

Section 3 Efforts towards a stronger partnership among all East Asia

East Asia is advancing the formulation of a substantial economic bloc, as it is maintaining a rapid growth and vigorously promoting regionally unified economic activities. Also underway is an institutional unification to underpin the substantial economic bloc, being achieved through the progress of EPA/FTA negotiations and other efforts among countries in the region.

For East Asia to keep its sustainable growth, it first needs to improve its trade and investment environment that covers the region as an integrated sphere. It furthermore needs to establish an institution that can back the growth of each economy in the region at a different stage of economic development, allowing them to make a good utilization of their different advantages.

This section discusses Japan's efforts to meet these challenges and strengthen the partnership of all East Asia.

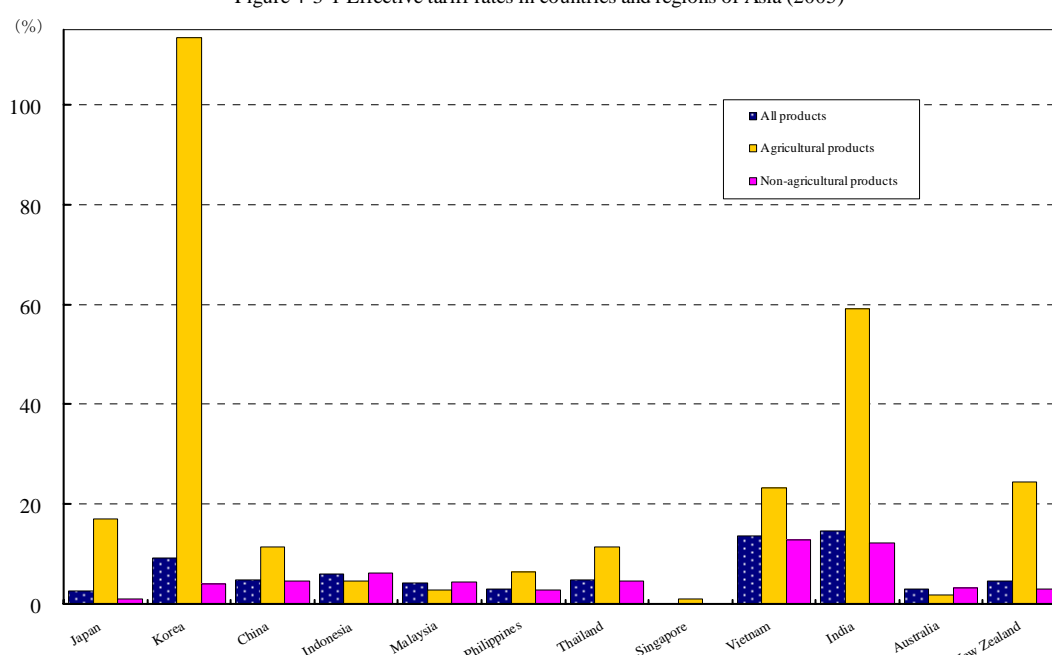
1. Common challenges shared by East Asia

(1) Toward a further deepening of the economic situations

(Room left to improve in trade and investment initiatives)

The East Asian region is deepening economic ties among its member countries, with the recent progress of its economic activities involving the entire region, contributed by institutional bases such as the ASEAN Free Trade Area (AFTA), which is the region's first free trade agreement (FTA). However, compared internationally, East Asia still maintains high levels of effective tariffs (Figure 4-3-1). Many countries in the region also keep regulation to control foreign companies' investment in terms of industrial sectors to be invested, investment ratio, and capital, among others. To further deepen the regional economic activities and achieve even greater growth, the region needs to reduce/eliminate tariff and non-tariff barriers, liberalize investment, as well as to cut the procedural costs related to trade and investment and improve the relevant institutions. Much room is also left to improve the business environment covering the competition policies and a system to protect intellectual properties, while each system needs to harmonize with one another.

Figure 4-3-1 Effective tariff rates in countries and regions of Asia (2005)



Notes: The effective tariff rate is calculated through a weighted average of the trade volume of each product. Figures for Korea are for 2004.
Source: TRAINS Database (UNCTAD).

(Environment and energy issues: demand/supply tightening and price surges caused by expanding demand and low efficiency of utilization)

In East Asia, close networks of production and consumption are being effectively built based on the deepening of economic ties within the region. That makes it more likely that an economic risk manifesting in a country can spread to other countries in the region. China in particular and also other countries in the region are seeing a surge of their energy demand³³ with their fast economic growth. But their energy utilization lacks efficiency, which is one of the reasons for a tightening of the demand-supply balance and soaring prices. Against these backdrops, East Asian countries are increasingly interested in energy security.

Currently each country in the region is making its own efforts for stronger energy security based on its resource availability, level of economic development and energy industry structure. Specific measures include the creation of an oil reserve system, diversification of energy resources and energy saving policies.

Japan, on the other hand, employs three points to approach energy security: stable supply of energy; responses to the environment; and economic efficiency. It is taking measures to ensure these points, yet energy security cannot be fulfilled by a single country's efforts. Japan needs to coordinate with energy producing countries and other consuming countries in order to flexibly respond to demand/supply changes (for both the short and mid-to-long terms), and achieve a balance with stable

³³ World energy demand will grow 1.5 times in 2030, according to the estimate by IEA in its *World Energy Outlook 2006*. IEA predicts that about 50% of the surge will come from Asia, 60% of which is due to the expansion of China's energy demand.

supply and the environment, thereby fulfilling an “international energy system” that can achieve sustainable development.

(East Asian countries are diverse in various senses)

To tackle these challenges, we must consider the diversity of East Asia. The region consists of highly diverse nations in terms of climate, availability of natural resources, languages used, religion, culture, historical development, and political system, among others. The intra-regional gaps of income, salary levels, and other factors showing the degree of economic development are also far wider than those seen in the European Union (EU) and the North American Free Trade Agreement (NAFTA) region. The maximum gap of per-capita gross domestic product (GDP) is 5.6 times in NAFTA and 21.5 times in EU, while 330 times in East Asia (Table 4-3-2).

Table 4-3-2 Comparison of intra-regional economic conditions (2005)

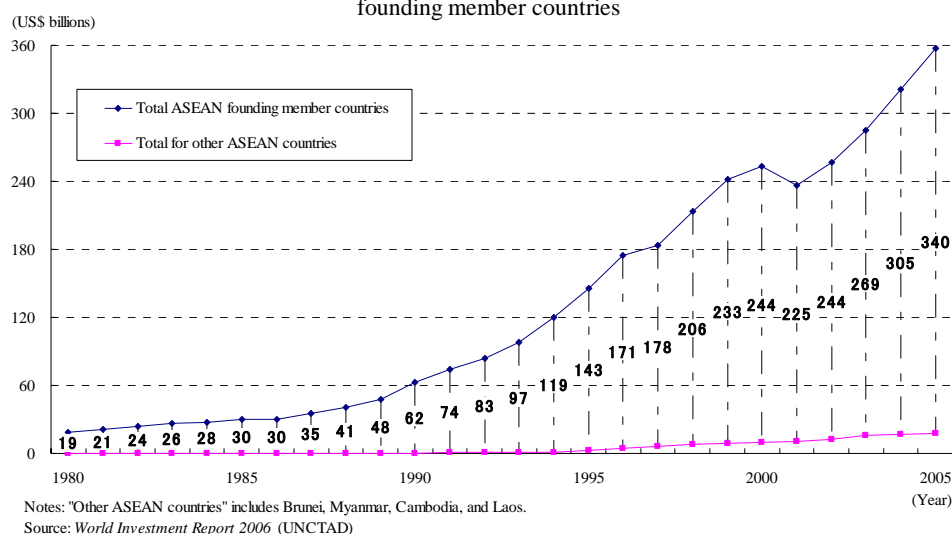
	Nominal GDP	Per capita nominal GDP	Greatest difference in per capital nominal GDP	Variance coefficient for per capita nominal GDP	Population
ASEAN	US\$881.5 billion	US\$1,599	252.1 fold (Singapore/Myanmar)	1.58	0.55 billion
East Asia	US\$9.999 trillion	US\$3,173	330.8 fold (Japan/Myanmar)	2.36	3.15 billion
NAFTA	US\$14.3387 trillion	US\$33,202	5.63 fold (USA/Mexico)	0.44	0.43 billion
EU27	US\$13.4257 trillion	US\$27,469	21.48 fold (Luxembourg/Bulgaria)	0.42	0.48 billion

Notes: The variance coefficient is the standard deviation divided by the average value, and the larger the value, this indicates a larger spread.

Source: *WDI* (World Bank).

The intra-regional gaps exist not only between developed and developing countries, but also among developing countries. For example within the Association of Southeast Asian Nations (ASEAN), a gap of direct inward investment balance exists between the founding members and newer members (Figure 4-3-3).

Figure 4-3-3 Changes in amount of direct inward investments made by ASEAN founding and non-founding member countries



2. East Asia's efforts toward overcoming its common challenges

As discussed earlier, East Asia is facing challenges common to its member countries for sustainable development. Japan, as a member of the region, needs to work toward overcoming these shared challenges by the utilization of various frameworks and based on its experiences in official development assistance (ODA) and pursuant to the chapters related to cooperation in economic partnership agreements (EPAs). The sections below are provided to discuss the outline of Japan's specific actions and their significance.

(1) Promotion of private sector studies concerning an East Asia's EPA (CEPEA³⁴) and establishment of the Research Institute for ASEAN and East Asia (ERIA)

(Negotiations toward economic partnership are progressing in the region, with ASEAN playing a central role)

East Asia is maintaining rapid growth to expand its economic scale and exerting its strong influence based on a large share it now holds in the world economy. At the same time, intra-regional trade, investment and movement of people are further intensifying, as we have seen in Chapter 2. To underpin these current economic situations, regional members are working for institutional unification. In particular, efforts toward EPAs/FTAs are underway among ASEAN and the six countries of Japan, China, South Korea, India, Australia and New Zealand, which are expected to be concluded by the end of 2007 (Figure 2-1-21 of Chapter 2).

(Development of the Comprehensive Economic Partnership in East Asia (CEPEA) and the Research Institute for ASEAN and East Asia (ERIA))

The Government of Japan has anticipated the conclusion of EPAs/FTAs among/between each of ASEAN and the above mentioned countries and thus sought to build a framework for the next steps toward an East Asia economic integration. To this end, on the occasion of an East Asia summit in

January 2007, Japan proposed a project of private sector researchers to study the Comprehensive Economic Partnership in East Asia (CEPEA) to be established based on an economic partnership agreement among the 16 countries - ten ASEAN members plus Japan, China, South Korea, India, Australia and New Zealand. Japan also proposed the establishment of an Economic Research Institute for ASEAN and East Asia (ERIA), designed to research and study issues shared within the region and present policy proposals to narrow intra-regional gaps. These proposals were met with the approval of the heads of the member countries.

Concerning CEPEA, the study is scheduled to begin in June 2007, while its results are expected to be reported at a meeting of economic ministers of East Asia in August and the East Asia Summit in November 2007. The study must therefore be accelerated. On a mid-to-long-term basis, CEPEA will seek to build an open East Asian economic bloc, in its course to advance economic partnership. Concerning ERIA, study activities will begin in early 2007 on a precedent basis and continue through a meeting of economic ministers of East Asia in August, before the results are announced and ERIA is formally established at the East Asia Summit in November 2007 (Table 4-3-4). Currently the establishment is being prepared by an ERIA expert meeting joined by representatives of study institutions of the participating countries (from Japan: joined by the Institute of Developing Economies of the Japan External Trade Organization (IDE-JETRO)).

Table 4-3-4 Background of East Asia EPA (CEPEA) and Economic Research Institute for ASEAN and East Asia (ERIA)

Dec 1997 ASEAN+3 Summit	
Jan 2002 PM Koizumi speech in Singapore	Aug 2006 ASEAN+3 Economy Ministers Meeting East Asia Economy Ministers Lunch
Announced the construction of an East Asian community that will "act together—advance together." Core members anticipated to be Japan, ASEAN, China, ROK, Australia, and New Zealand.	Japan proposed professional research be conducted by ASEAN+6 countries on the "CEPEA" and the construction of the "ERIA," to which each country showed general approval. Also, the East Asia joint specialist group reported to the ASEAN+3 Summit, and continued considerations at Senior Officials Meetings.
Nov 2002 ASEAN+3 Summit	
Deliberations ordered for "East Asian FTA" at the ASEAN+3 Economy Ministers Meeting	Jan 2007 Second East Asia Summit ASEAN+3 Summit
Sep 2004 ASEAN+3 Economy Ministers Meeting Nov 2004 ASEAN+3 Summit	Agreement was made to hold meetings on "CEPEA" by experts from ASEAN+6 countries. Continued extensive research was welcomed for the establishment of the "ERIA" and an "East Asia FTA" for ASEAN+3 countries.
Established the "East Asian FTA" joint specialist group upon proposal from China.	
Apr 2005 Research conducted by "East Asia - Jul 2006 FTA" joint specialist group	Early 2007 Research launched for "CEPEA (East Asia EPA) Towards creation of "ERIA" (Economic Research Institute for ASEAN and East Asia (tentative title))
Chairman: Zhang Yun Ling (Director, Institute of Asia-Pacific Studies, Chinese Academy of Social Science (CASS))	(Restart of research for East Asia FTA by ASEAN+3 countries)
Dec 2005 First East Asia Summit	
India proposes "Pan-Asia FTA"	

Source: Ministry of Economy, Trade and Industry

(Overview of the Comprehensive Economic Partnership in East Asia (CEPEA) and the Research Institute for ASEAN and East Asia (ERIA))

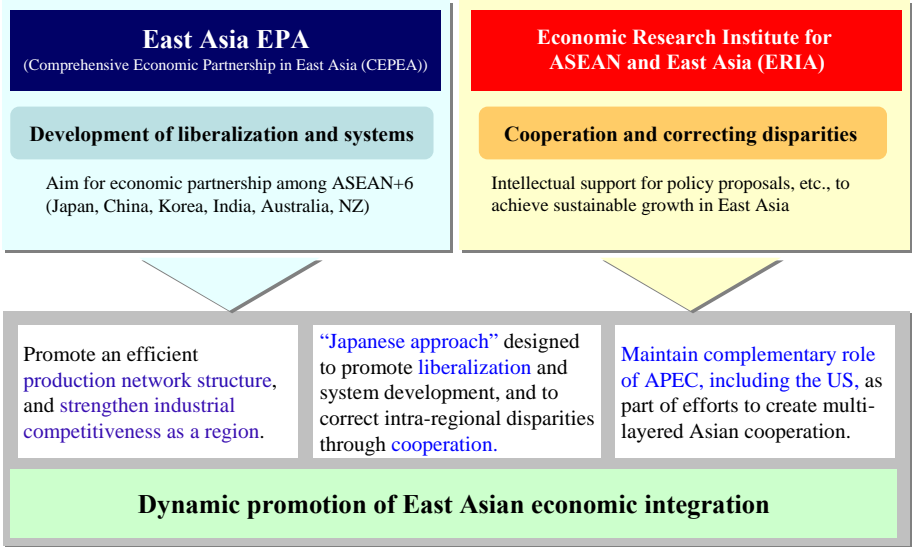
The Comprehensive Economic Partnership in East Asia (CEPEA) is aimed at creating a

³⁴ The Comprehensive Economic Partnership in East Asia.

harmonious and free market economy of all East Asia based on fair rules, to be achieved through the conclusion of economic partnership agreements that cover not only trade and investment liberalization, but also a wide range including the smoothening of trade and investment, services and intellectual properties. CEPEA will consist of all ASEAN countries plus Japan, China, South Korea, India, Australia and New Zealand.

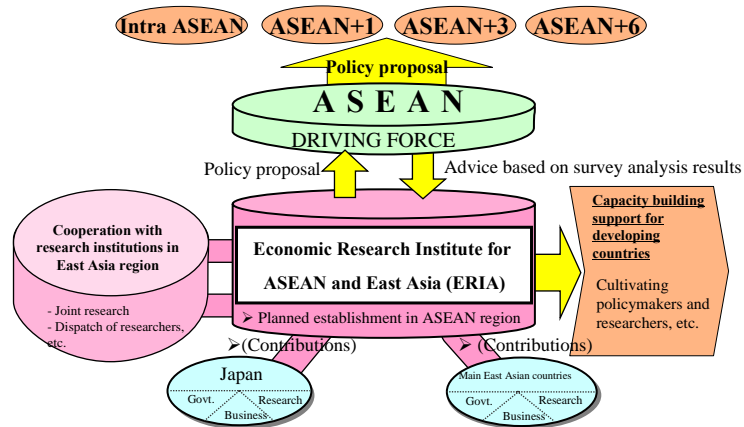
The Research Institute for ASEAN and East Asia (ERIA) offers policy proposals to the heads of states and ministers at the East Asia Summit and other occasions, aiming at an East Asian economic integration. For the region to maintain sustainable development, it needs to respond to a wide range of issues shared in the region, such as human resource development, improvement of infrastructure, the environment, energy and correction of intra-regional economic gaps. As the region, led by ASEAN, is striving to these ends, ERIA contributes intellectually with its research analysis, policy proposals and other means. Specifically, ERIA works with the ASEAN secretariat and offers policy proposals to heads of states, ministers and working level officials in charge of policymaking. ERIA is also conducting reviews concerning major pillars of: receiving advice on study themes from ASEAN, ASEAN+3, East Asia Summit and other entities in interactive communication; and seeking capacity building in programs to foster policy study capabilities as a way of contributing to correcting intra-regional gaps (Figure 4-3-5 and Figure 4-3-6).

Figure 4-3-5 Goals for East Asia EPA (CEPEA), and Economic Research Institute for ASEAN and East Asia (ERIA)



Source: METI.

Figure 4-3-6 Framework for an Economic Research Institute for ASEAN and East Asia (ERIA)



Source: METI.

(Estimated macroeconomic effects of CEPEA)

An estimate suggests that the conclusion of a Comprehensive Economic Partnership in East Asia (CEPEA) would push up Japan's GDP by about 0.98%, or about ¥5 trillion, due to tariff elimination within the region and other reasons. CEPEA would also add about ¥25 trillion to GDP of all East Asia, according to the same estimate, suggesting all East Asia would benefit from CEPEA. The Partnership is considered to further enhance rules regarding investment, services, intellectual properties, etc., which would make corporate management more efficient and thus improve corporate profits and activate the economy. These benefits are expected to mutually influence to create even greater effects (Figure 4-3-7).

Figure 4-3-7 Economic effect of EPAs on Japan (estimated using economic model)

	GDP boosting effect (%)	GDP boosting effect (yen conversion) (100 million yen)
Japan-Australia EPA	0.13	
Japan-Republic of Korea EPA	0.04-0.12	206.1 - 618.3 billion yen
ASEAN-Japan Comprehensive Economic Partnership Agreement	0.25	1,279.7 billion yen
East Asia EPA (CEPEA)	0.98	5,007 billion yen

Notes: 1. This estimation was made using the GTAP model, a variety of CGE model (Computable General Equilibrium Model: a computable general equilibrium model).

Please see Note 4-1 for details regarding this model. Economic models are useful as a method of prediction. However, it must be noted that economic models are based on numerous assumptions by character.

2. The estimation for the Japan-Australia EPA was created assuming that there was an immediate and complete liberalization of both trade and investment.

3. In addition to the GTAP model, an AGP-cubed model was used in a report by the Joint Governmental Study Group for the Japan-Australia EPA to estimate effects. The GDP boosting effect was found to be 0.03%.

4. Yen conversion values were estimated by multiplying the GDP boosting effect (%) acquired from model estimates by the annual nominal GDP of the model's data set (Japan-ROK: 1997; ASEAN-Japan, East Asia EPA: 2001).

5. Estimated effects of the Japan-Australia EPA are listed in the report made by the Joint Governmental Study Group. Estimated effects (%) of the Japan-ROK EPA are listed in the report by the Joint Study Group.

Original estimates made by Kenichi Kawasaki--then a research fellow at the Economic and Social Research Institute, Cabinet Office.

(Expansion of benefits gained by trade liberalization, as a possible fruit of all East Asian economic partnership)

WTO observes the rule of non-discrimination, which requires every member country to equally treat products of other members in trade of goods.³⁵ However, as a measure exceptional from this WTO principle, EPAs/FTAs make it possible for their signatory countries to reduce or abolish tariffs among themselves. As such, EPAs/FTAs function to curb round-about trade by third countries (attempts to receive preferred tariff rates applied to member countries of an EPA/FTA by trading en route to any such member country), by stipulating country-of-origin rules, aiming to verify whether or not traded products are original to their member countries. Pursuant to these rules, only products originated in member countries can receive the preferred tariff rates of any given EPA/FTA.³⁶

Japan has thus far concluded bilateral EPAs with six countries. During the course of the negotiations, Japan gives due consideration to avoid major discrepancies among its EPAs in terms of applying the country-of-origin rules, while taking note of the manufacturing processes and actual situations of trade of each partner country.³⁷ The enacted EPAs have been providing certain degrees of effects of liberalizing trade.

At the same time, given that companies are building vast cross-border production networks in East Asia, it is considered more desirable for the region to establish comprehensive rules of country-of-origin to cover these networks, for the sake of promoting free trade.

These ideas underpin the concept of the Comprehensive Economic Partnership in East Asia (CEPEA). When East Asian countries are able to share unified product-of-origin rules and share the same preferred tariff rates, they could further advance the across-the-region business networks of parts procurement, production, sales, etc., which could further vitalize business activities of East Asia.³⁸ These moves in the long run, together with investment liberalization, would prompt the division of labor processes in the region and allow each country to specialize in its mainstay areas through the concentration of product basis and optimum allocations. As a result, the region would be able to optimally combine the comparative advantages of each country and benefit from the economies of scale, which would raise the overall economic efficiency and thus strengthen East Asia's industrial competitiveness in the global market.

³⁵ Article I of GATT refers to the idea of non-discrimination by the use of the term "the most favored nation." It provides that with respect to tariffs on imports, etc., "any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."

³⁶ Criteria under the country-of-origin rules include: completely original products; change in tariff heading; value-added content; and lists of manufacturing or processing operations. The rules are applied, given consideration of the characteristics of each product.

³⁷ Highly flexible rules were commonly employed in EPAs with Malaysia, the Philippines and others, in that most mining and manufacturing products were required to satisfy only either criterion of the value-added content or change in tariff heading.

³⁸ An example of rules proposed to facilitate intra-regional mutual supply of parts and finished goods is: total all the parts of a product that are manufactured/processed in countries in the region -- when the parts manufactured/processed in any of such country account for a certain ratio of such total, the product is deemed to have the origin of that country (cumulative rule of origin).

(Efforts to correct imbalances under an all East Asian economic partnership)

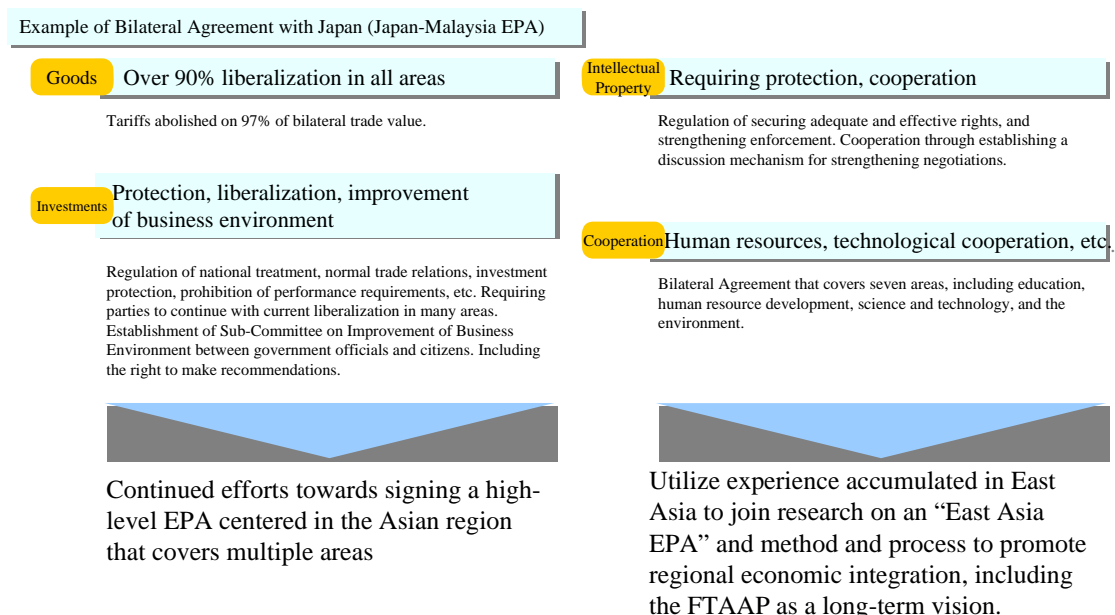
Considering the huge diversity of East Asia regarding political and economic systems, as well as history, religion, and culture, one can anticipate greater challenges confronting the region on its path to economic integration than those faced by Europe when it strove for the European Union (EU). East Asia thus needs to build a system that ensures openness, comprehensibility and transparency.

EU and the North American Free Trade Agreement (NAFTA) trod relatively smooth paths for liberalization, as their member countries varied comparatively little in their economic development levels, thus were met with small degrees of mutual frictions and a need for structural adjustment among members. However, East Asia varies largely in its members' development levels, making liberalization all the more difficult. Besides establishing rules and striving to free trade and investment, East Asia, as such, needs a framework of development by all members, in that regional forerunners like Japan and South Korea support the growth of newly emerging members.

EPAs concluded by Japan thus far are characterized by their extensive scope that reaches beyond mere regulation for trade in goods. They provide chapters related to cooperation to create systems for narrowing gaps involving technological cooperation and development of industrial human resources, besides enhancing trade and investment rules (Figure 4-3-8). Japan should use such expertise to accelerate CEPEA's private experts' research.

Furthermore, as Japan continues the dual efforts of establishing rules by EPAs and cooperation and correcting imbalances by ERIA, Japan may be able to contribute to smoothening negotiations at WTO, where developed and developing countries are increasingly at odds with each other.

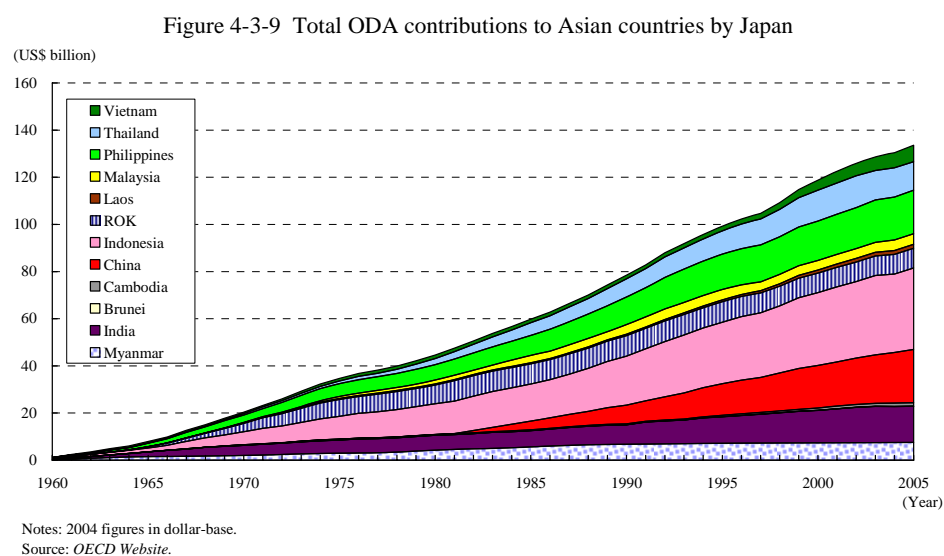
Figure 4-3-8 EPAs and other partnerships Japan has signed



Source: *Ministry of Economy, Trade and Industry*

(2) Utilization of ODA

To steadily advance economic integration in East Asia, the region needs to bottom up its economic strength by offering cooperation to new members of ASEAN, including Cambodia, Laos, Myanmar and Vietnam, which lag economically behind other members. Japan has actively cooperated with these countries through its official development assistance (ODA) (Figure 4-3-9). At the Second East Asia Summit in January 2007 held in Cebu, the Philippines, Prime Minister Shinzo Abe announced the enhancement of Japan's ODA programs for countries in the Mekong Region as the prioritized region for the next three years. He also announced assistance plans through the ASEAN Japan Comprehensive Partnership Cooperation Fund to assist ASEAN including Cambodia, Laos, Myanmar and Vietnam.



(Japan ODA model)

Many negotiations are underway between Japan and the rest of the highly developed East Asian region, while in the framework of the Comprehensive Economic Partnership in East Asia (CEPEA), regional countries have agreed on Japan's proposal to launch a private sector study. Japan's EPAs encompass, in addition to trade/investment liberalization/facilitation, the strengthening of EPAs and their effects concerning the targeted areas for cooperation, by human development assistance and other means. East Asia continuously needs efforts to strengthen region-wide economic partnership, which is enhancing calls for economic cooperation.

ODA promoted by Japan, the largest donor for East Asia, caters to economic cooperation mainly through yen loans and technical cooperation for improving economic development infrastructure that consists of improving hard and soft infrastructure and development of industrial human resources. These efforts have driven dynamism for autonomous economic activities in each host country, as they activated production, trade and investment activities of the private sector. Japan's ODA, with such modalities to have contributed to the economic development of East Asian countries, can be dubbed "Japan ODA model."

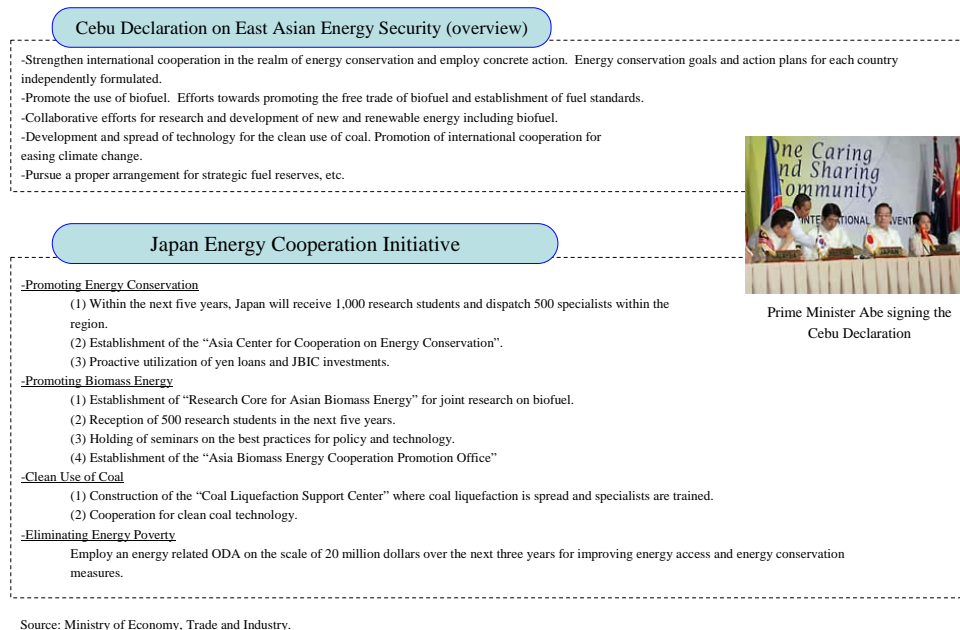
In an increasingly interrelating East Asia, Japan needs to continue its economic cooperation discussed above to induce economic development of countries in the region, looking toward regional integration, while responding to the current stages of EPA negotiations. What should be noted in East Asia is the difference of each country's development stage, which requires different contents and emphasis of economic cooperation.

(3) Energy cooperation initiatives

As mentioned earlier, energy demand is expanding in fast growing East Asian countries as a whole and China in particular. Energy utilization with poor efficiency is also expanding, ever raising the regional needs for mutual cooperation to achieve a stable energy supply and harmony with the environment.

The East Asia Summit, held against these backdrops in January 2007 in Cebu, the Philippines, catered to the discussions of a broad agenda including the energy security issue. Japan presented a cooperation initiative consisting of: i) promotion of energy conservation efforts (acceptance of 1,000 trainees from abroad in the next five years, the establishment of the "Asian Energy Conservation Cooperation Center" and other means); ii) promotion of biomass energy (acceptance of 500 trainees from abroad in the next five years, etc.), iii) clean utilization of coal (construction of the Coal Liquefaction Support Center, etc.); and iv) eradication of energy poverty (extension of US\$2 billion -scale energy-related ODA to improve energy access and carry out energy efficiency and measures in the next three years). This initiative program gained acclaim from the participating leaders at the Summit. As a result, member countries adopted the Cebu Declaration on East Asian Energy Security, that consists of international cooperation for energy conservation, promotion of the utilization of bio fuels, efforts toward the research and development of new renewable energy; development and spread of the technology to clean utilization of coal; promotion of international cooperation to alleviate climate change; and discussions on the modality of strategic fuel reserves (Figure 4-3-10).

Figure 4-3-10 Cebu Declaration on East Asian Energy Security



Source: Ministry of Economy, Trade and Industry.

(4) Utilization of other frameworks

To solve common issues of East Asia, utilization of various frameworks, in addition to those mentioned above, can be expected. For example, using bilateral EPAs and bilateral policy dialogue are among effective measures for Japan to urge each country in the region to tackle business environmental issues such as institutional improvements. Other measures include the utilization of the East Asia Summit, dispatch of government-private joint missions, promotion of cooperative projects based on such missions and utilization of the Asia Pacific Economic Cooperation (APEC) as a regional partnership transcending the realm of East Asia. A combined utilization of these frameworks can prove effective.³⁹

[Column 15] East Asia Summit (EAS)

As a means for utilization of the East Asia Summit (EAS), Japan has proposed the launch of private sector studies in relation to the Comprehensive Economic Partnership in East Asia (CEPEA), the establishment of the Research Institute for ASEAN and East Asia (ERIA) and the Energy Cooperation Initiative. EAS is expected to function as an effective framework to realize an across-East Asia EPA and promote the regional economic integration.

EAS originated from a summit of ASEAN, Japan, China and South Korea, or ASEAN + 3, held under a strong recognition for the need of regional cooperation among East Asian countries as a

³⁹ Japan does not utilize merely a single method to help improve the intellectual property system, for example, but a combination of multiple frameworks such as EPA/FTAs, APEC and government-private joint missions (see Column 16).

lesson from the Asian currency and financial crisis in 1997. At the ASEAN + 3 Summit of 2004, participating countries agreed on holding EAS in 2005, thus the First EAS was held in December 2005 in Kuala Lumpur, Malaysia. The First EAS adopted the Kuala Lumpur Declaration for the East Asia Summit, while member countries confirmed to: a) hold EAS annually; b) have EAS “play an important role” in forming an “East Asian Community”; and c) promote cooperation by sector such as economy, finance and energy.

At the Second EAS in January 2007, Japan presented its specific plans for cooperation in East Asia, including the Energy Cooperation Initiative, a private sector study on the Comprehensive Economic Partnership in East Asia (CEPEA), the establishment of the Research Institute for ASEAN and East Asia (ERIA), the Asia Gateway Initiative,⁴⁰ youth exchanges, countermeasures for avian flu, and cooperation on disaster prevention, which were welcomed by other countries. The latest Summit paved the way for establishing an EAS Energy Ministers’ Meeting and made clear the role of the ASEAN Secretariat in carrying out plans specified in the Declaration, such as the private sector study concerning Comprehensive Economic Partnership in East Asia (CEPEA). As such the latest EAS is notable for its reference to specific ways of cooperation in the framework of EAS and strengthening of the functions of ASEAN.

3. Regional partnership beyond the realm of East Asia: APEC’s promotion of regional economic integration

(1) Efforts by APEC: its path from the start to de facto stagnation

In the 1980s, the global economy saw a rise of regionalism such as the development of the European Community (EC; the predecessor of the European Union (EU)) and foundation of the USA-Canada Free Trade Agreement. These moves were seen to vitalize regional economies, while triggering concerns for a possible emergence of bloc economies. At the same time Japan and the United States were facing trade friction as their mutual trade issue. East Asia, meanwhile, was undergoing rapid development. Backdrop factors include: a) a favorable cycle of export and investment was made on the success of developing countries’ industrialization policies; b) the region was able to make good utilization of the two driving forces of the world economy – United States in the first half and Japan in the second half of the 1980s; c) many developing countries adopted the adjusting policy of reducing their deficit; and d) East Asia was politically more stable than other regions. Under these circumstances, Japan worked vigorously toward the realization of cooperation in the Asia-Pacific region, seeing it as opportunities for dialogue with the United States, while seeking to avoid isolation from the world economy and promoting cooperation with Asia. As a result, the Asia Pacific Economic Cooperation (APEC) was founded in 1989, proposed by then Australian Prime Minister Robert Hawke based on the draft created by the then Ministry of International Trade and

⁴⁰ The Asia Gateway Initiative is based on the principles of: a) an open and attractive Japan; b) an attractive Asia; and c) the deepening of mutual understanding and trust, accepting diversity and coexisting based on the sharing of universal values. With this in mind Japan aims at playing a central role in strengthening and developing its partnership with Asia, by promoting measures in a wide range covering people, transport of goods, industry, finance, culture and information.

Industry, Japan.

APEC is characterized by its respect for spontaneous activities by its members and its call for open regionalism aimed at sharing the fruits of free and open trade and investment in areas outside its region. APEC also has an aspect of promoting inter-regional partnership, as it consists, in addition to the original member countries, of wide areas covering countries of the North American Free Trade Agreement (NAFTA), seven countries of ASEAN, Russia, and Central/South American countries. It stands on the principles of spontaneous and non-binding commitments, with pillars of free and open trade and investment and promotion of economic and technological cooperation.

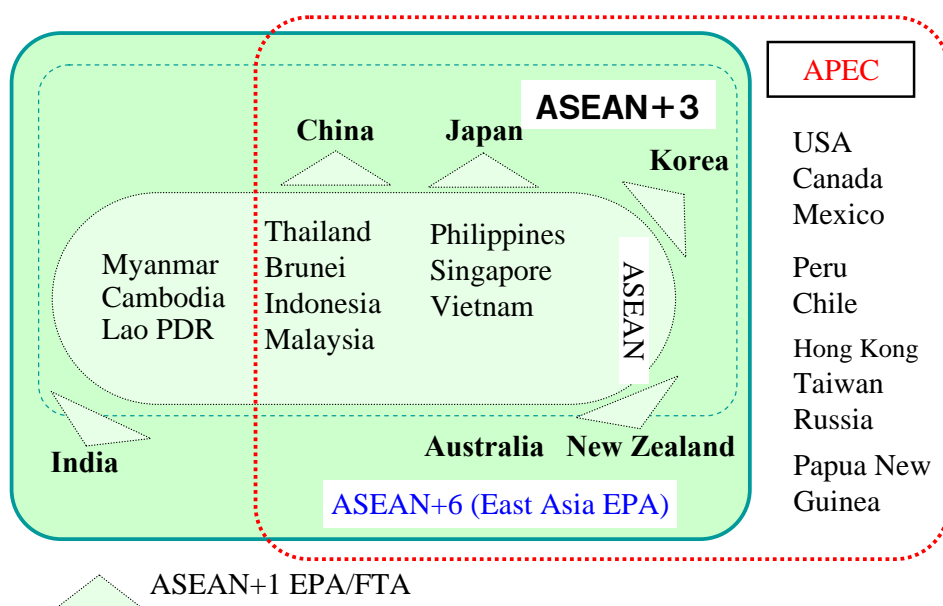
While APEC has been holding ministerial meetings since its launch, it held an informal summit in Seattle in 1993 under the strong initiative of the United States, which paved a way for annually-held summit meetings. In the next year of 1994, the leaders of member countries met in Bogor, Indonesia and adopted the Bogor Declaration as an expression of the shared determination of the leaders. The Declaration set forth the long-term goals of free trade and investment in the Asia-Pacific region and the direction of future economic and technological cooperation. In particular, international attention was drawn to the “Bogor Goals,” which set “free and open trade and investment in the Asia-Pacific by 2010 for developed economies and 2020 for developing economies.” These initiatives pushed APEC further on its path of an international framework of cooperation with even more specific goals and directions.

However, due to its principle of non-binding commitments, APEC had no binding power for liberalization. Members promoted efforts to achieve the Bogor Goals in 1995 and afterwards, but their discussion on liberalization fell into a de facto stagnation, after a breakdown in discussions for Early Voluntary Sectoral Liberalization (EVSL) and the currency/financial crisis in Asia. Since then, APEC has mainly been working on liberalization through the promotion of multi-lateral trade negotiations at the World Trade Organization (WTO) and exchanges of opinions about EPA/FTAs.

(2) Development of Free Trade Area of the Asia-Pacific (FTAAP)

In the Chile Process of 2004, the APEC Business Advisory Committee (ABAC), consisting of private business representatives of the member countries, proposed a review for the feasibility of a Free Trade Area of the Asia-Pacific (FTAAP). No specific response was made in APEC at first, as many member countries/areas took prudent stances, considering the relations with WTO. Thus no discussions on FTAAP were made at the South Korea Process of 2005. However the move took a quick turn for development on the eve of the Summit Meeting in 2006, as the United States urged other members to begin discussions on FTAAP. At the APEC Summit Meeting of 2006 held in Hanoi, Vietnam, members decided to study further on ways to promote regional economic integration, including FTAAP as a long-term prospect, and to report on the results at the APEC Summit Meeting of 2007 to be held in Australia (Figure 4-3-11).

Figure 4-3-11 Movements towards economic integration in the Asia-Pacific region



(3) Towards future activities of APEC

The year 2010, in which Japan is to chair the APEC Summit Meeting, is the target year for developed countries to fulfill the Bogor Goal. By that time, progress can be expected in studies on ways and methods to promote regional economic integration, not only through bilateral and regional EPAs/FTAs but also through FTAAP as a long-term prospect. The environment surrounding APEC has undergone drastic changes since its establishment, triggered by factors including economic integration advancing in East Asia and the rise of China. Looking ahead, APEC needs strategic responses, while paying heed to the impacts on other regions and WTO.

Table 4-3-12 Current APEC member countries and regions (21 countries/regions as of Feb. 2007)

ASEAN countries	Philippines, Indonesia, Malaysia, Thailand, Singapore, Brunei, Vietnam
The Americas	USA, Canada, Mexico, Chili, Peru
Oceania	Australia, New Zealand, Papua New Guinea
Asia	Japan, ROK, China, Hong Kong, Taiwan
Other	Russia

Notes: Bold letters indicate founding members.

Source: Ministry of Economy, Trade and Industry.

Table 4-3-13 Key issues and achievements of APEC

Date	Key issues/achievements
1989 (Australia)	1st APEC Ministerial Meeting (Initial members) Japan, ROK, USA, Canada, Australia, New Zealand, Brunei, Indonesia, •Emphasis on "open regional cooperation" (1991 new members) China, Hong Kong, Taiwan
1993 (USA)	Commencement of Informal Summit Meetings. Focus on "liberalization of trade and investment." (1993 new members) Mexico, Papua New Guinea
1994 (Indonesia)	Bogor Declaration •"Free trade and investment for developed economies by 2010, and for developing economies by 2020" •Launch of Trade Ministerial Meetings in October in Indonesia (1994 new member) Chili
1995 (Osaka, Japan)	Osaka Action Agenda (OAA) •"Materializing the Bogor Declaration" •"Pushing a vision into action" •Establishment of basic principles, process of reaching liberalization, and objectives for individual
1996 (Philippines)	Manila Action Plan for APEC (MAPA) •Launch of Individual Action Plans (IAP) and Collective Action Plans (CAP)
1998 (Malaysia)	Response to Asian currency/financial danger •"Capacity building" (infrastructure development) (1998 new members) Russia, Peru, Vietnam
1999 (New Zealand)	Strengthening the market (promoting regional structural reform) •Contributions to new WTO round
2000 (Brunei)	Globalization (information technology, cultivating human resources, "strengthening the •Efforts for WTO and regional trade agreements
2001年 (China)	Shanghai Accord (guidelines for energizing APEC activities) •Strengthening of screening process for Individual Action Plans (IAP), etc.
2002 (Mexico)	Expanding benefits through economic growth and development--employing a vision Employing the "Shanghai Accord" and "Anti-terrorism measures"
2003 (Thailand)	Constructing a future partnership that surpasses conflicting world views
2004 (Chili)	Adoption of APEC Best Practices for FTAs
2005 (ROK)	Pusan Road Map •Intermediate evaluation in aim of achieving Bogor objectives and establishment of action
2006 (Vietnam)	Hanoi Action Plan •Action plan established to implement the Pusan Road Map

Source: Ministry of Economy, Trade and Industry

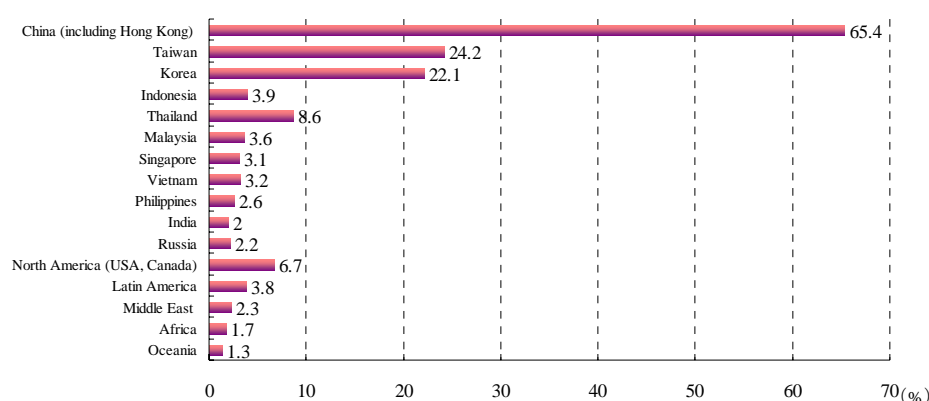
[Column 16] Utilization of multiple frameworks in the institutional improvement of intellectual property rights (IPRs)

As has been discussed, it is vital in solving issues common to East Asia to combine multiple frameworks such as EPA/FTAs, APEC and government/private sector joint missions. This column is provided to review efforts by Japan to protect intellectual properties in East Asia.

East Asia in recent years is seeing a serious increase of counterfeited and pirated products. In reports by Japanese companies about damage they incur by counterfeited products, 65.4% of the total 687 reporting companies cite China as the area where their products were copied and reproduced. And 24.2% of the reporting companies cite Taiwan and 22.1% South Korea, indicating that Japanese businesses incur significant damage from counterfeited products manufactured in the East Asian region (Column Figure 16-1). When products are effortlessly copied after the original makers have invested huge costs and time for research and development to produce them, the makers not only lose the markets, but also suffer significant damage of their brand images by copied goods that carry safety problems to possibly cause accidents.

It is vital for East Asia to bring together its forces for the institutional improvement to protect intellectual property rights (IPRs), which are the driving force for creating values, in order to further activate trade and investment among the increasingly interrelating economies in the region and to further boost the appeal of East Asia as a production base and a market. To address those countries and areas that are yet to establish a legal system for IPRs or yet to improve the operation of such system, we should urge them to establish or adequately operate the system and also seek to help each central government enhance their enforcement capabilities.

Column Figure 16-1 Countries and regions that manufacture counterfeit goods (FY2005)



Notes: Excluding Japan. Figures are the proportion of all answers from 687 responding companies that said they had suffered damage from counterfeiting.

Source: FY2006 Survey Report on Counterfeit Damage (Japan Patent Office).

(Utilization of the process to conclude EPA/FTAs)

To urge countries of East Asia to improve their systems for IPRs, it is effective to utilize the bilateral EPAs concluded between Japan and each such country. Japan and Indonesia have basically agreed to include the enhancement of IPR protection in their bilateral EPA. In the ongoing negotiations for EPAs with Vietnam and India, respectively, the negotiating parties are urged to build sufficient capacity for protecting IPRs, enhance the enforcement capabilities of the authorities involved and ensure the simplification and harmonization of procedures.

(Efforts at APEC)

In the APEC Economic Leaders' Meeting and Ministerial Meeting in November 2006, participants agreed on: i) public awareness guidelines, dedicated to consumers and holders of IPRs to enhance their recognition for rights protection; and ii) supply chain guidelines, designed to remove counterfeit and pirated products from the supply chain starting from the supply of raw materials and components through distribution and consumption. At a high-level working group meeting in January 2007, Japan proposed an "APEC Cooperation Initiative on Patent Acquisition Procedures" aimed at simplifying relevant procedures and promote the cooperation for examinations and enhancement of examinations through human resource development, mechanization and informatization among the member countries/areas.

(Dispatch of government/private sector joint missions and promotion of cooperation projects based on them)

To address issues of counterfeit and pirated goods, it is ideal to promote cooperation among companies or between the government and the business sector, instead of individual actions by companies, given the significant number of problems and diversity of counterfeiting methods, in order to exchange information, accumulate knowledge about countermeasures and communicate with countries where damage cases occur. In April 2002, the International Intellectual Property Protection Forum (IIPPF) was established as a venue for the Japanese government and companies highly interested in measures against counterfeit and pirated goods to work together regardless of industrial sectors. IIPPF has sent government-private joint missions to China, where, as seen earlier, many of counterfeit cases damaging Japanese companies occur, in order to ask the relevant authorities to strengthen the legal system and enforcement in connection with controlling counterfeit and pirated goods. Based on the activities of the missions, IIPPF furthermore promotes cooperation programs, such as meetings to exchange opinions with China's legislative officials to improve the country's system to protect IPRs and capacity-building seminars for executors, patent examiners, etc. It is necessary to continue these initiatives.