Chapter 4 Establishing a Global Strategy to Lead Sustainable Development

As the global economy stands at a major crossroads, Japan must establish a new development strategy in order to lead the sustainable development of not only the Asian but also the global economy.

As described in each of the above chapters, the following 3 “markets” have emerged as the basis for the new development of the global economy: the “5 billion-people market” as a driving force of a new positive circle of the global economy, which is brought about by the “positive effects” of globalization, “Pan-Asian market” as a major “consumption center” and “knowledge creation center” to lead the development of the global economy, and “market for sustainable development” as a new social structure for promoting the fight against global issues that emerge as the “side effects” of globalization.

It is natural that vibrant companies play leading roles in the creation of new “markets”—such as the 3 abovementioned markets—or provide a basis for the new development of the global economy. On the other hand, it is also important for the Japanese government to implement a strategic and aggressive global strategy that promotes the development of the 3 market structures independently as well as through mutual interaction, and create an “atmosphere” in which Japanese industries can actively engage in new businesses.

In particular, for the creation of the “5 billion-people market,” a structure for further promotion of globalization must be established and broad access to the markets of each country must be improved. For such an end, the Japanese government must promote the WTO Doha Round talks and study economic partnership agreements (EPAs), foreign trade agreements (FTAs), bilateral investment agreements, etc. in order to enhance economic ties with major market and newly-emerging economies. It is also important for the Japanese government to create an appropriate environment for trade with the 5 billion-people market by adopting measures such as protection of intellectual property rights, etc.

For the creation of the “Pan-Asian market,” it is also important for the Japanese government to continue to promote EPAs and FTAs with Asian countries to further increase exchange of goods (through tariffs) and people (people’s movement) and promote stronger international business networks through bilateral investment agreements, investment chapter of EPAs (money), and ACTA (skills, knowledge), etc.

For the creation of the “market for sustainable development,” global actions are necessary. Global efforts such as the Conference of the Parties to the Climate Change Convention (COP) at the United Nations and international discussions such as the Tokyo International Conference on African Development (TICAD) are necessary. It is also important to tackle a much more diversified range of agenda such as “trade and labor,” which has never been discussed at the WTO Doha Round.

The development strategy for creating the 3 abovementioned markets is based on the “Asian Economy and Environment Community Plan.” This plan was designed based on the concept that Japan, as an “advanced country on Asian issues,” must play a leading role in solving common issues pertaining to the sustainable development of Asia and promoting resultant technologies and social systems throughout Asia.

Japan is one of the advanced countries in the world on issues such as a rapidly aging society, etc. Therefore, it is important for Japan to aggressively reap the benefits of globalization by promoting outward and inward direct investments, while actively participating in the creation of the 3 new market structures.

This Chapter describes the global strategies necessary for Japan to create the 3 markets and realize sustainable development.

Section 1 examines the global strategies of the United States and EU, which have promoted the globalization of the world economy. Examining the strategies of these countries will help Japan to consider its own new global strategy for leading the sustainable development of the global economy. Further, the section also examines the global strategies of Asian countries, which are the center of growth in the global economy and forms the basis of the new development. Section 2 presents a summary of WTO efforts. Section 3 describes the efforts for EPAs/FTAs, etc. Section 4 presents a summary of the efforts toward promoting inward and outward direct investments. Section 5 describes the Asian Economy and Environment Community Plan.

Section 1 Global Strategies of Other Countries

As described in Chapter 2, the increasing movement of people, goods, and money brought about by the globalization of the global economy is mainly headed toward the United States and Europe. Asian countries such as China, South Korea, and ASEAN are playing leading roles in the recent rapid growth of the global economy.

In the consideration of its own global strategy, it is rather important for Japan to learn from the strategies of these countries and regions. This section describes the strategies and globalization efforts of the United States, the EU, and Asian countries (China, South Korea, and ASEAN).

1. The Global Strategy of the United States

The economy of the United States, as described in Chapter 1, is on the brink of recession. However, from the long-term perspective, the American economy has been maintaining high economic growth since the 1990s, while the economies of other developed countries such as Japan and Germany have remained sluggish. American companies top the lists of global corporate sales in various industries such as financial, IT, airline, content, etc., thereby boasting overwhelming competitiveness[1].

As indicated in the State of the Economy Report 2008[2], a major competitive factor of the American economy is the aggressive use of fair and open trade and foreign investment systems. As of 2006, the United States is the world's largest exporter of services and second largest exporter of goods; the country achieved one of the highest returns on foreign investment among developed countries, as

[1] American companies top the lists of the world's top companies in sales (by industry) in "The Forbes Global 2000" of the Forbes magazine (2008) in industries such as finance (Citigroup), aviation/space (Boeing), retail (Wal-Mart), and software services (IBM). American companies are also high on the list of the "Fortune Global 500" of Fortune magazine (2007), which includes Time Warner (first) and Walt Disney (second) in entertainment, etc.

[2] Source: Council of Economic Advisors (2008), "Economic Report of the President."

described in Section 2 of Chapter 2.

Industries that play an important role in the development of the economy of the United States apart from trade and investment include financial service and intellectual property-related industries, etc.[3], all of which are crucial for the global expansion of American industries and are also major focal points of the foreign economic policies of the United States[4].

This sub-section presents a summary of such development efforts by the United States.

(1) Promotion of Free Trade Agreements (FTAs)

The United States has been actively involved in establishing the free trade system since the end of World War II, including the foundation of GATT, etc., and has been similarly active in advocating the free trade system at each round of GATT and WTO talks. However, since it takes time for such talks or multilateral approaches to reach a successful conclusion, in the 70s and 80s, the United States began to adopt a unilateral approach for reaping its own trade benefits[5]. In addition, in the 90s, it also began to focus on FTAs as a third approach[6].

The United States signed its first FTA with Israel in 1985. It enacted an FTA with its neighbor Canada in 1989, followed by the NAFTA[7]—including Canada and Mexico—in 1994. The NAFTA is the first FTA signed between developed countries (United States and Canada) and a developing country (Mexico). It is a comprehensive trade agreement that includes the promotion of liberalization of services and protection of investment and intellectual properties, etc., as well as elimination of tariffs on industrial products within the territory. The NAFTA has drawn attention as a model agreement of U.S. regionalism[8]. For the United States, the economic relationship with its neighboring countries Canada and Mexico is rather important and the FTA with these countries was one of the important steps for the U.S. government in materializing its export expansion strategy[9]. Numerous

---

[3] Source: Council of Economic Advisors (2005, 2006, 2007), “Economic Report of the President.”

[4] There are numerous other factors involved in building the strength of the economy of the United States. For example, Nakao, T. (2008), *BEIKOKU NO KEIZAI SEISAKU* indicates the following factors: increased labor productivity based on technological innovation through IT, capital increase led mainly by IT investment, etc., and benefits of progress in globalization (for example, U.S. companies are successfully increasing their profits in increasingly scarce fields where such companies have a competitive edge, such as development of business models using financial services and IT as well as professional jobs such as lawyers and accountants), etc.

[5] An approach by the U.S. government to demand trading partners to change their national laws and practices that hamper American exports to these countries in order to enable the United States to obtain a “reasonable share” of their markets. The typical example is the addition of the Super 301 provisions to the 1988 Trade Act (which designates “market-opening priority practices” in individual issues and a “market-opening priority country” if the USTR determines that the country is engaged in practices that generally distort the market, thereby triggering unilateral retaliatory measures if negotiations to eliminate import barriers, etc. fail). (source: the Ministry of Economy, Trade and Industry, Japan (1989), *White Paper on International Economy and Trade 1989*)

[6] Source: Cooper, William H. (2008), “Free Trade Agreements: Impact on U.S. Trade and Implications for U.S. Trade Policy".

[7] The United States, Canada, and Mexico signed the NAFTA in 1992 and enacted it in 1994 after adding a complementary agreement on labor and environment.

[8] Sasaki, T. (1997), BEIKOKU *NO TSUSHOU SEISAKU.*

[9] According to the Statistics Bureau of the U.S. Commerce Department, the share of U.S. export with Canada and Mexico combined was approximately 25% in 1990 and approximately 30% in 2006.

American multinational companies, facing stiff competition from Japanese, European, and NIE rivals, also welcomed the NAFTA in the hope that it would enable them to reorganize their optimal international division of labor on a North American continental scale and make the continent a new competitive arena[10].

The efforts of the United States with regard to FTAs subsided after signing the NAFTA. However, as numerous other countries began to sign FTAs in rapid succession, the Bush administration, which came into power in 2001, actively promoted FTA negotiations on the basis of the concept that a delay in signing FTAs would be a disadvantage for the United States[11]. Countries with which the United States negotiated FTAs extended to include countries in the Asia-Pacific, Middle East, Africa, and Central/South America. As of January 2008, the United States has enacted 14 FTAs[12].

In the Asia-Pacific region, the United States has signed FTAs with Singapore (enacted in 2004) and Australia (enacted in 2005), and is advocating the study and promotion of the "Free Trade Area of the Asia-Pacific (FTAAP)" within the APEC framework. The United States is using FTAs for accomplishing what cannot be achieved through multilateral round talks, and reportedly intends to make its FTAs accepted as a global rule in the future. FTAs signed by the United States in recent years contain provisions on the protection of intellectual property right, liberalization of service markets (for example, liberalization of the home delivery service market, promotion of e-commerce, and opening of financial market, etc.), and protection of labor and environment (see Figure 4-1-1).

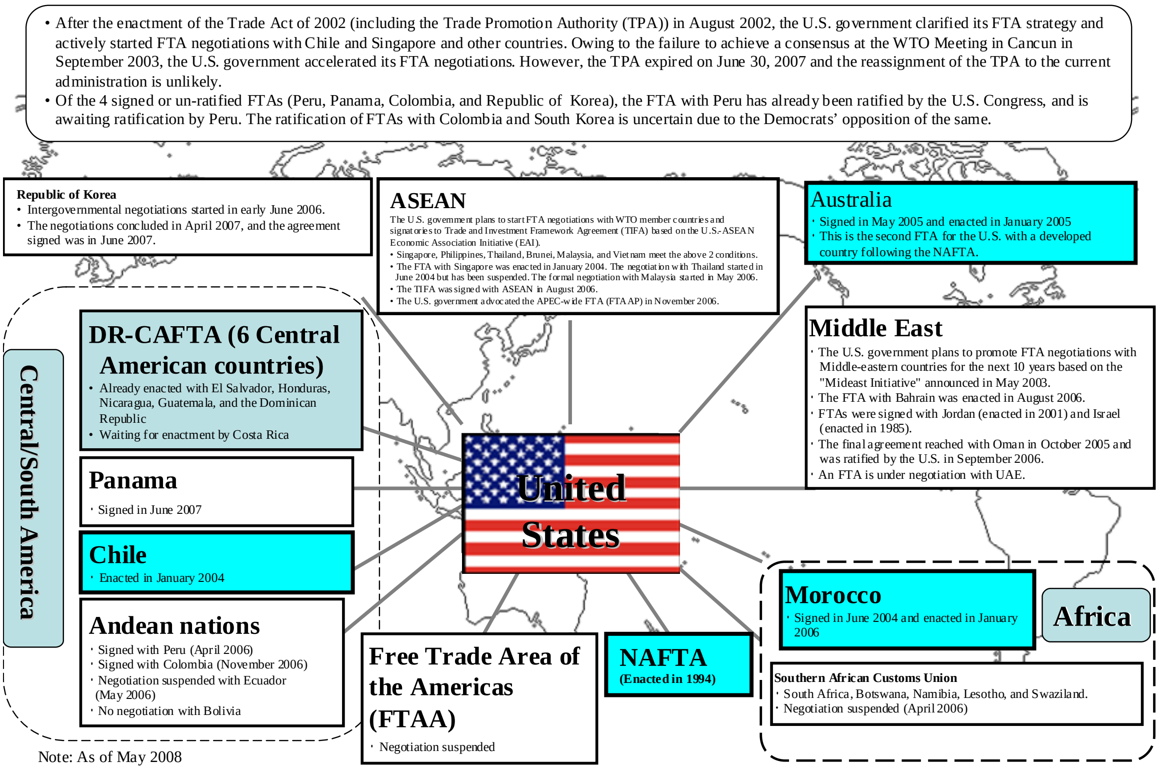
---

[10] Nakamoto, S. (1999), *GENDAI BEIKOKU NO TSUSHOU SEISAKU.*

[11] Source: The aforementioned publication by Cooper, (2008). The concept propagated by the then U.S. government was reflected in the speech "Create Free Competition through Multilateral Approach with the United States as a Hub of the FTA Network" delivered by the U.S. Trade Representative Robert B. Zoellic in October 2002.

[12] These include Israel, Canada, NAFTA, Jordan, Singapore, Chile, Australia, Morocco, Bahrain, Dominica, El Salvador, Honduras, Nicaragua, and Guatemala. The FTA with Canada was frozen with the enactment of the NAFTA. FTAs with Peru, Oman, Panama, and South Korea have already been signed. FTA negotiations are under way with Malaysia. Negotiations with Thailand, Southern African Customs Union members, and UAE have been suspended.

Figure 4-1-1 FTA Efforts by the United States



Note: As of May 2008

Source: Ministry of Economy, Trade and Industry, Japan

(2) Financial and other services[13]

The total amount of sales of services exported from the United States and services sold in overseas markets by foreign subsidiaries of U.S. companies amounts to approximately US$1 trillion every year, which indicates that the service trade assumes an important share of the economy of the United States[14]. Expanding U.S. interests in service trade, promoting overseas expansion of services, including finance, and removing barriers to such expansion are important issues for the external economic policies of the United States, particularly in terms of preparing markets for the global expansion of the financial service industry, which is a major strategic industry of the United States.

At WTO membership negotiations with countries hoping to join the WTO, the WTO Doha Development Agenda(DDA), and bilateral FTA negotiations, the United States is demanding partners to reduce or eliminate access barriers to their services markets that are considered by the United States to be crucial for its economy (such as financial, telecommunications, computer-related, express delivery, energy-related , and logistics services, etc.). The country has been successful in winning large compromises in service sectors and including stiff provisions in bilateral agreements, etc.[15]

---

[13] Source: USTR (2008), "2008 Trade Policy Agenda and 2007 Annual Report of the President of the United States on the Trade Agreement Program."

[14] The aforementioned USTR (2008) report estimates that the annual income in the U.S. will increase to US$460 billion/year and the income of a 4-member household will increase to $6,000 if all barriers to service trade are eliminated worldwide.

[15] In particular, the Service Chapter of the U.S-Singapore FTA enacted in 2004 includes provisions on securing transparency of regulations (see Note 17) and prohibitions on restriction of payment and remittance for current transactions related to service trade. The FTA signed by Singapore with EFTA (enacted in 2003) does not include such provisions.

(3) Preparation of the environment for investment[16]

The U.S. government is making efforts to improve the environment for investment in partner countries and regions through bilateral investment agreements with trading partners and FTA investment charters, etc., in order to ensure that the U.S. interests in foreign investment and overseas expansion by U.S. companies is not hampered.

For example, bilateral investment agreements initiated by the United States in the 1980s include provisions to "protect investment," such as guaranteeing no expropriation of invested assets, and improving the environment for investment, such as "securing the transparency[17]." FTAs of the United States with other countries also include provisions on the liberalization and protection of investment. These FTAs have one of the most advanced provisions, particularly with regard to liberalization of investment, including the prohibition of performance requests[18] contained in the FTA with Australia and the NAFTA[19].

(4) Intellectual property rights[20]

It is crucial for the U.S. trade policies to protect intellectual property rights on a global scale since the economic success of the United States depends heavily on knowledge and creativity and the resultant goods and services. The recent FTAs of the United States with various countries and regions are designed to demand trading partners to guarantee the same level of protection as provided in American national laws. Some of them contain much stiffer provisions than those stipulated in the Agreement on "Trade-Related Aspects of Intellectual Property Rights (TRIPS)" of the WTO[21]. In addition, the United States government has begun negotiations to sign the Anti-Counterfeiting Trade

[16] Source: the Ministry of Economy, Trade and Industry, Japan, (2008) *FUKOUSEI BOUEKI HOUKOKUSHO*, and Kodera, A. (2006), *TOUSHI KYOUTEI NI OKERU TOUMEISEI*.

[17] The basic elements include making information on relevant laws of investment destinations available to investors, etc.; in particular, bilateral agreements with former socialist states such as Poland signed before and after the Cold War explicitly include the concept of "transparency." Such provisions have led to "transparency" in the WTO systems such as GATTS, etc. The NAFTA includes provisions on involvement of interested parties in administrative procedures and obligations to install fair inspection bodies, such as judicial courts, as well as accessibility to information on laws. The "Model BIT" developed by the U.S. government in 2002 includes, as part of the "transparency," the establishment of contact points to make information available immediately, publicizing relevant measures proposed in advance, providing an opportunity to hear public opinion on them, responding to questions on measures proposed formally, enacting administrative procedural laws, and establishing courts or administrative procedures to expedite inspections (source: the aforementioned publication by Kodera, A. (2006)).

[18] Various conditions are attached to accepting investment from abroad, such as local content, local procurement, and domestic sales restriction requests, etc.

[19] For example, the Australia-Thailand FTA and the EFTA- Republic of Korea Investment Agreement do not include a provision to prohibit performance requests.

[20] Source: the aforementioned USTR Report (2008) and METI Report (2008).

[21] The Berne Convention from which the TRIPS quotes stipulates that the copyright shall be protected for 50 years after the death of a copyright holder, while the FTAs of the United States stipulate that such a copyright shall be protected for 70 years. These FTAs also include much more explicit and specific provisions, such as provisions on periods of exclusive use of trial data submitted for approval of medicines, etc. as part of protection of such data. They also include provisions to prohibit any actions for averting copy controls that are designed to prevent unauthorized copying by technical means and access controls that are designed to limit viewing and listening of content through encryption.

Agreement (ACTA)[22] with major trading partners, including Japan and EU, in order to cope with the problem of counterfeit goods. In certain cases, the "Special 301" provisions of the Trade Act are applied to demand further improvement from trading partners[23].

(5) Future direction of trade policies

As a result of the mid-term election in 2006, the Democratic Party, which is believed to be more conservative in its trade policies than the Republican Party, held a majority in the Congress, thereby making it difficult for the U.S. government to coordinate with the opinions of the Congress on trade negotiations[24].

However, the economy of the United States continues to grow on the strength of liberalization of trade and investment and its competitive edge in financial and other service sectors. The United States will continue to enhance such competitiveness and seek economic ties with other countries with a greater emphasis on services such as investment and finance[25]. Japan must monitor future moves of the United States as changes in its trade policies will have huge impacts on efforts for global free trade systems such as WTO talks and FTAs.

[Column 38] Evaluation of Economic Globalization

The comparative advantage devised by Ricardo in the 19th century has been a "model" for subsequent economics, particularly on the impact of trade and investment liberalization on national economies.

However, the model developed by Ricardo is a static model and dynamic effects of globalization (capital accumulation and increased productivity, etc.) have been abstracted.

For these reasons, it is possible that results different from those of Ricardo are obtained. For example, Nobel prize-winning economist Paul A. Samuelson, in his thesis "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization," presented a counterexample[26] to the conclusion of Ricardo's comparative advantage that "all parties can benefit from trade." In the thesis, Samuelson logically asserted—using Ricardo's traditional model of "two countries, two goods"—that, depending on the assumptions, trade liberalization could reduce real national income.

The discussion in the thesis is based on the United States (developed nation) and China (developing nation). The thesis insists that technological innovation by China in a product in which

[22] Anti-Counterfeiting Trade Agreement (ACTA).
[23] For example, the U.S. government has moved Chile from the "Watch List" to "Priority Watch List" in order to enhance the monitoring of the intellectual property right protection status in Chile. The "Special 301" has been applied to countries such as Russia, Brazil, Pakistan, and the Czech Republic; a detailed investigation is under way on the current status of the intellectual property right protection in China.
[24] The Trade Promotion Authority (TPA) assigned to the President by the Congress expired in July 2007.
[25] For example, the United States announced that it would participate in the additional negotiations on investment and financial sectors scheduled to be initiated by New Zealand, Chile, Singapore, and Brunei—all signatories to the Trans-Pacific SEP FTA.
[26] Source: Samuelson, Paul, A. (2004) "Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization."

China has the comparative advantage would boost the real income of the United States, while technological innovation by China in a product in which the United States has the comparative advantage would reduce the per capita real GDP of the United States (even if additional consumers are created as a result of lowered price of the product in which the United States has the comparative advantage).

Outline of the argument developed in this paper

1. Outline of the model

This paper uses a standard Ricardian model (two countries, two products; two countries = United States and China).

Let the labor productivity and output of industry n (n = 1, 2) in the US be An and Qn, and the labor productivity and output of industry n in China be an and qn respectively.

The total US workforce is assumed to be 100, while China's total workforce is assumed to be 1,000. (The US has a comparative advantage in good 1, and China in good 2.)

Supposing the utility function of society as a whole is a "Mill utility function," if we let the utility functions in the US and China be U_1 and U_2 respectively, then it follows:

$$U_1 = Q_1^{0.5} Q_2^{0.5}, U_2 = q_2^{0.5} q_1^{0.5}.$$

2. Confirming the merits of free trade: a comparison of equilibrium before and after open trade

(1) In the "before trade" equilibrium, given the shape of the utility function, workers are equally divided between the two industries since consumers derive the same value for both goods.

○ Output US: (Q_1, Q_2) = (100, 25) China: (q_1, q_2) = (25, 100)

World total: (good 1, good 2) = (125, 125)

○ Utility US: U_1 = 50 (0.5 per capita) China: U_2 = 50 (0.05 per capita)

(2) In the "after trade" equilibrium, the US specializes in good 1, and China in good 2.

○ Output US: Q_1 = 200 China: q_2 = 200

World total: (good 1, good 2) = (200, 200) (increase from "before trade")

○ Utility US: U_1 = 100 (1 per capita) China: U_2 = 100 (0.1 per capita)

The utility for both the US and China double compared to "before trade." The income differential remains at ten-fold, the same as "before trade."

3. If technological innovation was to occur in an industry of comparative "advantage" in China

Suppose that a_2 was to increase from 2/10 to 8/10. In this case, technological innovation would not change the structure of comparative advantage between the two countries. Accordingly, the US would continue to specialize in good 1, and China in good 2. The increase in productivity for good 2 in China would lead to an increase in the supply of good 2, and the relative price of good 2 to good 1 would decrease. There would be benefits to the US as it imports good 2, and under the "Mill utility function," there would also be benefits to China.

4. If technological innovation was to occur in an industry of comparative "disadvantage" in China

Suppose that a_1 was to increase from 1/20 to 8/10. This technological innovation would result in accord between the structures of comparative advantage in the US and China. In a state of equilibrium, workers would be equally divided between industries 1 and 2 in both the US and China, and so neither would specialize.

○ Output US: $(Q_1, Q_2) = (100, 25)$ China: $(q_1, q_2) = (400, 100)$

World total: (good 1, good 2) = (500, 125)

○ Utility US: $U_1 = 50$ (0.5 per capita) China: $U_2 = 200$ (0.2 per capita)

Real income in the US would be less than it was prior to the technological innovation in China (= 1), while real income in China would be more than it was prior to the technological innovation (= 0.1).

The thesis implies a risk that the real income of one country could be adversely affected once another country catches up with it in an industry where the former has a comparative advantage. In order to prevent such a risk of globalization, the following efforts are necessary:

(1) Efforts not to be overtaken by other countries in industries with comparative advantage (preventing technological outflow, etc.)

(2) Efforts to create new industries on a continual basis (constant promotion of innovation)

The Ricardian model abstracts the concept of capital and companies. However, in the cases in which capital and companies are involved, companies may move their production bases offshore or relocate their offices overseas in the globalized economy, thereby possibly causing side effects[27] such as unemployment, etc. However, regardless of the questions raised by Summers (2008) and Wolf (2008), even if the globalization of the economy causes a few side effects, the progress achieved due to globalization is irrevocable. Therefore, it is important to consider remedies to such side effects of globalization based on the concept that globalization is inevitable[28].

---

[27] Certain economists are also concerned with regard to the negative impact of globalization on employment. For example, Blinder (2007), "Free Trade's, Great, but Off-Shoring Rattles Me" (Washington Post) indicates a possibility of losing 30 million U.S. jobs to overseas companies. Summers (2008) "A strategy to promote healthy globalisation" (Financial Times) cites "weakening ties between success of workers and the success of companies and trading partners" as the reason why workers are becoming skeptical with regard to the effects of globalization by stating that "workers have realized the globalization is beneficial to the global economy while unbeneficial to them." In brief, in the closed economy, companies and workers tend to pay attention to improving labor productivity, while in the open economy, companies do not pay attention to improving labor productivity as they can unite their capital with global labor forces and tend to "seek compromise on corporate taxes, regulations and subsidies, etc. by threatening to move their production bases overseas."

[28] For example, Summers (2008) indicates that promotion of inter-governmental cooperation on international tax issues, such as tax havens, etc. and prevention of harmful restrictions on competition are necessary; on the other hand, Wolf (2008), "Preserving the open economy at times of stress" (Financial Times) indicates that the "higher taxation of the winners" (increased tax on people (companies) benefiting from globalization) is necessary.

2. The Global Strategy of the European Union (EU)

As of May 2008, the EU has 27 member countries with a total population of 493 million[29]. Tariffs have been eliminated within the territory and people can move freely across borders, thereby creating a colossal integrated market.

Thus far, the EU has spent over 50 years for achieving integration. It has gradually expanded and deepened its economic integration, beginning from the “European Coal and Steel Community (ECSC)” in 1952, followed by the Customs Union in 1968, the European Monetary System in 1979, etc. The Maastricht Treaty signed in 1992 forms the basis of the current EU system, expanding the alliance into diplomatic, security, internal affairs, judicial, and economic areas.

EU members are successfully responding to the strategic globalization of the economy in a concerted manner. This sub-section describes the summary of such efforts by the EU.

(1) Efforts for global competition

(Enhancing the basis within the territory— the “Lisbon Strategy[30]”)

The EU has been making steady progress in terms of further integration and expansion of its markets by increasing the number of member states. However, it is facing numerous problems including high unemployment, rapid aging of society, increased social security costs, sluggish R&D investment, and others that hamper the economic growth and productivity amid mounting issues, including intensifying global competition and conversion to a knowledge-based economy. The EU has realized that concerted actions among member states are necessary in order to solve these issues and enhance the basis of its global strategy within the territory of EU member states.

Under such circumstances, in March 2003, the EU adopted the “Lisbon Strategy,” which is designed to create an attractive investment and employment environment within the territory of EU member states by promoting R&D and innovation, improving the business environment surrounding small and midsize companies, developing human resources, modernizing labor markets, and implementing environmental policies based on the reduction of carbon dioxide emissions, etc. Moreover, the EU aims to enhance the basis of its global strategy within the territory in order to cope with intensifying global competition by constantly implementing the Lisbon Strategy.

(Foreign economic strategy—“Global Europe[31]”)

In addition to such enhancement efforts, the Lisbon Strategy clearly defines a goal of increasing interests and growth of the EU through its foreign economic policy. In October 2006, the European Commission released “Global Europe,” a policy document that states the main concept of its foreign economic policy.

---

[29] The Mission of Japan to the European Union (2007), *EU NO KAKUDAI*.

[30] Adopted by the EU Council in March 2000. “Working together for growth and jobs—A new start for the Lisbon Strategy,” which clearly defined the goals of creating an attractive investment and employment environment within the territory of EU member states, was adopted in 2005.

[31] European Commission (2006), “GLOBAL EUROPE—competing in the world. A contribution to the EU’s Growth and Jobs Strategy”.

"Global Europe" indicates the importance of demanding other countries to open up their markets in order to secure grounds for fair trade in addition to the enhancement of the basis of its territorial markets, as stated in the "Lisbon Strategy." Specifically, the document stresses the need to demand other countries to remove non-tariff barriers such as excessive trade restrictions and procedures[32], guarantee access to energy and other resources, protect intellectual property rights (new trade-related issue), liberalize services, investment, and government procurements, promote free competition, etc.

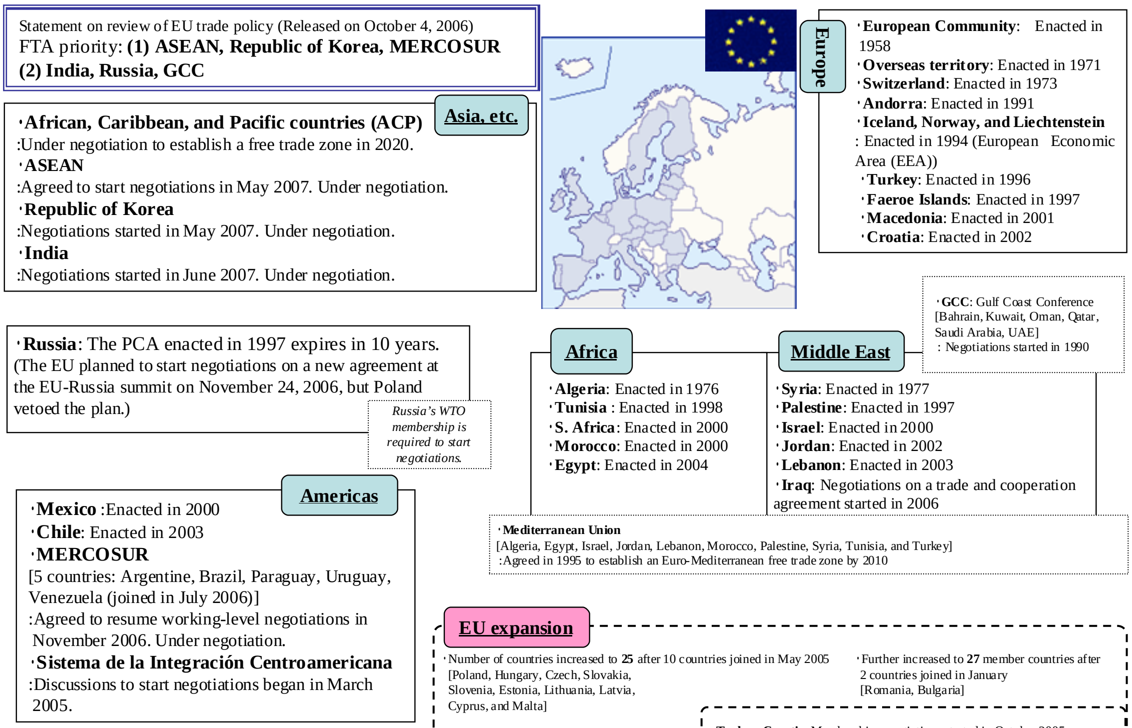
(Interest in FTAs[33])

The EU emphasizes the enhancement of the functionality of the WTO, a multilateral trade system, and also a successful conclusion of the WTO Doha Development Agenda (DDA). However, it has initiated efforts for easier access to markets of trading partners through FTAs, changing trade and investment conditions of the global market to its own advantage as the DDA make little progress, and to solve issues not that are not currently encompassed by the WTO, such as investment, government procurement, competition, protection of intellectual property rights, etc. Further, the EU considers the level of market potential (size of the market, economic growth rate) and protectionist measures (tariff and non-tariff barriers) in selecting countries and regions with which it negotiates FTAs. It emphasizes FTA negotiations, particularly with ASEAN, Republic of Korea, and MERCOSUR. The EU seeks the conclusion of highly flexible FTAs containing provisions on services and investment. It aims to remove import quota, tariffs, and other duties and import restrictions imposed by trading partners and improve the protection of intellectual property rights and governance of finance, taxes, and laws in these countries and regions (see Figure. 4-1-2).

[32] Dialogues on mutual recognition agreements with third parties, internal standards and rules, technical assistance, etc. are expected to be effective in removing non-tariff barriers (source: the European Commission (2006)).

[33] Source: the European Commission (2006).

Figure 4-1-2 FTA Efforts by EU



Note: As of May 2008

Source: Ministry of Economy, Trade and Industry, Japan

(Relationship with the United States)

EU member states have a historically profound relationship with the United States and have been making efforts to establish a strong alliance with Western democracies in various fields[34]. The EU has recently been making serious efforts for establishing a "much more integrated" economic framework with the United States. The economic portion of the joint statement released at the summit meeting between the EU and the United States in April 2007 includes the promotion of cooperation on deregulation and establishment of a framework[35] for promoting economic integration between the EU and the United States in the fields of intellectual property rights, safe trade, investment, financial markets, and innovation and technology[36]. The first meeting of the "Trans-Atlantic Economic Council," a new framework for ministerial-level dialogues between the EU and the United States, was held in November 2007. The joint statement—with regard to the elimination of trade and investment barriers between the EU and the United States and deregulation—released at the meeting included efforts by the United States to define accounting rules based on international accounting standards,

---

34 Various dialogues have been conducted between the EU and the United States, including peace and stability, promotion of democracy, global issues such as global environment, enhancement of concerted actions on common issues such as expansion of global trade, and better access to each other's markets through deregulation and eliminating and reducing trade barriers, etc.

35 Framework for advancing transatlantic economic integration between the European Union and the United States of America.

36 The statement also includes an effort to create an environment where an accounting rule generally used in the United States and the international accounting standards used in Europe can mutually be accepted by as early as 2009.

deregulation of procedures for new drugs, an agreement by experts on the introduction of common standards on biofuels, etc. The second meeting was held in May 2008 in which issues such as the import ban on U.S. chickens and specific measures to alleviate the impact of implementing EU's REACH were discussed. The joint statement on open investment released at the meeting stressed the benefits of international investment and importance of indiscriminate and transparent investment policies[37].

Such integration efforts by the EU and the United States, in addition to the trade agenda, may be a model case for creating global rules and standards. Japan must monitor future moves of this alliance between the 2 countries.

(2) Global standards led by Europe

Recently, Europe has attracted attention for taking advantage of its competitive advantage in leading the world, particularly in international standardization[38], as part of its efforts to create a global marketplace.

(Significance of winning international standards)

The advantage of winning an international standard for a product is that the manufacturer of the standard-based product no longer has to change the specification of the product when manufacturing and selling it overseas. The manufacturer can also expect the product to win a larger share of the global market on the strength of the international standard. In particular, after the enactment of the WTO Agreement on Technical Barrier to Trade (TBT Agreement[39]) in 1995, the importance of winning international standards is believed to have increased significantly for countries engaged in standardization efforts. On the other hand, failure to win international standards implies that manufacturers inevitably have to make extra investment for developing, designing, and manufacturing standard-based products. In addition to the performance and technical features of a product, the international competitiveness of a product depends greatly on winning the international standard.

(The standardization policy[40] of the EU as a global strategy)

The EU is taking progressive actions on "standardization" with the aim of promoting market integration. In May 1985, the then EC Council adopted the "resolution on a new approach to technical harmonization and standards," which was an epoch-making policy with an entirely different concept

---

[37] The statement cautiously welcomes investment for commercial purposes by emerging sovereign wealth funds (SWFs), while emphasizing the importance of transparency.

[38] "Standardization" implies the development of standards on quality, performance, safety, size, and test methods of a product. International standardization implies making an international agreement on standardization (source: Japanese Industrial Standards Committee Website).

[39] The TBT Agreement stipulates that WTO member countries shall use such an international standard (or a relevant portion thereof) when a relevant international standard already exists or is about to be defined in the near future so that standards and standard authorization systems for industrial products of each country do not become unnecessary trade barriers when each country defines mandatory or discretionary standards.

[40] Kajimura, Y. (2006), *SENSHINKAKKOKU NO HYOUJUNKA SEIDO OYOBI KATSUDOU NI KANSURU KOUSATSU – BEIKOKU NO SECTRAL APPROACHI TO OUSHU NO NEW APPROACH, HYOUJUNKA TO HINSHITSU KANRI* Vol.59 No.3 (March 2006), etc.

on product safety rules[41] from the traditional one.

In the "new approach," only general request items that have to be observed strictly are defined in a directive ("New Approach Directive") to be enacted by the European Commission. The development of technical specifications (standards), etc., for each product category is assigned to the European Committee for Standardization[42]. If a product complies with a standard[43] defined by the European Committee for Standardization in accordance with the directive, the product is automatically deemed to have satisfied the safety requirements of the European Commission, and the free distribution of the product within the territory of EU member states is guaranteed. Such a flexible mechanism enables European companies to become actively involved in the activities of the European Committee for Standardization and enables the creation of a single European market based on European standards. It also enables the successful tackling of numerous difficult policy issues, such as securing distribution of versatile products and using private sector vitality in developing product safety rules, etc. The "new approach," by assigning significant authorities to the European Committee for Standardization, accelerates standardization efforts within the territory and is playing significant roles in setting the stage for Europe to play a leading role in the international standardization efforts, as mentioned later in this document.

The EU, well aware of the importance of making its standards accepted as international standards, has adopted certain resolutions on standardization[44] at the EU Council in order to successfully respond to globalization. In December 2004, the EU Council indicated the following efforts: (1) Efforts for improving efficiency, consistency, and transparency of standardization activities by European standardization committees, (2) efforts for popularizing European standards in the global market, and (3) efforts for making European standards accepted as international ones at international standardization organizations such as ISO and IEC[45].

It is indispensable to cultivate "companions" who support EU proposals as well as propose international plans before other countries in order to take initiative in the process of developing international standards at ISO and IEC. The EU possesses a mechanism to make concerted efforts for

[41] Technical harmonization was not progressing well before the resolution was passed because of differences in language, technical standards, and concepts on safety and test inspections and authorization, etc.

[42] The European Committee for Standardization (CEN), European Committee for Electrotechnical Standardization (CENELEC), European Telecommunications Standards Institute (ETSI), etc.

[43] Standards defined by these committees are known as the "European Norm (EN-Norms)." Standards that are defined on the basis of the New Approach Directive are also EN-Norms and "European -harmonized Standards" of EU.

[44] The EU Council Resolution in October 1990 states that the new approach has promoted standardization efforts within the territory and contributed to the market integration of member states, while emphasizing a future necessity for developing a new strategy for coping effectively with market globalization. The EU Council resolution in March 2002 refers to a necessity for improving the efficiency (minimizing the time required for the development of standards) of standardization committees in order to expedite development of international standards in global competition.

[45] CEN and CENELEC also made statements on standardization strategies in October 1998, expressing the strong will of Europe to unite in participating in the process of creating international standards. As standardization strategies for up to 2010, CEN adopted "CEN Strategy 2010," while CENELEC adopted "CENELEC's Visions Until 2010." They advocate cooperation with ISO and IEC, etc., and the portrayal of a united Europe at these international standardization organizations and the WTO.

standardization within the territory of its member states. For example, if one member state submits a standardization proposal to ISO, numerous other EU member states who share a large number of common interests with the proposing country, because of their geographical and cultural proximities, will find it relatively easy to support the proposal (as each ISO and IEC member country has one vote[46] in each organization, the EU alone has a maximum of 27 votes), which is a great advantage for the EU's efforts for international standardization.

(3) Major aspects of the global strategy of the EU

As exemplified in its standardization policy, the EU is making internal as well as external efforts by developing its internal systems and rules keeping in mind the global market. In doing so, the EU is adopting a positive stance of making its internal systems and rules accepted as international ones in order to develop the global market to its advantage, instead of a passive stance of harmonizing its internal systems and rules with international ones. Such a positive stance by the EU will serve as a good model for Japan in creating future markets[47].

3. Global Strategies of Asian Countries

(1) The global strategy of China

China has steadily achieved its economic growth by accepting direct investment by foreign companies since it adopted the "Reform and Opening-up" Policy in 1979. In particular, upon its accession to the WTO in December 2001, China has achieved tremendous growth in export and earned the status of the "Global Factory." During these periods, China's nominal GDP increased from US$308 billion in 1980 to US$3 trillion and 250.8 billion in 2007. China is considered to be one of the most successful countries in the globalized economy.

However, China has numerous issues with its trading partners, including trade frictions due to its ballooning trade surpluses, poor records of protecting intellectual property rights, concerns over product safety, etc.

(Structural reform in favor of export and foreign capital)

The "Reform and Opening-up" Policy has been the basic national policy of China since its adoption in 1979. In recent years, China has recognized the need to reform its trade structures and

---

[46] As CEN and other European standardization committees adopt the weighted voting system, countries with large economies, such as Germany, France, and the United Kingdom, have voting rights over 10 times as powerful as those of other countries. As each European government is obligated to adopt EN-Norms defined by CEN as its own national standards, each European government is expected to support such EN-Norms if any similar standards are to be defined by ISO, etc. It could be a great advantage for European companies in their efforts for international standardization at ISO, etc., as they can tactically take advantage of differences in the voting system at ISO and CEN.

[47] The aforementioned "Global Europe," in its description regarding the internal policy, states that "It (EU) has to play leading roles in sharing best practices and developing global rules and standards. For this end, it has to develop its internal rules and standards, bearing in mind external rules and standards." This is indicative of the clear-cut strategy of the EU to take initiative in global rule-making by positively extending its internal rules to beyond its territory.

improve the quality of foreign capital utilization. The “11th 5-Year Plan Government Guideline” adopted at the National People’s Congress (NPC) in March 2006 includes plans such as reformation of China’s export structures by focusing on developing its original high-tech products, original brands, original intellectual property rights, etc., luring foreign capital investment in the fields of high-tech and environmental protection, and promoting expansion of overseas operations of Chinese companies[48].

The NPC Political Activity Report 2008 also emphasizes the continuation of the “Reform and Opening-up” Policy and promotion of creativity and innovation.

(Creating original intellectual properties)

Currently, the intellectual property system in China is almost in harmony with the WTO TRIPS Agreement. However, illegal products such as counterfeit and pirated goods remain rampant[49]. The Chinese government is continuing with its efforts to revise and enhance national laws and enforcement systems in order to protect intellectual property rights[50] while focusing on the development and growth of its own intellectual property rights, such as original brands, etc. For example, Chinese President Hu Jintao mentioned the development of original brands at the 17th National Congress of the Communist Party of China in November 2007 by stating that “China needs to accelerate its efforts to develop multinational companies and renowned original brands which represent China in the world through innovation to be brought about by foreign investment and foreign cooperation and by supporting Chinese companies in their efforts for global operations such as R&D, production and sales, etc.”

(From the policy of introducing foreign capital to that of expanding into overseas markets[51])

With regard to inward direct investment, China, until the late 1990, promoted a policy of introducing foreign capital in the country in order to compensate for the capital shortage in China. This resulted in the establishment of numerous production bases by foreign companies in China in rapid

---

48 Source: The 11th 5-Year Plan Government Guideline, Chapter 9: “Implementing mutually-beneficial and win-win opening-up strategy.” It also refers to enhancement of corporate technological innovation to develop original products (Chapter 7: Implementing strategy to reinforce the country through strategies to advance the country based on science education and through human resources).
The “National Medium-/Long-Term Scientific Development Plan Guideline” was developed in February 2006, independently of the 5-Year Plan, for the development of science and technology. The goals of the plan include increasing R&D spending to over 2.5% of GDP, reducing foreign dependency on science and technology to 30% or below, increasing the number of Chinese patent applications and number of quotes from Chinese scientific thesis to the world’s top 5, and improving the environment such as tax and loan systems, etc. for these ends by 2020.

49 Source: The Ministry of Economy, Trade and Industry, Japan, (2008), *2008 FUKOUSEI BOUEKI HOUKOKUSHO*.

50 See the “Action Plan for Protecting Intellectual Property Rights in China 2008” for efforts by the Chinese government for protection of intellectual property rights.

51 Source: Nomura Research Institute, Konomoto, S. (2008), *2015 NEN NO CHUGOKU*, Kojima, S. (2005), *CHUGOKU NO “SOUSHUTSUKYO” SENRYAKU TO TAIGAITOUSHI SHOUREI*, KOKUSAI BOEKI TO TOUSHI (2005, Autumn Edition), Hagiwara, Y. (2008), *KOKKA SENRYAKU NI MOTOZUKI KYUZOU TSUZUKU CHUGOKU NO TAIGAI TOUSHI*, Bank of Tokyo-Mitsubishi UFJ Economic Review, etc.

succession by taking advantage of the cheap labor. However, while the export of cheap products from China skyrocketed, technology transfer from these foreign companies and the technological capabilities of Chinese companies have not increased as expected. The Chinese government has recognized that it is not necessarily reaping sufficient benefits from the introduction of foreign capital and has begun to focus on such foreign investment that can contribute to the real development of the country. The "11th 5-Year Plan" also emphasizes the "importance of quality" of inward investment, and recommends investment that can contribute to modernizing the agricultural industry, investment in IT, petrochemical, chemical, and automobile industries as well as investment that can contribute to reforming traditional industries (light industries, mechanical, spinning, raw material, construction industries, etc.) and to increasing the value added., Further, investment in infrastructure development, investment that can contribute to saving energy and protecting the environment, and investment in the lagging service industry is highlighted (finance, insurance, securities, commerce, logistics, and tourism, etc.)[52].

In addition to such an approach of focusing on the quality of inward investment, China is actively promoting outward direct investment after the NPC in 2000 officially proposed the policy of expanding into overseas markets. The policy is designed to expand outward direct investment by Chinese companies. Thus far, outward direct investment has been relatively small as compared with inward direct investment. China hopes to improve and resolve issues such as trade frictions with its trading partners arising from its expanding exports, production capacity glut in certain industries, intensifying resource scarcity, etc. through the expansion by Chinese companies into overseas markets.

The Chinese government is actively improving the environment for supporting outward direct investment by Chinese companies by simplifying procedures for inspection and approval of such investment[53], easing regulations on the use of foreign currencies, providing credit and special loans to companies making outward direct investment, and signing investment protection agreements and double taxation agreements, etc., with trading partners. At the end of 2005, the Ministry of Commerce in China announced a plan to develop industrial complexes in countries where outward direct investment has been made in order to concentrate Chinese companies in such complexes and provide them with tax, loan, and other preferential treatments. As of February 2008, such complexes have been developed in a total of 19 locations in Asia, Africa, Russia, and Central/South America[54].

Given such governmental policy support, the outward direct investment by Chinese companies has been increasing rapidly since around 2004[55]. As for investment choices (based on stocks at the end of 2005), investment in Hong Kong (approximately 64%) and Cayman Islands (approximately 16%) accounts for a majority of the investment. However, the investment in resource-rich countries such as

---

[52] National Development and Reform Commission/Ministry of Commerce, "Catalog for the Guidance of Foreign Invested Enterprises."

[53] For example, a list of products recommended for overseas expansion of processing trade was developed in 2000 (and was expanded further in 2002). The investment inspection procedures for the products listed have been simplified (source: the Nomura Research Institute, Konomoto, S. (2008)).

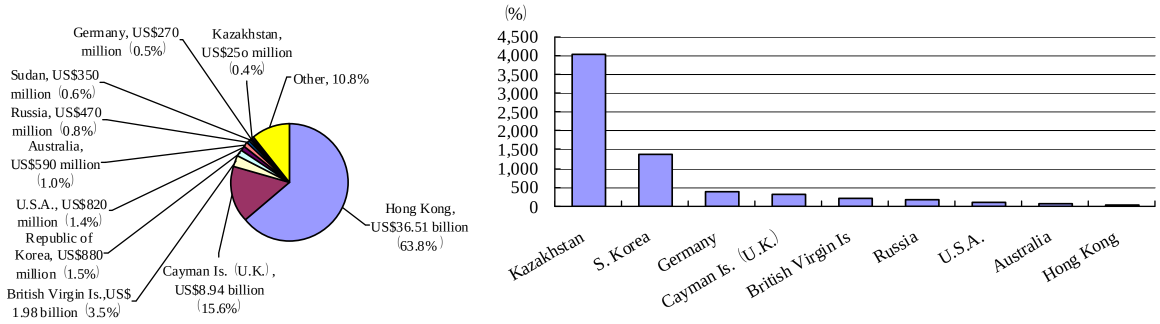
[54] Liu, YS. (2008), VIETNAM *NADO 11 KASHO NO KOGYO DANCHI WO GASSAKUKU TOSHITE NINTEI*.

[55] UNCTAD, "WIR." US$2.5 billion in 2002, US$2.9 billion in 2003, US$5.5 billion in 2004, US$12.3 billion in 2005, and US$16.1 billion in 2006.

Russia, Australia, and Kazakhstan has begun to increase sharply since 2004 (see Figure 4-1-3).

Figure 4-1-3 China's Outward Foreign Direct Investment by Country/Region (excluding finance)

(Stock-based share by region as of end of 2005) **Growth rate by country/region (Based on flow 2004-2005)**



Source: JETRO (2007), *JETRO White Paper on International Trade and Foreign Direct Investment (2007)*
Original source: *2005 NENDO CHUGOKU TAIGAI CHOKUSETSU TOUSHI TOUKEI KOUHOU.*

(Operating a huge amount of foreign reserves—foundation of China Investment Corp. Ltd. (CIC)[56])

As described in Section 3 of Chapter 1, China possesses the largest foreign reserves in the world, after surpassing that of Japan at the end of February 2006. The foreign reserves held by China at the end of 2007 increased to approximately US$1.5 trillion[57]. A majority of the foreign reserves was invested in U.S. Treasury Securities. It was necessary for the Chinese government to study other and more efficient investment alternatives as the yield of the U.S. Treasury Securities was low and their investment was concentrated only in certain financial products.

Therefore, the Chinese government founded the "China Investment Corporate Ltd. (CIC)[58]" in September 2007 as an agency to efficiently handle a portion of its foreign reserves. The CIC is an organization under the direct supervision of the State Council of China. Japan must monitor future CIC moves as its outward foreign investment may reflect the foreign policy of the Chinese government.

(Promoting FTAs with major countries)

China is actively engaged in FTA negotiations with major countries, including neighboring Asian countries. The Agreement on Trade in Goods and Agreement on Trade in Services with ASEAN were enacted in January 2005 and July 2007, respectively. Further, the FTA with Pakistan was also enacted in July 2007 and that with New Zealand was signed in April 2008. FTA negotiations with Singapore and Australia are currently under way. China has just completed the joint study on initiating FTA negotiations with India. The joint study with South Korea among representatives from industry, government, and academic sectors is under way. In addition, China is also preparing for FTAs with

---

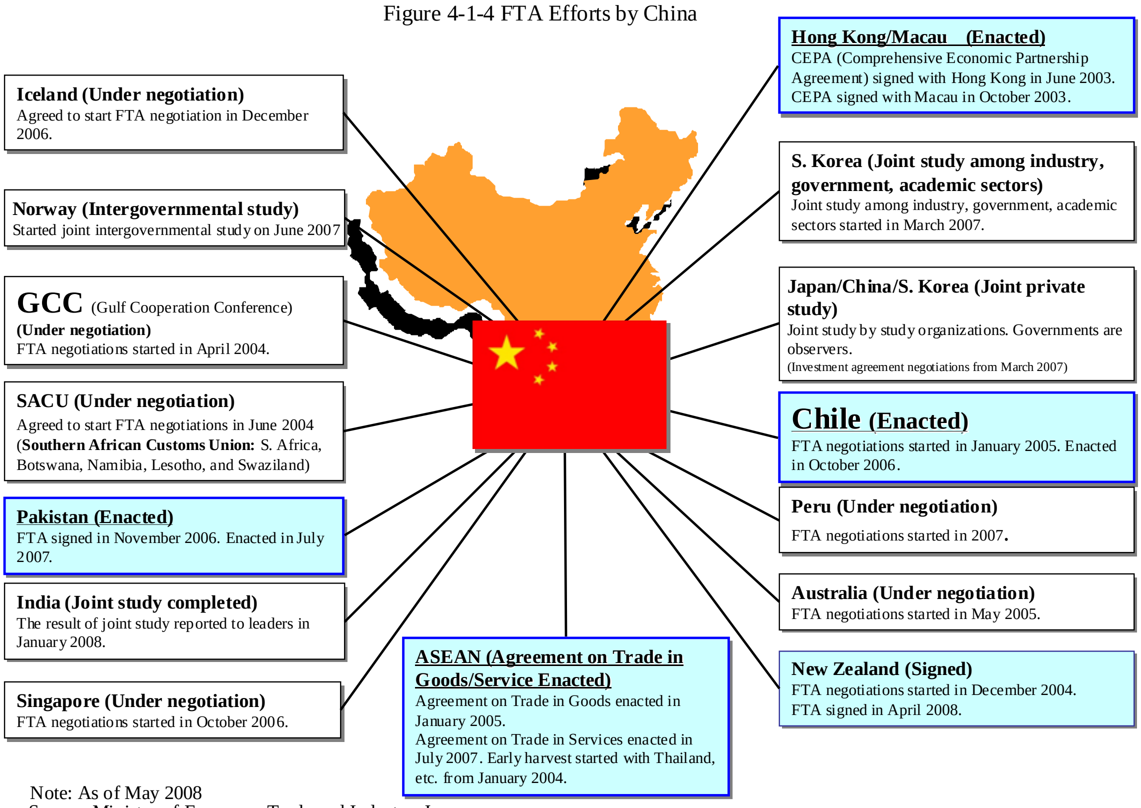
[56] Shu, E. (2008), *GAIKA JUNBI NO HONKAKUTEKI UNYOU WO HAJIMETA CHUGOKU – CHUGOKU TOUSHI SETSURITSU NO EIKYOU TO BUSINESS CHANCE.*

[57] IMF, "IFS."

[58] CIC is capitalized at US$200 billion, which was financed by the purchase of foreign reserves from the central bank through special national bonds issued by the Ministry of Finance of China.

resource-rich countries and regions, including Norway and GCC (Gulf Coast Conference) (see Figure. 4-1-4).

Figure 4-1-4 FTA Efforts by China



Note: As of May 2008
Source: Ministry of Economy, Trade and Industry, Japan

(2) The global strategy of South Korea

South Korea suffered a severe currency crisis in 1997; however, it successfully overcame the difficulty in a short period of time by dramatically expanding its exports, partially due to a sharp decline in its currency “Won”. The South Korean economy continues to grow in a stable manner while increasing its dependency on export and is emerging as one of the most successful countries in an increasingly globalizing world.

(Promoting FTAs with major countries)

South Korea began FTA negotiations relatively late. Its first FTA negotiation was conducted in 1999 with Chile (enacted in April 2004).

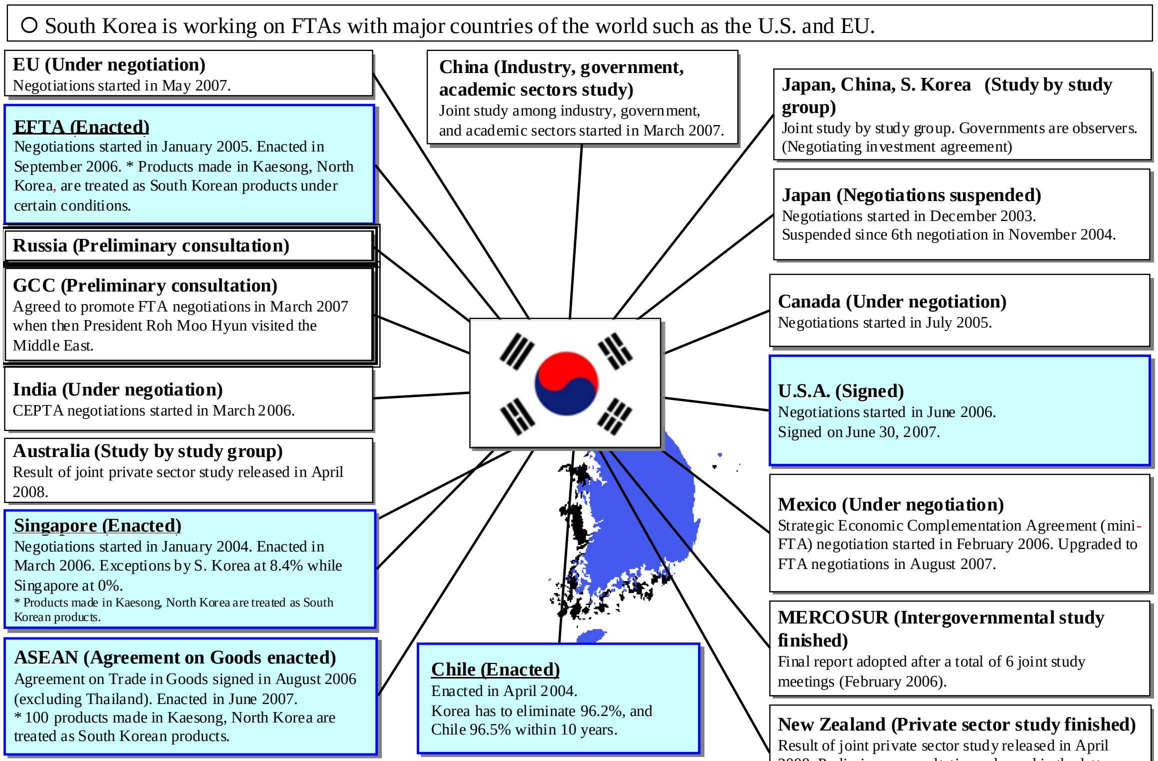
South Korea began to negotiate FTAs aggressively in February 2003, after the then President Roh Moo Hyun assumed office. It concluded negotiations with Singapore (enacted in March 2006), EFTA[59] (enacted in September 2006), and ASEAN (Agreement on Trade in Goods enacted in June 2007 (excluding Thailand)) in a short period of time.

In addition, South Korea actively began FTA negotiations with major countries and regions of the world, such as the United States and the EU, etc; it signed an FTA with the United States in June

[59] After the inauguration of the European Economic Community (EEC) in 1958, the EFTA was established by 7 non-EEC European nations (the U.K., Austria, Denmark, Norway, Portugal, Sweden, and Switzerland). Current member states are Switzerland, Norway, Iceland, and Lichtenstein.

2007[60]. It is also negotiating FTAs with major developed countries and newly-emerging economies, such as the EU, Canada, India, etc. Further, a joint FTA study with China among industry, government, and academic representatives has also been initiated (in March 2007). South Korea is currently engaged in preliminary consultations with Russia and GCC (see Figure. 4-1-5).

Figure 4-1-5 FTA Efforts by South Korea



Note: As of May 2008
Source: Ministry of Economy, Trade and Industry, Japan

(The strategy of "economy with 7% growth potential" of the Lee Myung Bak administration)

The administration of President Lee Myung Bak was inaugurated in February 2008; in the following month, it announced its action plan—the "2008 Action Plan"—that outlined the new development strategy of South Korea. By highlighting serious issues facing the country, such as slowdown in national economic growth following the Asian Currency Crisis, sluggish growth in domestic capital spending and consumption, deterioration in the global economic outlook, concerns over rising resource prices, etc., the Plan proposed the following 3 pillars of actions: (1) economic recovery through expansion of investment and consumption, (2) sustainable growth through improvement of corporate environment through, for example, deregulation and financial globalization, etc., and (3) long-term growth by enhancing the economic foundation that would lead new growth by, for example, increasing R&D investment, enhancing competitiveness in the service industry, and enhancing human resources.

Specific actions for sustainable growth include minimizing regulations[61], radical tax reforms

---

60 See Column 42.

61 This includes removing any regulations that have not been imposed by other countries and complying with global standards if regulations are to remain in effect.

including corporate tax cuts, enhancing international competitiveness of the financial industry[62], etc.

Specific measures for long-term growth include increasing R&D investment (from 3.2% of GDP in 2006 to 5% in 2012), promoting competition by reviewing various regulations on new entry and other regulations on business operations, etc., and enhancing competitiveness in the service industry by promoting the use of IT, promoting multifaceted resource diplomacy, developing human resources[63], easing foreign exchange controls for flexible transnational flow of capital, promoting inward investment[64] and FTAs, etc.

(3) The global strategy of ASEAN

ASEAN was formed by 5 countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) in August 1967 and expanded to include Brunei (1984), Vietnam (1995), Laos (1997), Myanmar (1997), and Cambodia (1999); it marked its 40th anniversary in 2007. As of 2007, the 10-member-nation AEAN boasts a population of 580 million and nominal GDP of US$1.3 trillion[65].

Under the common perception of “high growth = sophisticated industrial structures,” ASEAN nations have been making serious efforts to attract foreign investment in the electronics industry and develop the IT industry by announcing plans such as the National Automotive Policy by Malaysia and Indonesia and the Multimedia Corridor Plan by Malaysia, etc. Foreign direct investment in ASEAN nations began to increase rapidly in the 80s and became the driving force of the ASEAN economy, thereby enabling the achievement of high economic growth, which is also known as the “Asian Miracle.” Despite the damage due to the “Asian Currency Crisis[66]” of 1997, the ASEAN economy proved to be solid as it was back on the recovery track as early as 1999. ASEAN has signed FTAs and EPAs with Asian countries in the 2000s, thereby becoming the hub of the FTA/EPA network and leading economic integration in Asia.

Open sky agreements as well as FTAs play important roles in the integration of ASEAN[67]. Amid the progress in globalization and increasing interdependency among East Asian countries, ASEAN is enhancing its ties among its member states not only to increase traditional cooperative relations but also to increase its presence as a united entity.

(From “cooperation” to “integration”)

○ The ASEAN Economic Community (AEC)

The “Declaration of ASEAN Concord” was adopted at the ASEAN summit meeting in February

[62] Developing Asia’s top banks and investment companies, promoting necessary deregulation, establishing a global financial hub, funds to promote R&D investment, etc.

[63] Increasing involvement by women and the elderly in economic activities, enhancing competitiveness of universities and colleges, improving visa and permanent resident systems in order to increase the number of foreign laborers, etc.

[64] Opening-up of industries currently closed to foreign investors, improving the living environment of non-Korean residents including business management schools, and taxes, etc.

[65] Source: ASEAN Secretariat Website.

[66] See Chapter 2, Section1.

[67] Prime Minister Lee Hsien Loong of Singapore (chairman of ASEAN) stated at the World Economic Forum in January 2008 that ASEAN is promoting further integration through the AFTA and open sky policy.

1976 as a principle for establishing a cooperative system in political, security, and economic fields at the ASEAN level. Since the adoption of the declaration, ASEAN nations have been making various efforts for the enhancement of cooperative relations among its member states. With the increase in interdependency among ASEAN nations, the perception of ASEAN has shifted from cooperative relations among member states to that of a single community. Upon such a change in perception, the second unofficial summit meeting of ASEAN in 1997 (in Kuala Lumpur) adopted the "ASEAN Vision 2020[68]," which, for the first time, clearly defined the goal of envisioning the establishment of an ASEAN Community by 2020[69].

The "Declaration of ASEAN Concord II" was adopted in 2003. This declaration advocates the establishment of an ASEAN Community based on the following 3 pillars: (1) ASEAN Security Community, (2) ASEAN Economic Community, and (3) ASEAN Social and Cultural Community.

Of the above 3 pillars, the ASEAN Economic Community (AEC) aims to enhance competitiveness for economic growth and development through closer economic integration, and proposes (1) accelerating integration processes for a single market and production base, (2) designating 11 priority fields for integration[70], and (3) promoting the ASEAN investment area (AIA) through the liberalization, acceleration, and promotion of investment. It also includes schedules, etc. in order to eliminate tariffs in the ASEAN region in preparation for the AFTA. The "Declaration on AEC Blueprint" adopted at the ASEAN summit meeting in November 2007 has further increased and accelerated the efforts of ASEAN toward the AEC (see Table. 4-1-6).

○ The ASEAN Charter

ASEAN nations have become aware of the necessity to further improve the organization and systems of ASEAN. The "Kuala Lumpur Declaration on the Establishment of the ASEAN Charter[71]" was adopted at the ASEAN summit meeting in December 2005. The meeting, which comprised eminent persons and experts from all ASEAN nations, was held in order to discuss the basic rules that must be contained in the ASEAN Charter as well as the concept of the Charter. The ASEAN Charter was drafted on the basis of discussions and reports compiled in the meeting, and was signed at the ASEAN summit meeting in November 2007.

The ASEAN Charter comprises a preface and 13 chapters and 55 articles. The Charter includes epoch-making provisions such as granting legal personality to ASEAN, which did not have any international legal personality[72], promoting democracy, advocating respect for basic freedoms and human rights by proposing the "creation of an ASEAN human rights body," and granting legally

---

[68] The first action plan created based on the Vision was the "Hanoi Action Plan (1999–2004)." The second and current action plan is the "Vientiane Action Plan (2004–2010)."

[69] The date was expedited to 2015 at the ASEAN summit meeting in January 2007 (in the Philippines).

[70] Processed agricultural products, automobiles, electronics, fisheries, rubber products, textile/clothing, wooden products, airlines, e-ASEAN, healthcare, and tourism. Logistics was added in August 2007, thereby increasing the fields to a total of 12.

[71] Kuala Lumpur Declaration on the Establishment of the ASEAN Charter.

[72] The legal personality empowers ASEAN as an organization to sign treaties and agreements with external countries and international organizations (such as EU, etc.).

binding power over its member states[73] (see Table 4-1-7 Composition of the ASEAN Charter).

Table 4-1-6 Summary of ASEAN Economic Community (AEC) Blueprint

1 Single market and production base	
	Liberalizing trades in goods (eliminating tariffs*, non-tariff barriers, improving country-of-origin rules, accelarating trades, integrating customs, creating an ASEAN single window (a single account for customs procedures), eliminating standards- and technology-related barriers on trade (TBT)) * Eliminating tariffs: Eliminating all of the regional tariffs based on CEPT (Common Effective Preferential Tariff) and the relevant agreements in preparation for AFTA (i) ASEAN6 (Thailand, the Philippines, Indonesia, Malaysia, Singapore, and Brunei) should eliminate tarrifs except for sensitive products by 2015 and CLMV by 2018. (ii) ASEAN6 should eliminate tariffs on priority integration products by 2007 and CLMV by 2012. (iii) SL products should be moved to the CEPT scheme and ASEAN6 should reduce tariffs on these products to 0-5% by January 1, 2010. Vietnam should take such measures by 2013, Laos and Myanmar by 2015, and Cambodia by 2017. (iv) General exception items should also comply with CEPT.
	Liberalizing the service industry (liberalizing the service industry including air transportation, e-ASEAN, healthcare, tourism and logistics, etc., and deregulating, and eliminating restrictions on the financial industry, etc.)
	Liberalizing investment (protecting, accelarating, cooperating, promoting, and liberalizing investment)
	Liberalizing capital flow (improving and harmonizing rules on capital market, etc.)
	Movement of skilled workers (promoting movement of students and educational staff within the region, improving skills in the service industry, etc.)
	Achieving integration in 12 priority areas (processed agricultural products, automobiles, electronics, fisheries, rubber products, textile/clothing, wooden products, airline, e-ASEAN, healthcare, tourism, and logistics (from August 2007))
2 Highly competitive economic region	
	Competitiveness (introducing competitive policy in all member states by 2015, etc.)
	Consumer protection (establishing the "ASEAN Coordinating Committee on Consumer Protection (ACCCP)" to promote better consumer protection policy)
	Protecting intellectual property rights
	Developing infrastructures (cooperation on transportation, land/air transportation, information infrastructure, cooperation on energy and mining, financial support for infrastructure projects, etc.)
	Taxation (signing double taxation agreement, etc.)
	Promoting e-commerce
3 Region of equitable economic development	
	Developing small- and mid-sized companies
	Promoting the ASEAN Integration Initiative (IAI) (a program to correct regional disparity)
4 Integration into the global economy	
	Close and consistent approach on external economic relations (concerted efforts by ASEAN to enhance relations with external countries including such frameworks as FTAs and CEPs, etc.)
	Increasing involvement in global supply networks (adopting international best practices and standards in product manufacturing and distribution, etc.)

Source: ASEAN Secretariat Website, etc.

[73] In the case of a serious breach of the Charter by any member state, the punishment is determined at an ASEAN summit meeting under Article 20 of the Charter.

Table 4-1-7 Composition of ASEAN Charter

Chapter 1	Purposes/Principles of Charter	Artricles 1, 2	Maintaining peace, security, and stability; enhancing regional cooperation; creating a nuclear-free single market; reducing regional disparity; enhancing democracy; responding effectively to threats such as transnational crimes; promoting sustainable growth; developing human resources; establishing an ASEAN identity; establishing an ASEAN that is, among other things, transparent and not exclusive to external partners; respecting the independence, sovereignty, equality, and identity of member states; settling disputes peacefully and maintaining non-interference in internal affairs, etc.
Chapter 2	Conferring legal personality	Article 3	Conferring ASEAN with a legal personality
Chapter 3	Member states	Articles 4-6	Member states: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Rights and obligations of the member states and membership requirements, etc.
Chapter 4	Organs	Articles 7-15	Rules on ASEAN Summit Meetings, ASEAN Coordinating Council, ASEAN Community Council, Sectoral Ministerial Bodies, ASEAN Secretariat and secretary-general, etc. Establishing ASEAN Human Rights Body, ASEAN Foundation, etc.
Chapter 5	Entities associated with ASEAN	Article 16	Omitted
Chapter 6	Immunities and Privileges	Articles 17-19	Omitted
Chapter 7	Decision-making	Articles 20, 21	The principle of consensus, and decision by Summit if no consensus is reached. Punishments for serious breach or non-compliance of the Charter are decided at Summit.
Chapter 8	Settlement of disputes	Articles 22-28	Peaceful settlement and mediation of disputes
Chapter 9	Budget and Finance	Articles 29, 30	Rules, etc., on budgets for operation of ASEAN Secretariat
Chapter 10	Administration and Procedure	Articles 31-40	Rules on ASEAN chairman, English as the working language, the ASEAN motto of One Vision, One Identity and One Community, ASEAN flag, ASEAN emblem, ASEAN day (August 8), ASEAN anthem, etc.
Chapter 12	External relations	Articles 41-46	Developing friendly relations with external countries, establishing external relations based on the Charter
Chapter 13	General and final provisions	Articles 47-55	Rules on signing, ratifying, enacting, and modifying agreements and rules on 5-year reviews, etc.

Source: ASEAN Secretariat Website

Amid the drastic changes occurring in the environment surrounding ASEAN, including rapid globalization and emergence of China, India, and other countries, the adoption of the Charter is of historic significance. This is because the Charter provides a legal basis for ASEAN to cope with these changes by forming stronger ties among member nations and to be a truly integrated organization.

(East Asian integration and ASEAN)

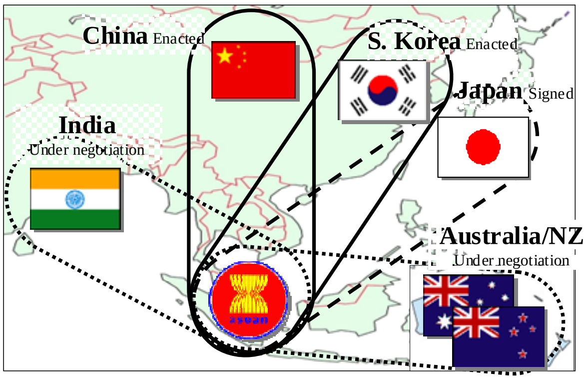
ASEAN is strengthening economic relations with external countries and regions while making steady efforts for further regional integration. Amid the recent intensifying interdependency, including trade in East Asia, numerous East Asian countries are actively making efforts for FTAs and EPAs amongst themselves. ASEAN has put FTAs with China and South Korea[74] into effect, and signed an EPA with Japan. Negotiations are currently under way with India, Australia, and New Zealand. Such moves will enable ASEAN to become the East Asian hub of EPAs/FTAs (see Figure 4-1-8).

ASEAN is expected to continue playing an important role in the process of creating a united East Asia with the intensification of the trend for creating a united FTA framework among East Asian countries.

[74] Only Thailand has not signed the FTA.

Figure 4-1-8 EPA/FTA Efforts by ASEAN

As of April 2008



China	Agreement on goods enacted in 2005 Agreement on services agreed upon in 2007
South Korea	Agreement on goods enacted and agreement on services agreed upon in 2007
Japan	To be enacted in 2008
India	Under negotiation
Australia/New Zealand	Under negotiation

Source: Ministry of Economy, Trade and Industry, Japan