasing number of member countries, diversification of negotiation items, and other factors. At the same time, the environment surrounding Japan's external economic policy has recently been subject to remarkable changes (such as foreign countries accelerating efforts to reinforce economic partnerships). Under such circumstances, it is necessary for Japan's external economic policy to, while considering the WTO's maintenance and reinforcement of basic international trade rules and the WTO's rules-based dispute settlement procedures as the basic infrastructure, develop multi-layered external economic policies by strategically and flexibly utilizing inter-region or bilateral FTAs/EPAs as a complement to its efforts in the WTO.

With respect to EPAs, Japan aims to expeditiously reach agreement on rules or agreements with contracting party countries, properly reflecting their actual economic conditions, and covering a wide range of areas, including not only the liberalization of trade in tariffs and services, but also the establishment of investment rules, the facilitation of human exchange, and so forth. In choosing the counterparty countries and/or regions for negotiating economic partnerships, it is important that such countries and/or regions contribute to Japan's interests, while taking into consideration all relevant circumstances (including economic and diplomatic interests) and conditions of such negotiating countries and/or regions. To deal with problems which cannot be solved through only bilateral frameworks, efforts in regional frameworks are also being promoted, and by achieving high-level

agreements, Japan is pursuing the goal of establishing a more free and open business environment in the future.

Summarized below are the anticipated benefits which Japan could receive by entering into FTAs/EPAs:

- i) Such FTAs/EPAs may result in both increased competition among companies within the region and the best allocation of management resources in the broader region, and therefore, help to improve the profitability of businesses and to promote reform of the domestic economic structure. In addition, from Japan's perspective, they may help to increase the attractiveness of the counterparty country or region as a direct investment site.
- ii) Such FTAs/EPAs may secure preferential access to markets which Japan considers important due to tariff elimination, harmonization of domestic systems and the like, thereby expanding trade and investment opportunities and enabling enterprises to enjoy a benefit of scale.
- iii) By expeditiously working out trade rules between countries and/or regions sharing the same basic ideas as Japan, such FTAs/EPAs enable Japan to form a framework agreement in areas where specific rules are not agreed to in the WTO forum; and if that framework is adopted widely, it would be easier for Japan to take the initiative in discussing these areas in the WTO.

Japan can enjoy such benefits of FTAs/EPAs as mentioned above by entering into FTAs/EPAs ahead of other countries. In contrast, if FTAs/EPAs are entered into between foreign countries ahead of Japan, then Japan, and Japanese companies, (which has or have, as the case may be, not executed FTAs/EPAs) would be at a disadvantage.

After the collapse of the cold war structure, Western countries aggressively promoted FTAs throughout the 1990s, but Japan was far behind. For Japan to enter into FTAs/EPAs, the liberalization of Japan's sensitive sectors (such as agricultural areas) is a major and critical issue. In circumstances where the execution of FTAs/EPAs has accelerated in East Asia, which has a deeply interdependent relationship with the Japanese economy, it is believed that, for the purpose of protecting the national interest, far-reaching endeavors to promote FTAs/EPAs are required.

As mentioned above, FTAs/EPAs are a complement to multilateral efforts under the WTO, and not substitutes therefor. For example, agreements under the WTO increase multilateral economic welfare, and have the effect of mitigating complications arising out of various systems which result from a multitude of FTAs/EPAs (the so-called "spaghetti bowl" phenomenon). In addition, unlike under FTAs/EPAs, if a certain country and/or region does not comply with matters under the relevant multilateral agreement and causes the economic welfare of other countries to deteriorate, it would be easy to establish corroborative and cooperative relationships among countries/regions to manage such situation. The WTO's dispute settlement system also contributes to compliance with and clarification of the disciplines among the multiple countries in a transparent and effective form in a wide range of areas, and this is an aspect lacking in FTAs/EPAs. Thus, although it is not easy to reach agreements under the WTO framework, the effect of such agreements, when achieved, is immeasurable.

Japan should consider making positive contributions to the cultivation and expansion of the basic international trade rules under the WTO, but also demonstrate its position of active participation in the formation of regional order through negotiations of FTAs/EPAs.

[Overview of Japan's Efforts]

Japan's efforts at reaching agreements with East Asia, which has deep economically interdependent relationships with Japan, and with resource rich countries thereunder, are currently underway.

(a) EPAs with East Asia

Deep economically interdependent relationships are already established in practice between Japan and East Asian countries, such as with respect to the development of Japanese companies' production plants. In addition, in 2004, East Asia's share of all imports and exports of Japan have increased from 44% and 39%, respectively, in 1999 to 50% and 51%, respectively. Further, the direct investment ratio from Japan to East Asia increased from 7% in 1999 to 40% in 2004. These figures indicate the rapidly deepening interdependence between Japan and East Asia.

For the Japanese economy, whose growth is believed to remain slow in both domestic productivity and demand due to a declining birthrate and an aging and decreasing population, it is essential to further reinforce the economic relationship with East Asia, which still expects rapid growth. The reinforcement of such relationship is for the purposes of the growth of both East Asia and Japan through various channels, such as trade in goods, capital transactions including direct investment) and frequent human exchange. In this respect, EPAs with such effects mentioned above can be an extremely effective measure.

Set forth below are the effects of Japan's EPAs with East Asia:

- 1) Despite the growing importance of East Asia in trade and investment (as described above), the tariff rates of East Asian countries are generally high compared to those of developed countries. Also, with respect to investment, there are countries where there still remain barriers to trade and investment (such as foreign capital restrictions, business-related restrictions, and opaque administrative operation). It is expected that the execution of EPAs will eliminate or reduce trade and investment barriers, resulting in a large expansionary effect on trade and investment. Japan, therefore, can expect to acquire new markets and further economic growth due to the increased investment that is expected in respect of East Asian countries.
- 2) Currently, within the East Asia region, inter-process division of labor and intra-industry trade are being spread. The elimination of trade and investment barriers, coordination of intra-regional systems, establishment of economic cooperation policies, and the like, will help reduce transaction costs within the region, and this will strengthen the competitiveness of the industries in such production and distribution network. Furthermore, the increase in intra-regional division of labor and intra-regional trade contributes to the economic growth of the countries within the region.
- 3) Initiatives to enter into EPAs have recently increased in East Asia (apart from Japan). It is, therefore, important for Japan to enter into EPAs with East Asia, because, if Japan remains outside the EPA networks, Japanese companies may lose their competitiveness.

EPAs with East Asia are not only significant to Japan, but are also expected to accrue benefits for other East Asian countries. Such benefits include a further economic growth (resulting from an increase in the intra-regional division of labor and the intra-regional trade and investment promotion expected from the elimination of barriers to trade and investment) across a broad region and a consequential political and economic stability. A good economic environment is expected due to these benefits, attracting more investment and achieving economic development. Ultimately, in such environment, stability and prosperity in the whole of East Asia will be attained.

Japan has set a future goal of establishing a free and mature economic sphere across East Asia, whereby goods, services, persons and capital can move more freely. To achieve this goal, Japan has advanced its efforts at bilateral EPAs with ASEAN member countries, the Republic of Korea and others and a regional EPA with the ASEAN as a whole, and has also conducted studies on the future possibility of a broad regional economic partnership with all of East Asia.

Particularly, to respond to the recent expansion of the production network in East Asia and the progress of economic partnerships between the ASEAN and surrounding countries, Japan has proposed to conduct research on EPAs within the framework of the ASEAN+6, which adds Japan, China, the Republic of Korea, India, Australia, and New Zealand to ASEAN, and this proposal has been approved at the summit level (as mentioned earlier).

(b) EPAs with the ASEAN

Japan is advancing bilateral efforts with both member countries of ASEAN and, in parallel, with Japan-ASEAN (as a whole).

(i) EPA with the ASEAN as a whole

In April 2005, Japan commenced negotiations with the ASEAN, subject to the agreement made among the heads of the relevant countries in November 2004. Economic ministers and heads of the countries have agreed to work to complete such negotiations within two years.

An EPA between Japan and ASEAN as a whole would institute a free economic area (Japan and ASEAN as one area) with a population of 650 million and an economic scale of 5 trillion US dollars. This would have an extremely large and significant effect, stimulating the economies of both Japan and the ASEAN. In the East Asia region, the ASEAN continues to provide the deepest trade and investment relationship with Japan, and is therefore an important region. An EPA with the ASEAN is also important from the viewpoint of effectively utilizing assets in the ASEAN, which have accumulated due to large investments made to date.

Furthermore, an EPA with ASEAN as a whole would facilitate harmonization over a wide region, which would be difficult to achieve through bilateral EPAs between Japan and the ASEAN member countries, and would contribute to strengthen industrial competitiveness in a form fitting into the actual pattern of economic activities conducted broadly between Japan and the ASEAN. For example, while bilateral EPAs might not necessarily be useful where final products exported within the region are processed within the ASEAN using high value-added parts manufactured in Japan, an EPA with the whole of the ASEAN would resolve this situation by adopting the “Japan-ASEAN Origin” concept.

In this respect, an agreement between the ASEAN and China regarding trade in goods has already come into effect, and the Republic of Korea, India, Australia, and others are rushing to achieve the same. Japan should not fall behind, and should execute an EPA with the ASEAN. A pro forma analysis shows that, through the establishment of a Japan-ASEAN EPA, Japan's GDP would increase by approximately 1.1 trillion to 2 trillion yen. There is also a pro forma analysis showing that if only the China-ASEAN FTA is executed, Japan's GDP will decrease by approximately 360 billion yen.

(ii) EPA with Singapore

Japan's EPA with Singapore was signed on January 13, 2002, and came into effect on November 30 of the same year.

This agreement, Japan's first Regional Trade Agreement (RTA), aims to promote a comprehensive economic partnership between the two countries, which partnership is to have the effect of expanding trade and investment within the region and harmonizing systems in such areas as

paperless trade and mutual recognition. By liberalizing and facilitating trade and investment and harmonizing economic systems, such EPA would have the further effect of improving bilateral cooperation in the areas of information and communication technology (“ICT”), and trade and investment.

Since this agreement came into effect, despite certain negative factors (such as Japan's economic stagnation, SARS, and terrorism), Japan's trade with Singapore has stably progressed, and exports to Singapore have increased by 9.6%, while imports from Singapore have increased by 8.5%. Most dramatically, the export of beer to Singapore and the import of plastic products from Singapore, for which the tariffs were eliminated, showed increases of 20.3% and 74.7% respectively (comparison between 2002 and 2004).

In addition, the negotiation for review, which commenced in April 2006, reached agreement in January 2007. Thus, further liberalization is expected to be implemented.

(iii) EPA with the Philippines

Negotiation for the EPA with the Philippines commenced in February 2004, and the EPA was signed at the Japan-Philippines Summit Meeting held in September 2006.

This agreement is the first EPA entered into by the Philippines. It aims to advance a comprehensive economic partnership between the countries, so as to a) promote the free movement of goods, persons, services and capital, as well as the harmonization and clarification of legal frameworks for intellectual property, competition policies and maintaining the business environment, and the development of economic activity of both countries; and b) improve bilateral cooperation in the areas of intellectual property, competition policy, business environment maintenance, training of human resources, trade and investment, information and communication technology, and small/medium-sized companies. It is expected that this agreement will realize the potential for the mutual economic benefits the countries may contribute to each other, and as a result, to further reinforce the economic relationship between the countries.

Among the exports to the Philippines, the major tariff items and the tariff rates therefor (as of 2004) include automobiles (complete vehicle (30%), auto parts (3-10%)), electrical equipment (electrical equipment parts (0-3%)), lithium ion battery (5%)), camera parts (3%), liquid crystal devices, and resins (1-10%).

(iv) EPA with Malaysia

Negotiation for this EPA commenced in January 2004, and in May 2005, both countries confirmed an agreement in principle on major issues. The EPA was officially signed by the heads of both countries in December 2005, and came into effect in July 2006.

Many Japan-owned companies have been established in Malaysia, indicating that there is a strong economic relationship between the countries. The establishment of economic partnership between the countries therefore, has had the effect of facilitating procurement and sales of parts, and thus expanding trade and investment between the countries. It is noteworthy that the agreed tariff elimination and reduction would have a large economic effect. In Malaysia, because imports of certain items (such as automobiles and auto parts) are subject to high tariffs, tariff elimination by the EPA is expected to have a significant effect on trade and investment. In addition, for many Japanese companies establishing entities in Malaysia, it is very important that a framework has been established whereby the governments and industries of both countries work on establishing investment rules, liberalizing trade in services, and otherwise improving the business environment.

(v) EPA with Thailand

Negotiation for the EPA with Thailand commenced in February 2004, and agreement in principle on major issues was reached at the Japan-Thailand Summit Meeting in September 2005. Japan aims for such agreement to be signed and to come into effect soon.

According to this agreement, Thailand will eliminate tariffs on almost all non-agricultural products, excluding certain classes of automobiles, within 10 years. In the investment area, Thailand will declare under the EPA that it will not tighten restrictions on investment in the manufacturing industry, and in the services area, will relax foreign investment restrictions on some manufacturing industry-related services (such as repair and maintenance, and retail and wholesale). In the area of movement of natural persons, Japan will relax the entry and labor conditions for cooks, instructors, and others, and will later examine and discuss the acceptance of spa therapists and care workers. On the Thailand side, conditions related to visa and work permit for Japanese nationals will be relaxed. Japan will implement comprehensive tariff elimination and reduction (which will include many agricultural, forestry, and fishery products), as well as industrial cooperation for automobiles, steel, and agricultural cooperation.

Thailand ranks first among ASEAN countries as an export counterpart of Japan, but most exports are subject to high tariff rates. The EPA, therefore, once in force, will create the benefit of tariff elimination. Also, because Thailand is the core manufacturing base in the ASEAN for Japanese companies (more Japanese companies are established in Thailand than in any other member country of the ASEAN), it is very important to establish in this EPA investment rules and the expected business environment resulting from the liberalization of trade in services. Furthermore, the establishment of an economic partnership with Thailand will be key to accomplishing economic partnerships between Japan and the ASEAN, and among the whole of East Asia, due to the fact, as aforementioned, that Thailand is the ASEAN's core manufacturing base.

Among the exports to Thailand, the major tariff items and their tariff rates therefor (as of 2004) include automobiles (complete vehicle (80%), gear box (30%)), electronic products (refrigerator, washing machine (5%)), and steel products (hot-rolled steel sheet (7.5%), galvanized steel sheet (12%)).

(vi) EPA with Indonesia

In June 2003, the heads of Japan and Indonesia agreed to commence preparatory discussions at the working level. Subsequently, two preparatory discussions were conducted, but such discussions were temporarily suspended. Then, based on certain factors, including Indonesia showing interest in establishing a bilateral EPA at the Japan-Indonesia Summit Meeting of November 2004, preparatory work resumed, with a bilateral EPA as a goal. In December 2004, Japan's Minister of Economy, Trade and Industry, Shoichi Nakagawa, and Indonesia's Minister of Trade, Mari Elka Pangestu, agreed to establish a "Joint Study Group" (which was to take a bilateral EPA between the countries into account). By April 2005, three discussions were held. In June of the same year, it was agreed by and between the heads of both countries to commence negotiations for a bilateral EPA, and following six rounds of negotiations from July 2005 to October 2006, an agreement in principle was reached on major issues at the Japan-Indonesia Summit Meeting held in November 2006. Negotiations in respect of a Japan-Indonesia EPA are still underway, with the countries striving to enter into such agreement as soon as possible.

Japan's investments in Indonesia are greater than any other member country of the ASEAN (27.8 billion dollars (on a cumulative basis for 1990-2001)). The formation of an EPA between Japan and Indonesia, by harmonizing the existing legal systems of such countries and promoting the reasonable administration and transparency of each administration system, can improve the stability of the investment environment, the foreseeability of legal, cultural and business issues for Japanese companies, and consequently, the overall business environment.

Indonesia has the largest population (230 million) within the ASEAN. The formation of an EPA therewith will secure preferential access to this promising market for Japanese companies. Indonesia also has rich underground resources (such as natural gas and petroleum), and this adds to the importance of Japan reinforcing its economic relationship with Indonesia. In the Japan-Indonesia EPA, disciplines in relation to the energy area are expected to be introduced, and such would be a first for EPAs entered into by Japan.

[Reference] Summary of Basic Agreement of the Japan-Indonesia EPA

<p><u>Improvement of Access to Goods Market</u></p> <ul style="list-style-type: none"> - Tariff elimination in approximately 92% of two-way trade (approximately 93% of imports from Indonesia and approximately 90%* exports to Indonesia will be tariff-free.) * If adding the amount of tariff exemption for specific use of steel, approximately 96% will be tariff-free in substance. <p><u>Improvement of Access to Services Market</u></p> <ul style="list-style-type: none"> - Promised at a high level, including further liberalization for finance, construction, tourism, manufacturing industry related services, and other areas. - Protection of the advancement conditions granted to Japanese companies regarding telecommunication, marine transport, and distribution which has already been put in place. <p><u>Improvement of Investment Environment</u></p> <ul style="list-style-type: none"> - Maintenance and improvement of transparency of the rules for investment, customs procedure, intellectual property, competition, and governmental procurement 	<p><u>Reinforcement of Bilateral Cooperation Relationship in Energy and Mineral Resources Areas</u></p> <ul style="list-style-type: none"> - Maintenance of investment environment, stable supply, policy dialogue, and cooperation <p><u>Promotion of Movement of Natural Persons</u></p> <ul style="list-style-type: none"> - To smooth entry and temporary stay in the other country for intra-corporate transferors, investors, persons engaged in special activities subject to contracts, and the like. - Acceptance of prospective nurses and care workers, and the like. <p><u>Cooperation on Human Resources Development and Technology Transfer</u></p>
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(vii) EPA with Brunei/Vietnam

Negotiations by Japan with Brunei and Vietnam commenced in April 2005 pursuant to the efforts of Japan and the ASEAN as a whole, and a second round of negotiations took place in July 2005. Thereafter, both Brunei and Vietnam officially requested negotiations for an individual bilateral EPA. To advance examination of EPAs as bilateral frameworks, therefore, at the meetings of the heads of Japan and each of Brunei and Vietnam held in December 2005, both Brunei and Vietnam agreed to the commencement of the examination meeting and preparation negotiation.

In May 2006, following two preparatory discussions with Brunei in February and April of 2006, the foreign ministers of Japan and Brunei agreed to commence EPA negotiations. After three negotiations held between June and November 2006, it was confirmed by exchanging letters between

their heads in December 2006 that an agreement in principle on major issues was reached.

Brunei is an important energy supplier for Japan (for example, supplying natural gas), and this agreement is expected to further reinforce political and economic relationships with Brunei, and to ensure Japan of a stable energy supply.

With respect to Vietnam, following the examination meetings held in February and April of 2006, it was agreed at the Japan-Vietnam Summit Meeting in October 2006 that negotiations would commence in January 2007. The first negotiation was held in Tokyo in January 2007.

Recently, Vietnam has become increasingly attractive to Japanese companies. With the improvement in the investment environment (and other aspects under this agreement), the political and economic relationship between Japan and Vietnam is expected to be further reinforced.

(c) EPA with the Republic of Korea

The EPA negotiation with the Republic of Korea commenced in December 2003, and has been effectively suspended since November 2004. However, Japan will continue efforts to achieve this agreement.

Executing an EPA with the Republic of Korea is important to both countries from the perspective that Japan and the Republic of Korea have a relatively similar industrial structure, and the market integration by an EPA would thus be expected to stimulate transnational competition and cooperation between Japanese and Korean companies, as well as economic structure reform. Such would, as a result, improve both productivity and efficiency for both countries. This EPA would also provide both countries the opportunity to realize the true potential of their economic relationship (for example, by developing investment relationships, which currently remain relatively superficial). Japan and the Republic of Korea are now the sole set of neighboring developed countries which have not entered into an EPA.

The major tariff items and their tariff rates among the exports to the Republic of Korea (as of 2004) include automobiles (complete vehicle (8%), auto parts (8%)), electrical machinery products (8%), and sheet board of polarization material (8%).

In January 2007, following six rounds of discussions which commenced in May 2005, the governments of Japan, China, and the Republic of Korea agreed to start official negotiations seeking a legal framework for investment.

(d) EPA with Mexico

Japan and Mexico commenced negotiations for an EPA in November 2002, and in March 2004, after almost two years of vigorous negotiation, the ministers of each such country reached an agreement in principle on major issues. Following completion of the technical legal details, an agreement was formally signed by the heads of the countries in September 2004. The agreement was ratified in November 2004, and came into effect on April 1, 2005.

Under such agreement, a large portion of the average tariff rate (16%, based on annual average effective tariff rate as of 2001) which was previously imposed on export products to Mexico are to be eliminated within 10 years. In areas such as investment and services, and governmental procurement, Japan enjoys a competitive environment similar to that enjoyed by Western countries with Mexico. According to the Minister of Finance Trade Statistics, after the agreement came into force (first half of 2005), the trade volumes between the countries increased by approximately 30% compared to a year earlier, and in connection with investment, by automobile-related companies experienced an increase in production augmentation, establishment of sales bases, and the like.

Since this agreement came into effect, efforts to reinforce the economic relationship between the countries have been made. For example, under such agreement, such efforts have been made in respect of the (i) operation of committees between the governments (including the Committee for the Improvement of the Business Environment, which includes the participation of business representatives) and (ii) operation of investment seminars and dispatch of missions with the cooperation of interested parties in Japan and Mexico.

(e) EPA with Chile

At the meeting of the heads of Japan and Chile in November 2004, Japan and Chile agreed to establish an industry-academia-government “Joint Study Group” to examine the feasibility of an EPA between such countries. The Joint Study Group started from the end of January 2005 and four meetings were held thereafter. In November of the same year, between summits, based on the report by the Joint Study Group, it was agreed by Japan and Chile to commence EPA negotiations. Negotiation meetings were held four times between February and September of 2006, and in September 2006, agreement was reached in principle on major issues, but focusing on market access. A fifth negotiation was held in November, and at the summit meeting held in the same month, agreement on the negotiations was confirmed. The Japan-Chile EPA was signed at the end of March 2007.

Chile is aggressively promoting an open economic policy as a trading nation, similar to Japan. Chile’s political and economic climates are stable, and Chile is an important supplier of mineral resources to Japan. Chile has already entered into FTAs with approximately 40 countries, including the United States, Canada, the EU, EFTA, the Republic of Korea and China, and it was thus important for Japan to resolve the economic disadvantage with Chile due to the non-existence of an FTA/EPA therewith.

The major tariff items and their tariff rates in respect of exports to Chile (as of 2004) include automobiles (complete vehicle, auto parts) (6%), Tires (6%), prime movers (6%) and video appliances (6%).

(f) FTA with GCC

In March 2006, it was agreed to commence negotiations on an FTA with the countries of the GCC in respect of goods and services. In April 2006, former Prime Minister Junichiro Koizumi and His Royal Highness Prince Sultan Bin Abdulaziz Al-Saud, The Crown Prince of the Kingdom of Saudi Arabia, announced the commencement of negotiations through a Joint Statement, and the first negotiations between Japan and the GCC was held in September 2006.

The GCC region accounts for over 75% (2005) of Japan’s raw petroleum imports, and the aggregate export amount from Japan thereto is over 1.4 trillion yen. It is important to form and maintain a friendly relationship (including an economic relationship) between the countries from the viewpoint of Japan’s energy security and expansion of trade.

For areas not covered by FTA negotiations between Japan and GCC, Japan has resumed the suspended negotiations on an investment agreement with Saudi Arabia (first negotiation was held in October 2006), and newly established the Japan-Qatar Joint Economic Committee to discuss both the area of energy and Japan’s investment and business environment with Qatar (the first meeting was held in November 2006).

(g) EPA with India

In August 2004, the ministers of the Ministry of Economy, Trade and Industry of Japan and the Ministry of Commerce and Industry and the Ministry of Finance of India agreed to commence a “policy dialogue” at the Deputy Minister level to consider the feasibility of an EPA between Japan and

India. The first policy dialogue was held in April 2005. In November 2004, at the meeting of the heads of Japan and India, agreement was reached to establish a Joint Study Group to comprehensively discuss ways to reinforce the economic partnership between the countries. The Joint Study Group held discussions four times between July 2005 and June 2006. Based on the report by the Joint Study Group, at the Japan-India Summit Meeting held in July 2006, direction was given to the administrators to start preparation for negotiations. At the Japan-India Summit Meeting held in December 2006, it was agreed to commence the negotiations from January 2007, and the first negotiation was held in January 2007. The objective is to complete the substantial negotiations as early as possible, but within two years.

India imposes high tariffs on most exports from Japan. Tariff elimination, therefore, would promote exports from Japan and further enable Japanese companies, mostly in the manufacturing industry, to establish entities in India to conduct duty-free procurement activities. In the area of investment and services, it is important for Japan and India to work out rules which are free, transparent, and stable and to improve the business environment.

The major tariff items and their tariff rates among the exports to India (as of 2004) include auto parts (15%), iron and steel products (10% and 15% respectively), precision instruments (15%), and machine tools (15%).

(h) EPA with Australia

Based on the “Australia-Japan Trade and Economic Framework” signed at the summit meeting held in July 2003, the governmental joint study in respect of the costs and benefits of the liberalization of trade and investment, cooperation on measures, etc. to facilitate trade and investment between Australia and Japan were conducted. This joint study reached completion in April 2005. Subsequently, at the meeting of the heads of Japan and Australia held in April of the same year, while mutually recognizing the difficult issues in respect of agriculture, Japan and Australia agreed to jointly conduct a study on the methods for reinforcing economic relationships (that are tailored for the relationship between developed countries) between them, including with respect to the pros and cons of an FTA/EPA between them. Such joint study meetings were held five times from November 2005 to September 2006. Following the final report thereof, in December 2006, Prime Minister Shinzo Abe of Japan and Prime Minister of Australia John Howard agreed to commence negotiations for an EPA from 2007.

Benefits Japan can expect from a Japan-Australia EPA are as follows:

- 1) Because Japan relies largely on Australia for iron ore and coal, an EPA with Australia would ensure Japan a stable supply of resources and energy.
- 2) Expanded trade due to tariff elimination (price competitiveness against countries with which Australia has already executed an EPA, or with which EPA negotiations are underway, will be improved due to an EPA between Japan and Australia).
- 3) Expected economic integration model for the East Asia region by working out high-level rules related to intellectual property, investment, and the like as an EPA between developed, capitalist countries.

The major tariff items and their tariff rates among the exports to Australia (as of 2005) include passenger cars (complete vehicles (10%)), commercial cars (complete vehicles (5%)), auto parts (passenger cars) (10%), shovel loaders (5%), and oil pipes (5%).

(i) EPA with Switzerland

At the summit meeting in April 2005, it was agreed by Japan and Switzerland to establish a

joint governmental study, which would include an analysis of the pros and cons of an FTA/EPA between such countries, and an analysis of the methods of economic partnership reinforcement for developed countries. Such joint study meetings were held five times during the period from October 2005 to November 2006. Following the final report thereof, in January 2007, it was agreed by the heads of both countries to commence EPA negotiations.

This is Japan's first attempt at an EPA with a European country. The benefits expected from an EPA with Switzerland, being agreed between developed countries, are as follows:

- 1) While taking into consideration sensitive items of both countries, promotion of trade in goods through high-level liberalization.
- 2) The ensuring of high-level liberalization and the protection of the investment environment for investment and services trade.
- 3) Cooperation in high-level intellectual property rights protection and countermeasures against imitation goods and pirated editions, as high-standard intellectual property powers.
- 4) Maintenance of the business environment by non-application of nationality requirements or relaxation of the residential requirements, and non-application of limitations on the number of visas and work permits issued and so forth for the directors of companies in Switzerland.

The major tariff items and their tariff rates among the exports to Switzerland (as of 2005) include passenger cars (12-15 francs/100KG), motorcycles (37 francs/100KG), platinum (80-1599 francs/100KG), televisions, and video cassette recorders (58 francs/100KG).