

Section 2 Four Priorities for Foreign Economic Policy

Section 1 discussed three basic principles for Japan's external economic policy: specifically, (i) developing new domestic and foreign markets (market expansion), (ii) building a strong, new social structure that can adapt to change (market maintenance), and (iii) striving to be a nation that solves global issues.

Based on these three viewpoints, Section 2 presents the following four items regarding how to proceed with foreign economic policies: namely (i) integrated domestic and foreign economic measures, (ii) promotion of volume zone/innovation, (iii) global development of a low carbon revolution and (iv) multi-layered developments, including industrial cooperation with resource-rich countries.

1. Integrated domestic and foreign economic measures

Facing population decline, it is difficult for Japan to achieve sustainable economic growth through expansion of domestic demand alone. Domestic financial and economic measures no longer have only domestic effects now that economic activities expand beyond national borders.

The most effective economic measure for Japan, as a trading nation, is nationally and internationally integrated economic policies that would contribute to a further expansion of the growing world market and to the co-development of the Japanese and world economy. Integrated domestic and foreign economic measures introduced in this section include (i) promotion of the Growth Initiative toward Doubling the Size of Asia's Economy, (ii) regulation of protectionism (promotion of the Doha Round and the Economic Partnership Agreement (EPA)), and (iii) promotion of global developments of infrastructure-related industries, such as electricity/transportation/water sectors, the services industry and the contents industry.

(1) Growth Initiative toward Doubling the Size of Asia's Economy

In his speech delivered at the Japan National Press Club on April 9, 2009, Prime Minister Aso announced the Growth Initiative towards Doubling the Size of Asia's Economy to be achieved by 2020. This initiative consists of the concerted actions by Asian countries to stimulate investment through the development of regional infrastructure, the integrated promotion of industrial development and social security systems to increase middle-income class consumption in Asia, and the enhancement of health care and education systems.

Asia serves as a "center of growth in the 21st century" and its market is expected to grow dramatically in the future. East Asia alone has a population of 3.2 billion,¹ which accounts for more than half of the world. In the last four years, the population of East Asia grew by 130 million, which is greater than the population of Japan. Furthermore, Asia's economy has created a huge middle-income class. According to the IMF's estimates released in April 2009, GDP per capita in China has already

¹ East Asia here includes the 10 ASEAN member countries (Indonesia, Cambodia, Singapore, Philippines, Brunei, Vietnam, Thailand, Malaysia, Myanmar, Laos), Japan, China, South Korea, India, Australia and New Zealand.

exceeded \$3300 and the average in ASEAN is over \$2500.

Japan's strength lies in that it is the top runner in Asia as the center of growth. From the viewpoint of growth of the whole of Asia beyond national borders, it is important to create a virtuous circle through the following steps:

- i) Create wealth throughout all of growing Asia
- ii) Create employment and innovation in Japan by channeling Asian wealth and investment back to Japan
- iii) Further develop Asia by giving it access to the demand generated in Japan.

In other words, it is necessary to shift the viewpoint from the expansion of domestic production to an emphasis on increasing the wealth of the people: specifically, "from Gross Domestic Product (GDP) to Gross National Income (GNI)." The scope of the domestic demand can be expanded from Japan to Asia.

Prime Minister Aso has appointed a Prime Minister's Special Envoy and instructed it to have preliminary discussions about detailed plans for the said initiative with leaders and ministers of Asian countries. The initiative comprises two pillars: (i) strengthening Asia's growth potential and (ii) expanding domestic demand in Asia.

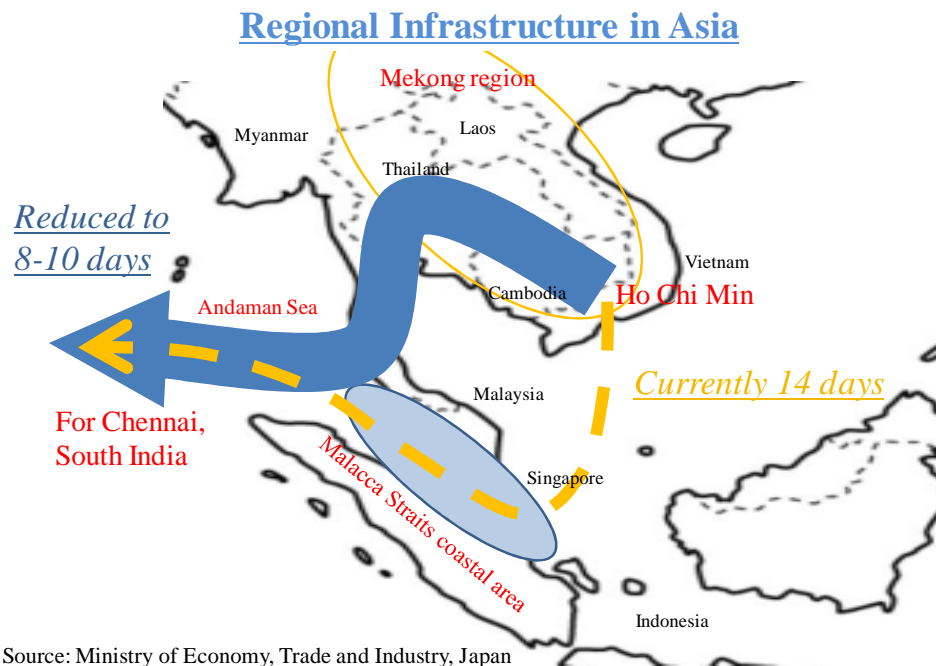
(A) Strengthening Asia's growth

The first pillar is to strengthen Asia's growth potential. Drastic development can be expected by integrated and planned development of regional infrastructure, industrial development and institutional improvements, etc.

(a) Specific measures

Currently, it takes two weeks to travel from Ho Chi Minh in Vietnam to Chennai in India via the Malacca Strait. However, if the land path from Ho Chi Minh to the Andaman Sea is developed and sea transportation from Thailand is used, the journey to Chennai would take only ten days. Furthermore, if procedures necessary to cross national borders, such as those for customs clearance, are reduced, it would take only eight days. Such routes will be built and the related infrastructure, such as industrial complexes, will be developed in the surrounding areas. Such developments will greatly empower the Mekong area as a supply center of automobiles and electrical products, extending to markets in India and the Middle East. This will also contribute to the development of all Southeast Asian nations, including Indonesia, Malaysia and the Philippines (see Figure 3-2-1-1).

Figure 3-2-1-1 Regional Infrastructure in Asia

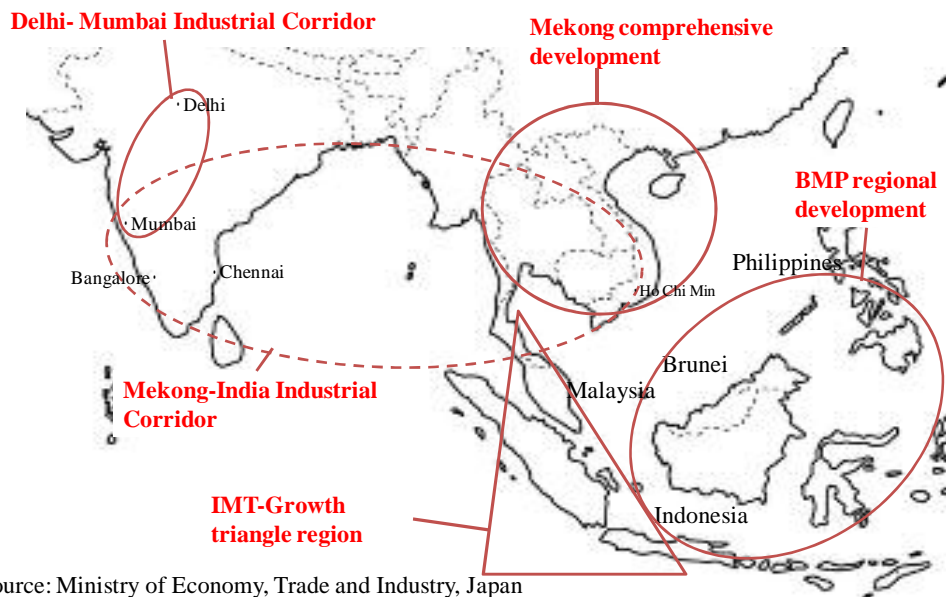


There are a number of candidates for such regional infrastructure projects within Asia (see Figure 3-2-1-2).

Figure 3-2-1-2 Development of Regional Infrastructure in Asia

Development of Regional Infrastructure in Asia

(Integrated development of distribution, sea transport, electricity, industrial complex, etc.)



(b) Formulation of the Comprehensive Asian Development Plan

In order to make the Growth Initiative toward Doubling the Size of Asia's Economy more specific, it is necessary to formulate a comprehensive development plan regarding the following: i) arterial infrastructure, such as railways and roads, ii) relevant infrastructure that should be developed in the surroundings, such as power plants and industrial parks, iii) industrial development plans, d) finance structure, and e) systems that need to be improved, such as customs clearance. The initiative proposes that Economic Research Institute for ASEAN and East Asia (ERIA),² Asia Development Bank (ADB) and the ASEAN Secretariat, in cooperation with related countries, work together to formulate a comprehensive Asian development plan.

It is predicted that there will be infrastructure demand of ¥70 trillion over the next five years in ASEAN and India.³ Projects already in the conceptualization and planning stages account for 10 trillion yen of this amount.

In order to attract private investment in infrastructure development in Asia, Japan announced in April 9, 2009, that it will newly establish a ¥2 trillion trade insurance credit line, mainly for public-private partnership programs. Japan also pledged to contribute to the infrastructure development of Asia by utilizing, amongst other funds, the recently announced ODA of up to ¥2 trillion and the Leading Investment to Future Environment Initiative (LIFE Initiative) of roughly ¥500 billion from Japan Bank for International Cooperation.

Also, approaches for environmental problems must not be forgotten when considering the sustainable growth of Asia. Japan announced that it will promote projects for the dissemination of resource recycling systems and high-level water circulation systems throughout Asia that make use of Japan's excellent environmental technologies as well as new-energy and energy-saving technologies.

(B) Expansion of domestic demand in Asia

The second pillar is to expand domestic demand in Asia. In addition to stimulating regional investment, it is also extremely important to increase consumption in Asia.

In the future, in order for Asia's middle-income class to expand consumption securely, it is necessary to develop safety nets, such as social insurance, etc. Furthermore, it is also necessary to expand the middle-income class by enhancing education.

These are the challenges that individual nations need to address with their own initiatives. Still, it is important for Asia as a whole to cooperate in sharing best practices and developing common indexes, etc. It is important that international organizations such as ERIA make policy recommendations.

In 1960, the Ikeda Cabinet formulated the "Income Doubling Plan" and Japan entered an age of rapid growth. Today, the middle-income class of Asia as a whole is growing, and we are entering a new age of substantial growth led by domestic demand. The initiative proposes that Asian nations

² Regarding Economic Research Institute for ASEAN and East Asia (ERIA), refer to Chapter 3, Section 2-1-(2)-(ii)

³ Estimated from ADB, JBIC, World Bank (2005), "Connecting East Asia: A New Framework for Infrastructure," and Planning Commission, Government of India (2006), "Eleventh Five Year Plan 2007-2012."

work together with mutual respect and on equal footing towards the aim of doubling the size of Asia’s economy in 2020.

Japan had planned to propose the initiative at the East Asia Summit (EAS) that was to be held in Pattaya, Thailand, on April 11 and 12, in order to pledge its commitment to dealing with the impact of the current global economic and financial crisis and call upon member states for agreement and cooperation. However, a series of ASEAN-related summit meetings including the EAS were cancelled, due to Thai domestic affairs. Nonetheless, Japan announced the initiative in Pattaya on April 11 at a press conference. The following documents were distributed to the worldwide press (see Figures 3-2-1-2 to 3-2-1-5). The joint press statement concerning the global economy and financial crisis was to include the initiative and be released as an outcome document of 16 member states of the EAS, but it was not released because the EAS was postponed. However, because early issuance of the initiative was demanded in view of the current economic situation, the initiative was included in a joint press statement of the EAS member states on June 3, 2009, despite the fact that the postponed summit meeting had not been convened.

Figure 3-2-1-3 Growth Initiatives toward Doubling Size of Asia’s Economy

Growth Initiatives toward Doubling Size of Asia’s Economy

《Concerted Actions by Asian Countries》

1. Responding to Effects of the Global Financial and Economic Crisis

(1) Ensure sufficient financial resources to address credit constraints

(2) Support sectors and people vulnerable to effects of the crisis

2. Strengthening Asia’s Growth Potential and Expansion of Domestic Demand

(1) Measures taken by individual countries

Development of basic infrastructure

Structural reform to expand domestic demand (Economic Research Institute for ASEAN and East Asia (ERIA) will contribute through sharing best practices of member countries)

Human resources development, etc.

(2) Promote regional cooperation

Promotion of ASEAN integration

Facilitation of trade and investment

Promotion of regional development

Development of financial and capital markets, etc.

ERIA, ADB, and ASEAN Secretariat, in cooperation with related countries, will work together to prepare a master plan

 **Asia will contribute to the world economy as a “center of growth open to the world.”**

Source: Documents released by Prime Minister Aso (Pataya, Thailand, April 11)

Figure 3-2-1-4 Japan's Concrete Measures for Growth Initiatives toward Doubling Size of Asia's

《Japan's Concrete Measures》

Economy

ODA = up to ¥2 trillion (\$20 billion)

(1) Budgetary support for developing countries

Timely provision of financial resources for expansion of domestic demand in cooperation with World Bank and ADB, utilizing Emergency Budget Support Japanese ODA Loans (up to ¥300 billion (\$3 billion))

(2) Assistance to sectors and people impacted by the crisis

Implementation of assistance in areas such as: the building of safety-nets, rural development, healthcare, primary and secondary education, food, etc.

(3) Infrastructure development

Assistance for infrastructure, with priority on roads, railways and port facilities, etc.

(4) Assistance for capacity building in making and implementing fiscal and monetary policy

Dispatch of experts, such as monetary policy advisors

(5) Assistance to SMEs, facilitation of trade and investment

Study for development of SMEs, assistance for development of social systems in areas such as trade and investment environment, assistance for business, dispatch of experts such as policy advisors

(6) Building Low Carbon Societies

Assistance in areas such as high-efficiency power plants, forest management, promotion and development of systems related to energy conservation and renewable energy, and waste management toward Low Carbon Societies, implemented through active utilization of Japan's advanced technologies, including environmental technology. Promotion of Climate Change Program Loan for comprehensive assistance for climate change policies.

(7) Human resource development, promotion of people-to-people exchanges

Development of core human resources in areas such as: industry support and industry and investment promotion. In addition, development of industrial human resources to underpin economic growth in Asia, while utilizing Japan's technological skills, in areas such as the establishment of institutes of technology, youth exchanges, etc.

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(1) Assistance for infrastructure improvement, etc.

NEXI will establish a new line of trade insurance amounting to \$20 billion.

(2) Facilitation of trade finance in developing countries (additional \$22 billion for two years)

Expansion of assistance by JBIC (\$6 billion in trade insurance)

Ensuring of trade insurance up to \$16 billion by NEXI

Enhancement of cooperation by NEXI and JBIC with export credit organization for individual countries

(3) Initiative Leading Investment to Future

Environment (approx. \$5 billion for two years)

Assistance for environmental investment in development countries (mainly in Asia)

(4) Establishment of Bank Recapitalization Fund for developing countries by JBIC and IFC

JBIC's investment/loan of \$2 billion

(5) Assistance to Indonesia in issuing Samurai Bonds

Provision of JBIC guarantee for JPY equivalent up to \$1.5 billion for two years

Contribution to Multilateral Efforts

(1) Conclusion of lending agreement with IMF of up to \$100 billion

Japan's proposal to expand the IMF's financial foundation, followed by similar announcements by EU and Canada

(2) General capital increase of ADB

The increase is urgently required in order that all possible measures are taken in combating financial/economic crises

(3) Promotion of multilateral promotion of the Chiang Mai Initiative

(4) Promotion of infrastructure development with the participation of private finance

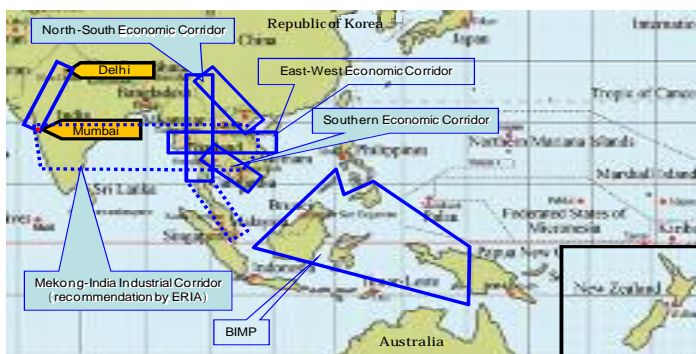
Implementation by ERIA for pilot projects promoting infrastructure development with private finance entities

(5) Promotion of development of local currency-denominated bond markets in Asia

Figure 3-2-1-5 Promotion of Comprehensive Regional Development
Promotion of Comprehensive Regional Development

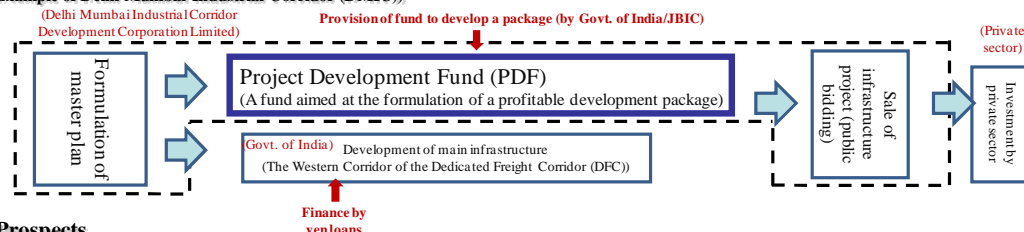
Basic Concepts

- Coherent strategies for encouraging regional infrastructure development with industrial promotion
- A new mechanism for facilitating the private sector's participation and system development for Public-Private Partnerships (PPPs)
- Trade facilitation and institutional development
- Seamless regional business environment for strengthening growth potential in Asia



Process

(Example of Delhi-Mumbai Industrial Corridor (DMIC))



Prospects

- Development of arterial and nodal regional infrastructure including existing projects will also be given priority and promoted in advance.
- ERIA, ADB and ASEAN Secretariat, in cooperation with related countries, will work together in developing a coherent master plan at the earliest possible time in order to coordinate, expedite, upgrade and expand the existing regional initiatives and to facilitate the participation of the private sector from the following view points: (i) industrial promotion, (ii) facilitation of private-sector investment, and (iii) comprehensive development of hard and soft infrastructure.

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Source: Documents released by Prime Minister Aso (Pataya, Thailand, April 11)

(2) Deepening of cooperation between Asia and Japan

Efforts for deepening cooperation with Asian countries have been made on various occasions, including the First East Asia Summit (EAS) of December 2005, the East Asian Economic Ministers' Meeting of August 2006, the Second EAS of January 2007, the Third EAS of November 2007, and the ASEAN plus 6 Economic Ministers' Meeting of June 2008. This section introduces specific efforts, represented by the East Asian Economic Partnership led by the Comprehensive Economic Partnership of East Asia (East Asia EPA/CEPEA), which is based on an economic partnership agreement among 16 countries (ASEAN plus 6), namely the 10 ASEAN member states, and Japan, China, South Korea, India, Australia and New Zealand. The East Asian Economic Partnership aims for the active promotion of East Asian economic integration. This section also introduces the Economic Research Institute for ASEAN and East Asia (ERIA), which provides intellectual contribution through research and policy proposals on the common challenges in the region as a first step toward the creation of an international organization serving as an East Asian version of the Organization for Economic Co-operation and Development (OECD); and the Asia Pacific Economic Cooperation (APEC), which is a regional framework comprising 21 countries/regions in the Asia Pacific region, including the United States and China.

(A) East Asian Economic Partnership

No one can deny the fact that the Asian economy, which had been on a growth path fueled by the expansion of exports of products to the western markets, has been hit hard by the financial crisis. Nonetheless, Asia, with its huge population and room for middle-income class expansion, still has greater potential than other regions. The Asian market is expected to be increasingly more attractive as the domestic demand in Asia expands. Under such circumstances, in order for Japan's economy to incorporate the merits of such market expansion, it is extremely important to enhance the further support for the development of the Japanese-owned companies in Asia.

Needless to say, the EPA is a crucial tool in supporting the business activities of the Japanese-owned companies in Asian countries. Japan has signed or enforced seven bilateral EPA agreements with ASEAN nations and promoted two-dimensional EPA efforts with the ASEAN as a whole. The ASEAN-Japan Comprehensive Economic Partnership (AJCEP) entered into force in December 2008. It can now be said that the EPA negotiations with ASEAN countries have been completed for the present.

Japan is also keen to build economic partnerships with other East Asian countries beyond ASEAN. The EPA negotiations currently taking place between Japan and East Asian nations include those related to the Japan-India EPA and the Japan-Australia EPA.

The negotiations with India started in January 2007. The Indian economy has grown rapidly in recent years and it now has a population of over one billion. Although the growth momentum somewhat decelerated due to the latest world economic crisis, in international terms, India maintains a high growth rate. The size of trade/investment between Japan and India, the country with an emerging potential for large market opportunities, is relatively small, and the conclusion of the EPA is expected to contribute to the revitalization of bilateral economic relations.

The EPA negotiations with Australia started in April 2007. Japan shares fundamental values and strategic interests with Australia and intends to strengthen the comprehensive strategic relations with the country. The EPA with Australia is expected to generate various effects contributing to the reinforcement of such relations, to the expansion of trade/investment by removing tariffs, and to the stable supply of resources, energy and food.

The Japan-South Korea EPA negotiations started in December 2003, but came to a standstill in November 2004. Both parties have held consultations since 2008 to try and find ways to resume the negotiations. Based on the agreement of the Japan-South Korea summit meeting held in April 2008, working-level consultations were held in June and December 2008 to consider and create a conducive environment for the resumption of negotiations. An early resumption of negotiations are desirable since the Japan-South Korea EPA symbolizes the New Era of Japan-South Korea Relations, which was agreed upon at the Japan-South Korea summit meeting in February 2008, and it has multi-dimensional significance in that it includes the expansion of bilateral trade/investment and enhancement of the international competitiveness of both countries.

At the same time, we must not overlook the movement of regional economic integration of East Asia.

In East Asia, integration has practically progressed in a way where companies build regional production networks by crossing national borders. The intraregional trade ratio of East Asia reached 44%, exceeding that of the U.S.-led NAFTA (42%).

EPA/FTA network building has advanced concurrently with the practical integration. The progress of the EPA/FTA of ASEAN plus 1 (between ASEAN and a neighboring country) represents such network building. The AJCEP Agreement concluded by Japan entered into force in December 2008, following the ASEAN-China FTA of 2005 and the ASEAN-South Korea FTA of 2007. Furthermore, the ASEAN-India FTA negotiations reached a conclusion in August 2008 and the ASEAN-Australia-New Zealand FTA (AANZFTA) was signed in February 2009. It is now fair to say that the EPA/FTA networks in East Asia have almost been completed.

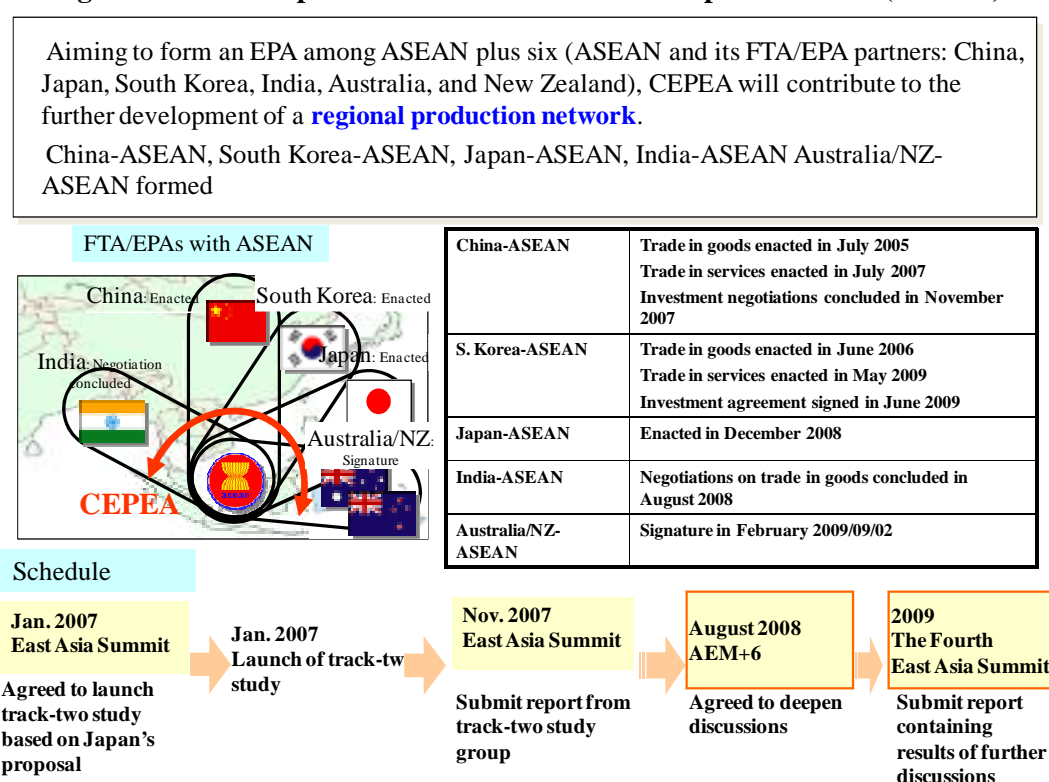
With the advancement of economic integration in East Asia, intra-industry division of labor has further progressed and it has been possible to increase specialization in sectors that a country shows strength in. As a result, the efficiency of the economy as a whole will improve through the optimization of a combination of comparative advantages and the realization of an economy of scale and we can expect industrial international competitiveness in East Asia to be strengthened. This is crucial for East Asia to overcome the economic crisis and build momentum for growth.

Japan proposed the CEPEA initiative in 2006. It is an economic partnership concept that would extend the footprint of ASEAN 10 to include the additional six countries of Japan, China, South Korea, India, Australia and New Zealand to form ASEAN 10 plus 6 and embrace a wide range of areas, including liberalization and facilitation of trade and investment. The regional economic partnership currently under consideration includes East Asia; the East Asian Free Trade Area (EAFTA), embracing ASEAN 10 and the three countries of Japan, China and South Korea; and the Free Trade Area of the Asia Pacific (FTAAP) initiative. The CEPEA initiative is also under consideration based on the perception that the aforementioned practical progress of economic integration and the building of

EPA/FTA networks in East Asia would cover the scope of ASEAN plus 6.

The CEPEA Private Sector Experts' Research project, which was agreed upon at the East Asian Summit in January 2007, started in June 2007 and its final report was presented at the economic ministerial meeting of ASEAN plus 6 (AEM+6) in August 2008. It is scheduled to be reported to the next East Asian Summit. At the AEM+6 of August 2008, an agreement was reached among economic ministers to further develop research and carry out the second phase of in-depth research covering such areas as cooperation, facilitation and liberalization, and research is underway accordingly, which is also scheduled to be reported to the next East Asian Summit (see Figure 3-2-1-6).

Figure 3-2-1-6 Comprehensive Economic Partnership in East Asia (CEPEA)



Source: Ministry of Economy, Trade and Industry, Japan

(B) Economic Research Institute for ASEAN and East Asia (ERIA)

ERIA is an international organization designed to make policy recommendations based on studies and research on common issues in East Asia to leaders and ministers of 16 East Asian countries participating in the East Asia Summit (EAS). (ASEAN 10, Japan, China, South Korea, India, Australia, and New Zealand) with an aim to promote East Asian economic integration.

Originally proposed by then-METI Minister Toshihiro Nikai as an “East Asian OECD” at the ASEAN economic ministers' meeting in August 2006, the organization came into being based on the consensus reached by leaders at the Third EAS in November 2007, following the discussions at the Summit and ministerial meetings. ERIA was formally established at its inaugural meeting on June 3, 2008, attended by D. Surin Pitsuwan, Secretary General of ASEAN and representatives of 16 East Asian countries.

ERIA's tasks are roughly divided into policy research, policy dissemination and policy recommendations. Identifying promotion of the East Asian economic integration, correction of intra-regional economic gaps and realization of sustainable growth as major policy areas, ERIA conducts studies and research to promote concerted efforts of all of East Asia. In FY2008, ERIA conducted studies and research on issues to be addressed by East Asian countries in an integrated manner. Specific policy research projects include the "East Asia Industrial Corridor Project," which considers comprehensive and effective infrastructure development and industrial development plans within East Asia; the "Projects on Energy Efficiency, Biomass, and Bio-fuels," which analyze the impact of energy-conservation goals and action plans in East Asia, and formulate the biodiesel fuel benchmark standards; and examination of the sustainable use of biomass.

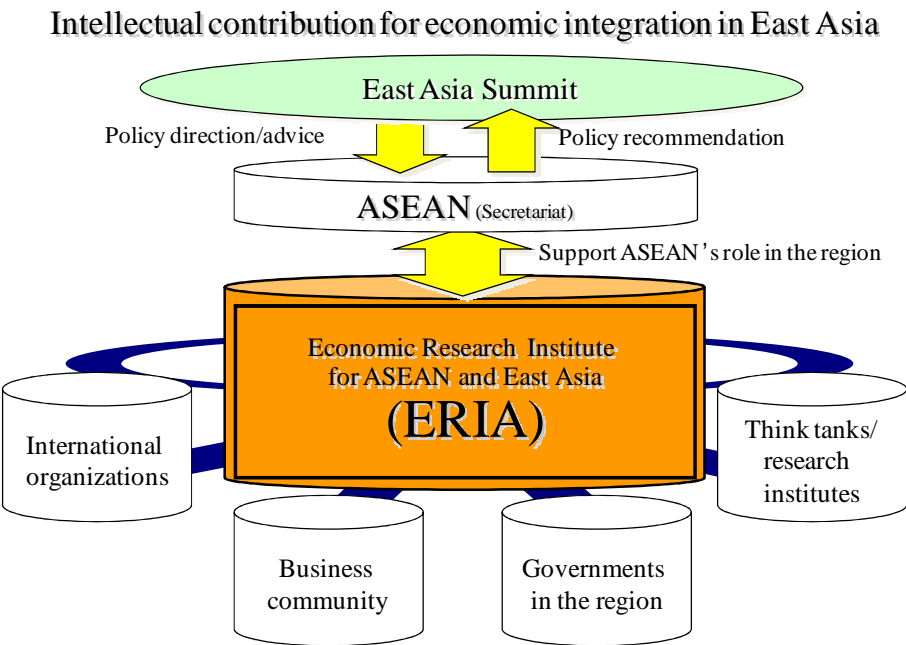
Regarding policy dissemination efforts, ERIA conducts capacity building programs with the aim of building the capacity of policy research in developing countries and symposiums and seminars with the aim of disseminating research results and opportunities to exchange views among concerned persons in public and private sectors in the region. As one of the major capacity building programs in FY2008, the first ERIA/CLMV (Cambodia, Laos, Myanmar and Vietnam) high-level policy makers' capacity building program was held in Japan in March 2009 with the aim of reducing the gap in East Asian. The program provided opportunities to high-level policy makers in CLMV countries to exchange views with METI and Nippon Keidanren (Japan Business Federation) and so on, and to visit Japanese-owned companies. In terms of major symposiums and seminar programs, ERIA hosted the Energy and Food Strategy for Sustainable Economic Growth in East Asia symposium in Tokyo in December 2008, in the wake of the energy and food price hikes in the first half of the same year. Also in response to the global economic slowdown in the latter half of 2008, ERIA organized conferences and seminars on the global economy and financial situation in India in February 2009 and in Vietnam in March.

ERIA's makes efforts toward policy recommendations by presenting the outcomes of policy research projects to policy makers, including government leaders and officials, on occasions such as EAS, to promote the realization of integrated policy of the whole of East Asia. For instance, at the AEM+6 Working Lunch in August 2008, economic ministers of East Asian countries recognized the importance of the comprehensive plan of infrastructure development and industrial development, welcomed the proposals on ERIA's East Asia Industrial Corridor Project for the comprehensive development of the region and decided to report the outcome of ERIA's activities to the East Asian Summit. Also, at the Second EAS Energy Ministers Meeting in August 2008, ERIA presented study/research reports, including "the East Asia Energy Outlook," which was welcomed by ministers of each country. The Joint Ministerial Statement mentioned that ministers expected ERIA to continue its research works and to provide policy recommendations based on the research results. In FY2009, ERIA intends to continue presenting practical policy recommendations to government leaders and officials of the East Asian countries on such occasions as the Fourth EAS.

In the future, ERIA, in closer partnership with the ASEAN Secretariat and East Asian governments and in cooperation with research institutions within and outside the region, is expected to implement policy research works toward the East Asian economic integration, such as the initiative for the East

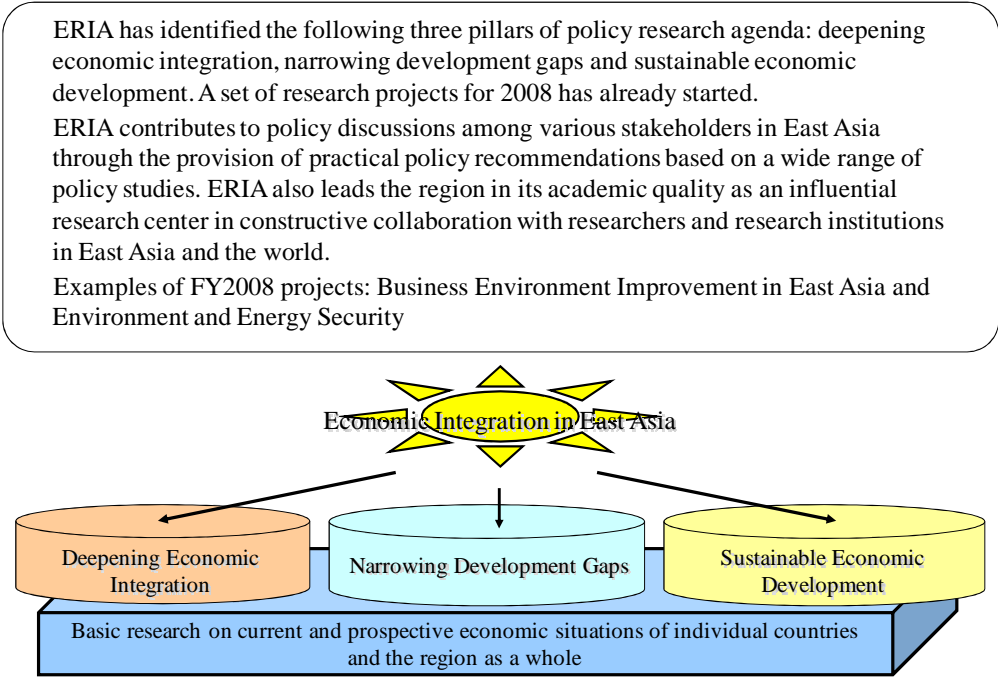
Asia Industrial Corridor, and present practical policy recommendations as an international research organization that offers specific policy recommendations to policy forums of 16 East Asian countries, including EAS (see Figure 3-2-1-7 and Figure 3-2-1-8).

Figure 3-2-1-7 Economic Research Institute for ASEAN and East Asia (ERIA) Framework



Source: The ERIA Progress Report

Figure 3-2-1-8 Policy Research Areas of ERIA



Source: The ERIA Progress Report

Column 32 ERIA's efforts for urgent policy issues — ERIA's "Energy and Food Strategy for Sustainable Economic Growth in East Asia"

At the AEM+6 Working Lunch in August 2008, the Minister of Economy, Trade and Industry Nikai proposed to host a symposium on energy and food security in cooperation with ERIA in order to gather the wisdom of experts and policy makers in the region and discuss current and urgent policy issues related to the increasing energy and food prices. With consensus made by the economic ministries of East Asian countries, the ERIA Symposium "Energy and Food Strategy for Sustainable Economic Growth in East Asia" was held in Tokyo on December 5, 2008 (Organized by ERIA, ASEAN Secretariat, and JETRO, Supported by METI, MOFA, MAFF, Nippon Keidanren and Nikkei, Inc.).

The ERIA Symposium "Energy and Food Strategy for Sustainable Economic Growth in East Asia" was participated in by a total of 300 people, including a wide range of leaders, such as ambassadors, members of Parliaments, officials of ministries and agencies, business leaders, and academic experts. Keynote speeches were delivered by Toshihiro Nikai (Minister of Economy, Trade and Industry), Seiko Hashimoto (State Secretary for Foreign Affairs), Noritoshi Ishida (Senior Vice-Minister of Agriculture, Forestry and Fisheries) and Dr. Surin Pituswan (Secretary-General of ASEAN). After the speeches there were two panel discussion sessions on Food Strategy for Sustainable Economic Growth and Energy Strategy for Sustainable Economic Growth.

During the panel discussions, various experts expressed their views on food security, saying that the importance lies in strengthening the systems for food stockpiling, avoidance of export restrictions, and expansion of investment, which would lead to productivity enhancement. As for energy security, the dissemination of energy conservation, new energy and renewable energy and the strengthening of stockpiling to establish stable supply systems were recognized as important.

Outcomes of the symposium will be presented by ERIA to the Fourth East Asia Summit.

(Picture: Minister Nikai of METI delivering a keynote speech at the Symposium on Energy and Food Strategy for Sustainable Economic Growth in East Asia and a panel discussion)

(C) Asia Pacific Economic Cooperation (APEC)

Asia Pacific Economic Cooperation (APEC), established in 1989, is a regional framework⁴ for economic cooperation and this year celebrates its 20th anniversary. It comprises 21 countries in the Asia-Pacific region, accounting for nearly 50% of the global GDP and about 40% of world trade (see Figure 3-2-1-9).


Japan will act as the chair⁵ in 2010 for the first time in 15 years. Thus, it is necessary for Japan, on

⁴ Some point out that APEC has the characteristic of a trans-regional framework focusing particularly on Asian and American Continents. Aggarwal, Viond and Edward A. Fogarty. (2003), "Between Regionalism and Globalism: European Union Transregional and Interregional Trade Strategies." Berkeley APEC Study Center (http://basc.berkeley.edu/basc_articles.html)

⁵ The chairmanship of APEC rotates yearly among the leaders of its member economies. Japan hosted APEC in 1995. The first senior officials meeting was convened in Fukuoka (February 1995), the second senior officials meeting in Sapporo (July 1995), the third senior officials meeting in Tokyo (October 1995)

this occasion, to actively contribute to the realization of economic stability and sustainable growth in the Asia-Pacific region.

Figure 3-2-1-9 Outline of APEC

 Outline of APEC			
	APEC	For reference	
		ASEAN +3	ASEAN +6
Member countries/regions	<u>21 countries and regions</u> Japan 7 ASEAN countries Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam China, Hong Kong, Taiwan South Korea, Australia New Zealand (NZ), Papua New Guinea, United States, Canada, Mexico, Peru, Chile, Russia	<u>13 countries</u> Japan 10 ASEAN countries Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar, Cambodia China, South Korea	<u>16 countries</u> Japan 10 ASEAN countries Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Vietnam, Laos, Myanmar, Cambodia China, South Korea Australia, NZ, India
Size of economy^{*1}	\$26.9 trillion (about 50% of the world)	\$9.9 trillion	\$12.0 trillion
Trade value^{*2}	\$14.7 trillion (about 40% of the world)	\$7.1 trillion	\$8.1 trillion
Ratio of intra-regional trade^{*2}	65.1%	38.5%	43.5%
Population^{*3}	2.68 billion people (about 40% of the world)	2.07 billion people	3.27 billion people

*1 IMF's World Economic Outlook GDP (2007) Nominal GDP in 2007 (including partial estimates)

*2 IMF's Direction of Trade Statistics, Taiwan Trade Statistics: 2008

*3 IMF's World Economic Outlook Intra-regional population (2007) (including partial estimates)

Source: Ministry of Economy, Trade and Industry, Japan

(a) Characteristics of APEC as a regional framework

APEC has formed a certain comparative advantage in the course of activities as a regional framework during the past 20 years. The APEC unofficial summit meetings, which have been held since the 1993 Seattle APEC meeting in the United States, have provided valuable opportunities for leaders of Japan, the U.S., China and other countries to gather together and discuss approaches to address the various issues that the Asia-Pacific region are faced with. One example is the adoption of the so-called "Bogor Goals"⁶ in Bogor, Indonesia, in November 1994, which state that the liberalization and facilitation of trade and investment are the most important objectives for APEC activities in the following 15 years. In recent years, in order to address the diversifying issues that the Asia-Pacific region is faced with, the Sydney APEC Leaders' Declaration on Climate Change, Energy

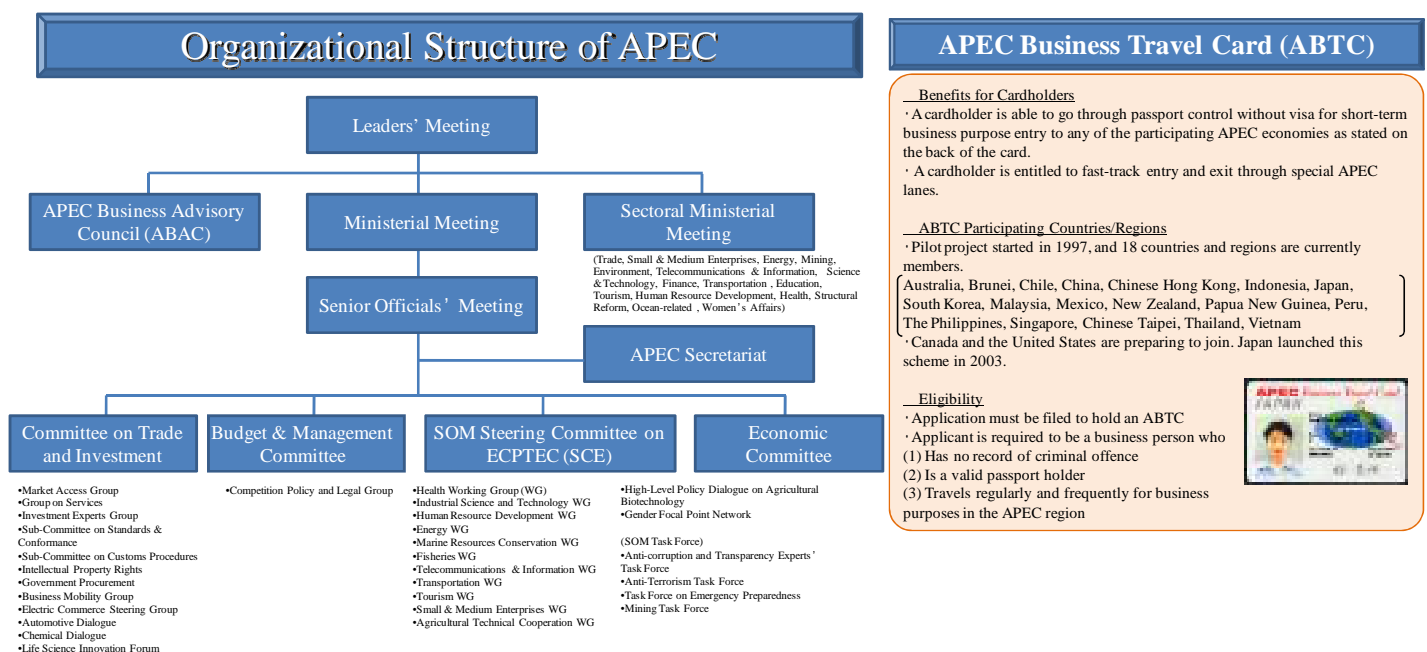
and the summit-class meeting in Osaka.

⁶ Goals to realize free and open trade and investment by 2010 for developed economies and 2020 for developing economies. In order to achieve these goals, APEC developed the Osaka Action Agenda, which serves as a specific roadmap; the Individual Action Plans, which specify the voluntary efforts of each country/region; the Collective Action Plans, which set forth collective efforts by the member countries/regions; and the Trade Facilitation Action Plan, which is the action plan to achieve the goal of reducing intraregional trade transaction costs by 5 percent by 2010.

Security and Clean Development was adopted in 2007 to improve energy efficiency and the Lima APEC Leaders' Statement on the Global Economy was adopted in 2008 to counteract protectionism.

Through activities thus far, over 30 experts' groups have been established, facilitating cooperation on a wide range of policy issues from trade/investment to energy/environment and food, and countermeasures to communicable disease/disaster. In particular, these activities have contributed to the sharing of policy information, the capacity building of developing countries/regions and institutional reforms across national borders by enabling policy makers in charge of individual policies to directly exchange their views and opinions with each other. For instance, APEC Business Travel Card (ABTC) is a system designed to facilitate intra-regional movements of business people to promote trade and investment. The ABTC program has been in pilot operation since 1997 and now includes 18 APEC member economies as a result of the discussions by the APEC Informal Experts' Group on Business Mobility. Furthermore, Canada and the United States have also been preparing to take part in the project (see Figure 3-2-1-10).

Figure 3-2-1-10 Organizational Structure of APEC and ABTC



Source: Ministry of Economy, Trade and Industry, Japan

In addition, cross-border support networks by the public sector, including industries and academic groups, promote regional cooperation from a more global and practical viewpoint, without being confined to the viewpoint of national and regional authorities. APEC Business Advisory Council (ABAC)⁷ was established by the agreement reached at the Osaka Ministerial and leaders meetings in

⁷ Council members from Japan have been appointed by the Prime Minister and are Yoshihiro Watanabe, Counselor of Mitsubishi UFJ Financial Group, Inc., Gempachiro Aihara, Counselor of Mitsui & Co., Ltd., and Yasuo Morimoto, Senior Advisor of Toshiba Corporation as of June 2009. They were appointed and inaugurated by the Prime Minister.

1995 and comprises industry leaders of various countries and regions. As an official advisory organization of APEC, the council monitors activities and makes recommendations to APEC. At annual Summit meetings, leaders of the countries and ABAC members have talks in order to deliver requests and recommendations from industries. ABAC members also participate in senior officials' meetings and various experts' meetings to provide more specific policy recommendations. The feasibility of a Free Trade Area of the Asia-Pacific (FTAAP), as a long-term prospect of APEC, is currently under examination, and the idea was presented to the leaders as a brainchild of ABAC. Pacific Economic Cooperation Council (PECC), launched in 1980 before the formation of APEC, comprises industry, government and academia, and is also organically linked with APEC in the form of sharing research outcomes.

Due to these characteristics, APEC not only develops regional policies, such as the development of the project environment in Asia in terms of Japan's external economic policy, but also is of significance in complementing and leading the development of foreign economic policies in multilateral arenas, such as WTO.

(b) Towards APEC Japan 2010

Japan will host the APEC meetings in 2010 and the year is seen as an important milestone for APEC.

Firstly, APEC has thus far promoted various approaches towards liberalization and facilitation of intraregional trade and investment in accordance with the Bogor goals. 2010 is the target year of Bogor goals for APEC developed economies and it is expected that developed countries and regions will achieve the goals and take a further step to the next stage.

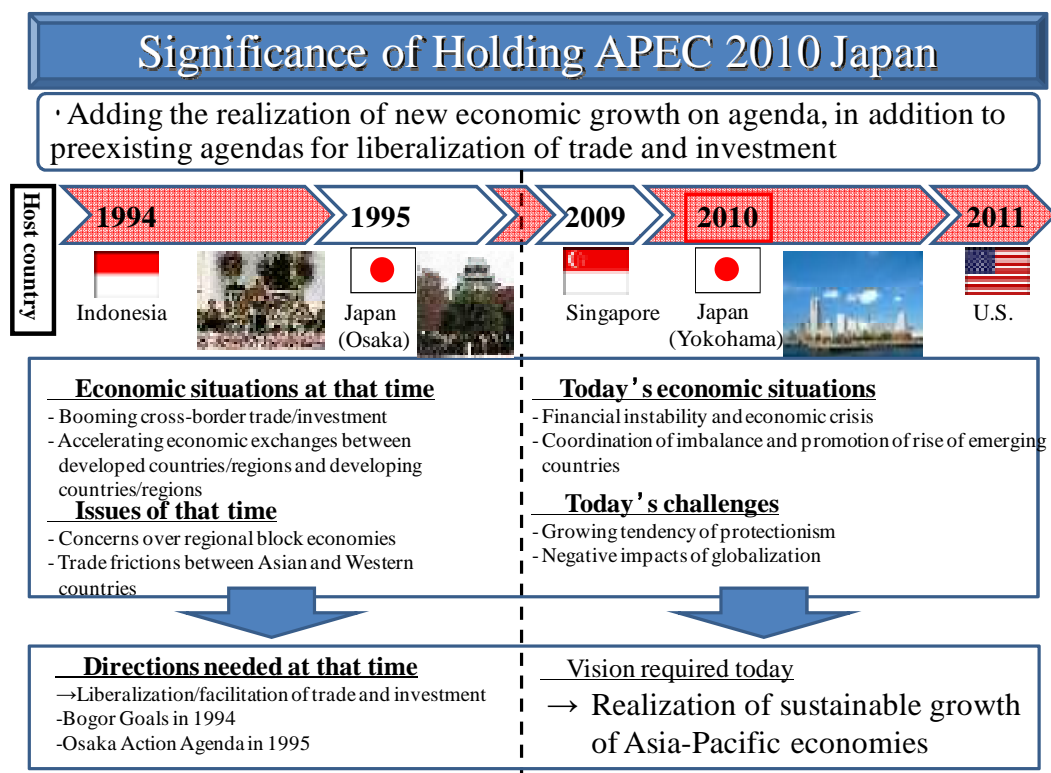
At the same time, the economic structure of the Asia-Pacific region is about to enter a drastic transitional period.

Since the 1990s, cross-border trade and investments, particularly economic exchanges between both developed and developing nations and regions, have become increasingly active. Under such a condition, APEC thus far, as symbolized by the Bogor goals, has underscored the promotion of liberalization/facilitation of trade and investments in the region. Actually, APEC has backed up the establishment of cross-border production networks for the past 20 years; for instance, it has played a leading role in the conclusion of the Ministerial Declaration on Trade in Information Technology Products (ITA).

However, the dynamics of the global economy, including that of the Asia-Pacific economy, is undergoing dramatic change in recent years. While emerging economies are increasingly making their presence felt, backed by rapid growth, adjustment of imbalance in economic structure has started in countries and regions, prompted by the financial crisis of 2008. Particularly, serious damage was inflicted upon the production network in the Asia-Pacific region since the region had been structured with the United States serving as a large source of final demand, and so the creation of a new growth mechanism is required, including the expansion of domestic demand in the Asian countries and regions. Under such circumstances, where structural shift of the Asia-Pacific economy is necessary, there is concern over the adoption of protectionism. Also emerging are factors impeding economic

growth in the Asia-Pacific region, which has continued through the expansion of trade/investment: such as the rise of energy and environmental constraints and widening gaps (see Figure 3-2-1-11).

Figure 3-2-1-11 Significance of Holding APEC 2010 Japan



Thus, APEC, as an arena to address and solve problems in the Asia-Pacific region, is now required to face up to protectionism and to make efforts to realize balanced, new economic growth.

Among such efforts, the Regional Economic Integration (REI) is one of the significant challenges. As regional economic partnership initiatives covering the East Asian and Asia-Pacific regions, there are the EAFTA and CEPEA initiatives.⁸ Within APEC, 21 countries and regions covering Asia, the American continent, and the Pacific region have been examining the feasibility of FTAAP as a long-term prospect, in which Japan is actively involved. Discussions are also under way about the promotion of the Trans-Pacific Strategic Economic Partnership Agreement (TPP), which is an FTA among Singapore, New Zealand, Chile and Brunei. These countries have the potential to form the core of the future integration of the Asia-Pacific region. TPP is an FTA with a high-level liberalization goal to reduce all trade tariffs to zero by 2015, in principle, covering all the mainstay areas of services, intellectual property protection, and cooperation. Since last year, the United States, Australia, Peru and Vietnam announced that they would be joining the TPP.

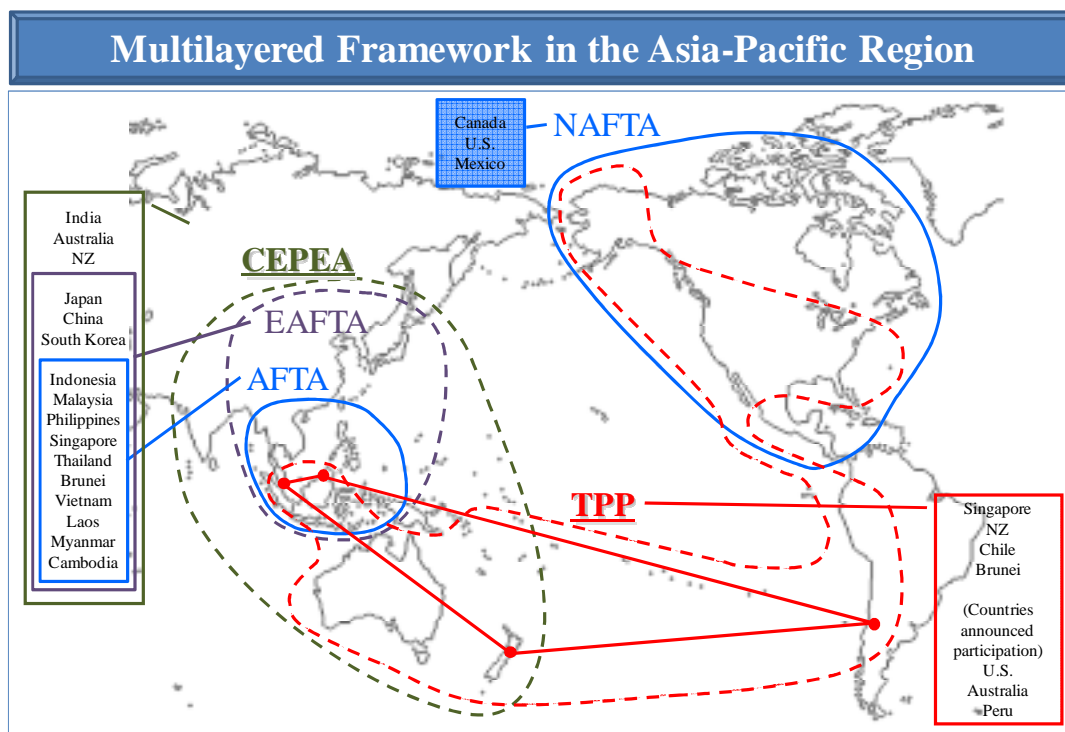
In these movements, APEC is expected to play an important role as a framework to promote high quality economic partnership in the region.⁹

⁸ Regarding CEPEA, refer to Chapter 3, Section 2-1-(2)-(i)

⁹ Section 1, Version 2-II of the New Economic Growth Strategy Revision 2008 (Approved by the Cabinet on September 19, 2008)

Coming APEC meetings will be hosted by Singapore (2009), Japan (2010) and the United States (2011) and these three countries need to deepen cooperation, exert their leadership roles and explore the future of APEC.

Figure 3-2-1-2 Multilayered Framework in the Asia-Pacific Region



Remarks: CEPEA: Population in the region: 3.27 billion people, 2007 GDP: \$12 trillion, GDP growth rate: +12%

TPP: Population in the region: 380 million people, 2007 GDP: \$15 trillion, GDP growth rate: +6%¹⁰

Source: Ministry of Economy, Trade and Industry, Japan

Column 33 International cooperation for a regional industrial cluster

The Industrial Cluster Plan by the Ministry of Economy, Trade and Industry (METI) promotes the formation of industrial cluster so that community-based businesses/industries can be created one after another through the establishment of human networks connecting local small and medium-size enterprises and venture capitals with universities, research institutions, large companies and financial institutions, and through gathering business resources of individual entities, including human resources, goods and money. During the first phase of the Industrial Cluster Plan (initial period: FY2001–FY2005), a visible network of government, industry and academia was formed, which serves as a seedbed for the sustainable creation of innovation. In the second phase (growth period: FY2006–FY2010), efforts have been made to continue promoting the cooperation of government, industry and academia, to facilitate the optimal cross-regional government-industry-academia research and the expansion of sales routes of local companies both domestically and internationally by supporting cooperation between domestic clusters and overseas clusters, and to enhance the growth potential of local enterprises through the exploration of new markets.

¹⁰ IMF World Economic Outlook 2009

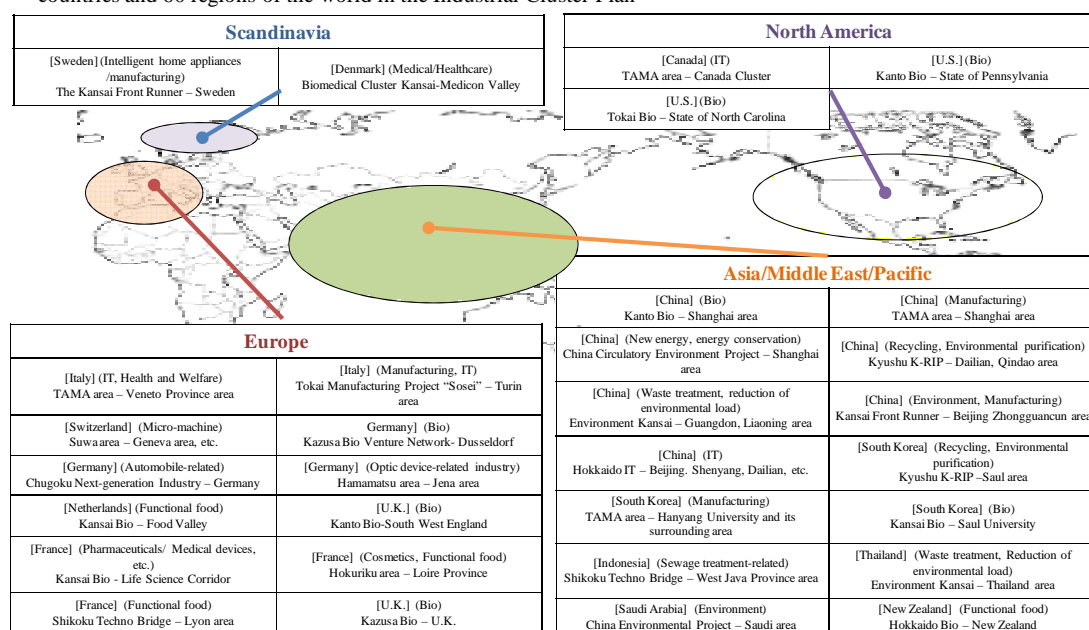
As an example of overseas cooperation, support for overseas development in the environmental sector is provided by the Kyushu Recycle and Environmental Industry Plaza (K-RIP) in the Kyushu area. K-RIP supports the development of Asian markets through the dispatch/acceptance of missions and advice from experts in Asian business, etc., using its unique networks, mainly in countries with promising environmental markets, like China and South Korea. (Concrete outcomes: the establishment of China-Japan energy conservation/environmental cooperation consultation offices in the Dalian Environmental Protection Industry Association and K-RIP, and the conclusion of the Memorandum of Understanding (MOU) with the ECO secretariat of the South Korean Industrial Complex Corporation (KICOX).

At the same time, the European Commission that supports over 600 local cluster activities in the region proposed cooperation with Japan's cluster. In response, the first exchange symposium between Japan and Europe entitled the "EU-Japan Regional Cluster Forum" was held in Yokohama at the end of 2008. A total of 39 people related to government, industry and academia from 14 European countries visited Japan and were actively engaged in information exchange and business meetings regarding cooperation among clusters. Japan's clusters had long focused on exchange and business deals with neighboring countries, such as China or South Korea, but Japan now intends to expand exchanges with Europe and to convert a regional growth scenario into reality (Column Figure 33-1).

Column Figure 33-1 Partnership Between Industrial Clusters Connecting Regions and the World

Partnership Between Industrial Clusters Connecting Regions and the World

Carrying out joint research between local enterprises and overseas enterprises, and promotion of sales channels by deepening partnership with overseas industrial clusters while taking advantage of exchanges among 30 countries and 60 regions in the Industrial Cluster Plan



Column 34 Establishment of Trade and Investment Insurance Network

Due to the global financial crisis, the lack of trade finance is said to amount to \$100–\$300 billion and it is therefore necessary to ensure liquidity for trade finance in cooperation with various countries' trade insurance organizations.

The Nippon Export and Investment Insurance (NEXI), the Japanese export credit agency, has already concluded reinsurance agreements with Export Insurance Corporation of Singapore Ltd. (ECICS) and Malaysia Export-Import Bank (MEXIM) in order to complement the creditworthiness of trade and investment insurance agencies. Furthermore, at the APEC Leaders Meeting held in Peru in November 2008, Prime Minister Aso called for the leaders of other countries to establish the Asia-Pacific Trade Insurance Network for regional cooperation in dealing with the financial crisis.

Subsequently, NEXI has concluded a reinsurance agreement with an export credit insurance company in Indonesia (ASEI) and has been making efforts to expand the import and investment network. Besides reinsurance cooperation, Japan also conducts annual research projects inviting personnel in charge of trade and investment insurance from Asian countries to Japan, as an effort for personal exchanges with trade and investment agencies of other countries.

(3) Promotion of free trade: deterrent to protectionism (efforts by the WTO)

This section introduces efforts made by the WTO, an international organization serving as a mechanism to restrain protectionism and promote free trade: namely, movements towards the promotion of the Doha Round, “One Village, One Product” movement at the Doha Development Round, and application of the WTO agreements (rules).

(A) Promotion of the Doha Round

(a) The history of GATT/WTO

Based on the experience of block economies before World War II, the signatory countries to the General Agreement on Tariffs and Trade (GATT), which was established in 1948, had eight rounds of multilateral talks in order to suppress protectionism and develop free and fair trade rules.¹¹ Through several rounds of meetings,¹² tariffs were reduced gradually and other trade-related rules were defined. After the conclusion of the Uruguay Round in 1995, the GATT was upgraded and transformed into the World Trade Organization (WTO).

The WTO is responsible for expanding its sectors to include agriculture, services trade and the trade aspect of intellectual property rights, in addition to what the GATT was already responsible for, including reducing tariffs and non-tariff barriers on trades of goods through rounds of negotiations and enhancing and improving trade rules to increase foreseeability. The dispute settlement mechanism of the WTO has also been enhanced dramatically, increasing both its coverage and effectiveness, compared with the GATT.

Since the launch of the WTO, the number of member states and regions grew from 76 countries

¹¹ See Chapter 2, Section 3

¹² After the fifth negotiation (Dillon Round), which started in 1960, the multi-lateral trade negotiations have been called a “***Round.”

and regions in 1995 to 153 as of May 2009 (joined by China in 2001, Taiwan in 2002, Cambodia in 2004, Saudi Arabia in 2005, Vietnam in 2007 and Ukraine and Cape Verde in 2008). About 30 other countries, including Russia, are applying for membership. The number of signatories is expected to increase further and the WTO will continue serving as a mainstay of the global free trade system.

(b) History of the Doha Round talks

The 4th ministerial meeting in Doha, Qatar, in 2001 was the start of the Doha Development Agenda (hereinafter “the Doha Round”), which was designed to discuss a broad range of trade issues in order to meet the demands of the new era of globalization and IT, including such issues as services trade rules, other trade rules including anti-dumping rules, and issues concerning the environment and developing nations, and the liberalization of commodity trade. The round will help Japan by (1) reducing the tariffs of other developed and developing countries, (2) making it easier for the Japanese services industry to enter foreign markets, (3) increasing foreseeability to prevent trade disputes by enhancing trade rules,¹³ and (4) providing impetus to promote domestic structural reforms in each member country and region.

Column 35 Course of Doha Round negotiations

The Doha Round began in 2002 with the initial goal of reaching an agreement at the WTO Ministerial Meeting in Cancun, Mexico, in September 2003. However, the ministerial meeting dissolved after failing to narrow the gaps in many sectors in the member states and regions, especially between developed and developing countries, and resulted in the collapse of negotiations.

After the failure in Cancun, continuous attempts were made to get the Round back on track, and the General Council in September 2004 agreed on the negotiation framework for the Doha Development Agenda and the Doha Round talks were resumed. However, little progress was made through the negotiations due to conflicting interests among the member countries.

Under such circumstances, the Hong Kong Ministerial Declaration was adopted at the sixth WTO Ministerial Meeting in Hong Kong in December 2005. The Hong Kong meeting failed to reach an agreement on important issues, such as modality (detailed agreement on the method of reducing tariffs) in such major sectors as NAMA¹⁴ and agriculture, but succeeded in reaching consensus on a sector of great interest to developing countries, that is, development assistance for developing countries, including exemption, in principle, of tariffs and import quotas on products from the least developed countries (LDCs).

However, it failed to narrow the gaps in other sectors and WTO Director-General Pascal Lamy declared the suspension of the talks in July 2006. After about six months, the talks resumed in January 2007 in the form of a ministerial and high-level small-group process but soon ended. Then, the persistent process of multilateral talks resumed in Geneva, where the WTO Secretariat is located, and

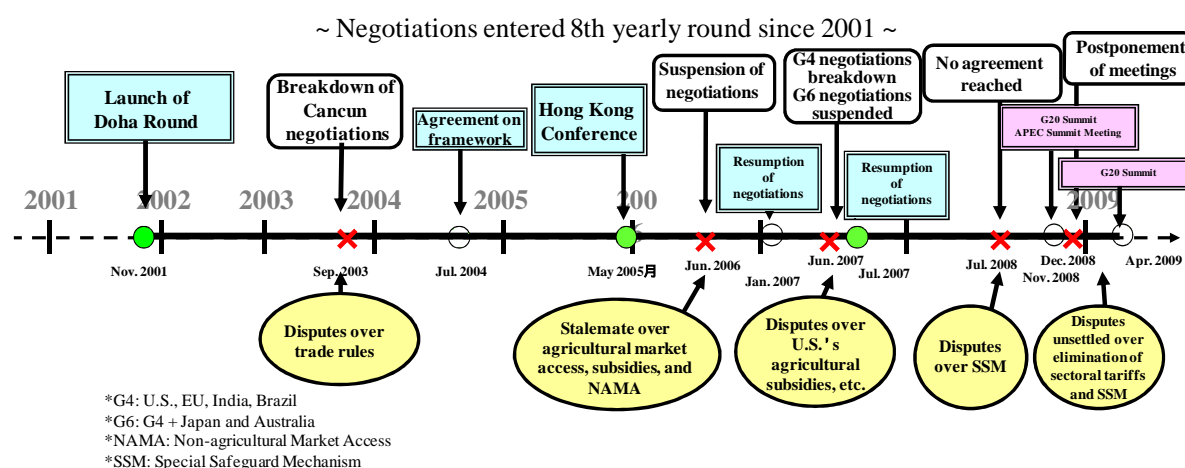
¹³ Trade frictions are expected to increase if the Round fails.

¹⁴ “NAMA” stands for Non Agricultural Market Access.

the talks proceeded steadily, led by negotiating chairmen. The Agriculture/NAMA negotiating chairman's texts, on which discussions were to be held, were released in July 2007 and revised in February, May and July 2008. Although an unofficial ministerial meeting was convened in July 2008 based on the revised chairman's texts, the negotiations broke down before an agreement could be reached on modalities, as the United States opposed China and India particularly on the special safeguard mechanism (SSM) concerning imports of agricultural commodities into developing countries and sectoral tariff elimination in NAMA. After September, in response to the rapid downturn of the global economy triggered by the financial crisis in the United States and the rising tide of protectionism, efforts to conclude the Round within the year gained momentum, but differences remained in December. Despite the release of the fourth revised Chairman's texts on Draft Modalities of Agriculture and NAMA, no agreement on modalities was reached in 2008. Since January 2009, negotiations have been underway to reach an ambitious, balanced, and early conclusion of the Round in order to resist protectionism while paying close attention to the direction of trade policy adopted by the new administration of the United States.

The Round is a complex and difficult process of reaching an agreement among the 153 member countries and regions that are in different stages of development and have differing interests and views. The previous Uruguay Round reached a successful conclusion after 8 years of persistent, winding negotiations by negotiators of the member countries. The Doha Round is in its eighth year and has entered the final stage (see Figure 3-2-1-13). Japan and the rest of the world should make constant efforts to reach a successful conclusion at an earliest possible time, as the world can benefit from the success of the round.

Figure 3-2-1-13 Negotiation Schedule of the Doha Round



Source: Ministry of Economy, Trade and Industry, Japan

The Doha Round is currently underway in many sectors of trade, including NAMA (see Figure 3-2-1-14).

Figure 3-2-1-14 Main Issues under Doha Negotiations

Main Issues under Doha Negotiations	
Agriculture	Reduction of U.S.'s domestic subsidies, market access to major countries (tariff reduction), consideration for developing countries
NAMA (Non-agricultural Market Access)	Tariff reduction coefficients of developed and developing countries, flexible response to developing countries
Service	Foreign exchange restrictions of individual countries, mobility of people, transparency of domestic regulations/procedures
Rules	Enhancement of anti-dumping rules, enhancement of subsidiary rules
Trade facilitation	Streamlining/expedition of import/export procedures, support for developing countries for trade facilitation

Remarks: In addition to above, negotiations have been conducted on TRIPs (intellectual property rights-related), development, trade and environment, etc.

Source: Ministry of Economy, Trade and Industry, Japan

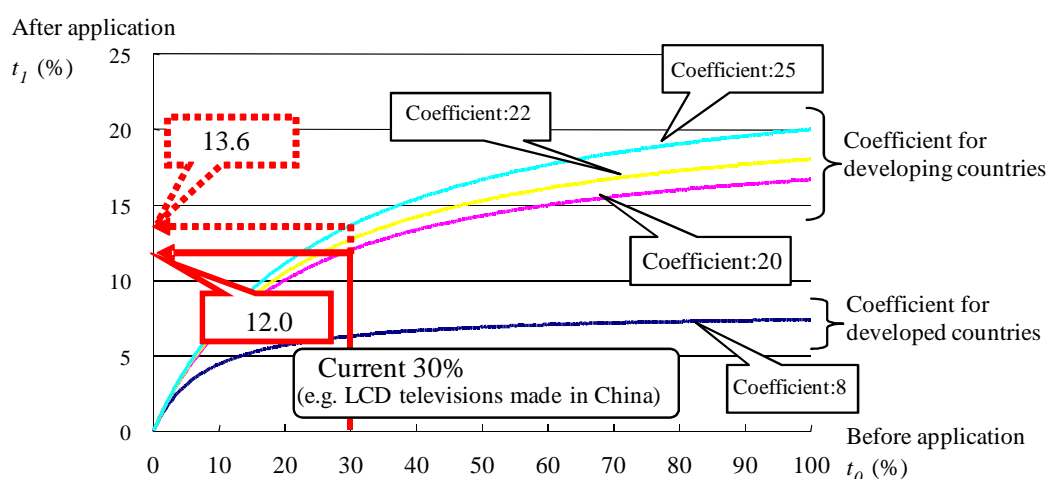
(i) NAMA negotiation

The NAMA negotiation discusses the elimination and reduction of tariffs and non-tariff barriers on non-agricultural products. The major negotiating agenda includes methods of reducing tariffs (formula) and flexible measures for developing countries (alleviating or exempting tariff cuts). Developed countries have relatively low tariff rates and are interested in reducing tariffs in developing countries, while developing countries have relatively high tariff rates and are demanding flexibility in reducing tariffs in order to protect their own industries and maintain flexibility in their policies.

The next Round is expected to adopt, as the core tariff reduction formula, the “Swiss formula” (deeper cuts on products with higher bound rates to reduce them, in principle, below the coefficient values), which assigns different coefficients to developed and developing countries while allowing some exceptions in adopting the formula in developing countries. Based on the fourth revised Chairman’s text on the NAMA negotiation released in December 2008, discussions to reach agreements on such major issues as combinations of the coefficients for developed and developing countries and the specific figures for flexibility in developing countries are currently underway (see Figure 3-2-1-15).

Sector-specific negotiations led by interested countries to eliminate or reduce tariffs and non-tariff barriers are also underway to complement tariff cuts created by the formula and to further improve market access.

Figure 3-2-1-15 Changes in Tariff Cuts by Swiss Formula Coefficients



Source: Ministry of Economy, Trade and Industry, Japan

(ii) Rules (preventing abuse of anti-dumping measures)

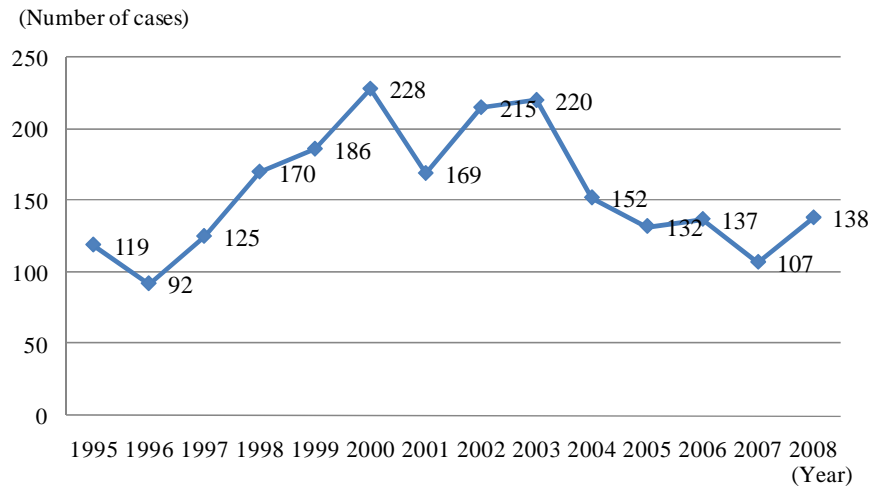
One of the major sectors of the Doha Round is rules negotiation, including that regarding anti-dumping (AD) measures. Both the number of measures and countries invoking AD measures are increasing (see Figure 3-2-1-16 and Table 3-2-17). Interpretations and applications of the existing rule vary by country, and room for discretion is partly to blame for the abuse of AD measures. The abuse of AD measures is detrimental to the effectiveness of measures to improve market access, such as tariff cuts. Strengthening and clarifying the AD rule is essential for maintaining the free trade system and promoting the development of the global economy.

Japan has led the negotiations by presenting many important proposals jointly with countries wishing to strengthen and clarify the AD rule. In contrast, the United States, while hoping for improved transparency in invoking the AD measures, is rather passive about strengthening the rule, as Congress and industry demand that the government invokes AD measures because the number of AD measures invoked by developing countries is increasing.

The Chair's text on the rule, based on the discussion so far, was released at the end of November 2007. While it includes such issues as the expiration of AD measures (sunset), the direction of which is commendable, it accepts "zeroing,"¹⁵ despite the fact that most members have insisted on a ban on zeroing. As the text is not well balanced as a whole, Japan has presented proposals on some major issues and demanded, together with other countries, a revised and balanced version of the Chair's text. The new document was released in May 2008, but still lacks balance. Japan, together with many other members, continued to demand that the text be revised. The revised rule text released in December 2008 does not provide clarification of the prohibition of zeroing even though it does not include legalization of zeroing, leaving a number of essential issues remaining. Japan continues to devote itself to achieving strengthened discipline as a final outcome.

¹⁵ A method of calculating dumping margins. Only export transactions at cheaper prices than domestic prices are selected, while ignoring transactions at higher prices, to artificially increase the dumping margin.

Figure 3-2-1-16 Changes in the Number of Antidumping Cases in WTO Member Countries



Source: WTO website

Figure 3-2-1-17 Top 10 users and targets of anti-dumping measures and number of invocations (1995-2008)

Users of anti-dumping			Targets of anti-dumping		
1	India	386	1	China	479
2	U.S.	268	2	South Korea	150
3	EC	258	3	Taiwan	120
4	Argentina	167	4	U.S.	115
5	South Africa	124	5	Japan	106
6	Turkey	124	6	Russia	90
7	China	108	7	India	84
8	Canada	90	8	Thailand	84
9	Brazil	86	9	Indonesia	82
10	Mexico	81	10	Brazil	74

Source: WTO website

(a) Introduction

The internal version of the “One Village, One Product” campaign¹⁶ aims to expand exports from Least-Developed countries (LDCs) and developing countries (hereinafter collectively referred to as developing countries) through development of and sales assistance for products that originate in these countries in view of connecting community empowerment with poverty reduction, so that developing countries will be able to benefit from free trade being enhanced by the agreements of the Doha Development Round.

¹⁶ The “One Village, One Product” campaign was originally advocated by then Governor of Oita Prefecture Dr. Morihiko Hiramatsu, from 1979. It is a program for regional development designed to produce local goods with high added value to improve competitiveness in domestic and international markets and to narrow the gap between urban and rural areas, in an attempt to escape from poverty and gain independence and promotion of rural areas. Using the “One Village, One Product” movement of Oita Prefecture as a model, the international version of the “One Village, One Product” campaign was launched as an assistance program for the LDCs and developing countries.

In addition, the interdependency on south-south trade between developing countries has increased rapidly this century, and the trade partners have diversified even more. Under such circumstances, the strengthening of industrial foundations by developing countries and the enhancement of export capacity to foreign markets, including neighboring developing countries, would lead to the creation of mutual benefits in developing countries.

(b) Achievements of the “One Village, One Product” campaign

In line with the emphasis by the WTO on the development aspect of trade in its entirety, Japan announced, in December 2005 just prior to the WTO Ministerial Conference in Hong Kong, the “Development Initiative” as part of Japan’s efforts to support developing countries. The initiative is designed to support developing countries in expanding their production capacities, exporting their products and finding consumers in overseas markets. As part of the initiative, the Ministry of Economy, Trade and Industry, Japan (METI) and Japan External Trade Organization (JETRO) launched the international version of the “One Village, One Product” campaign in February 2006 to implement support programs to raise awareness of products of developing countries and expand the sales channels.

In February 2006, the “One Village, One Product Exhibition” was installed in the main building of METI to exhibit products made in 22 developing countries in Asia, Africa, and Central and South America. The “One Village, One Product Market” was set up, where products made in developing countries were displayed and sold, at major Japanese airports, including Tokyo and Kansai International Airports, for one year from March 2006. The markets were visited by a total of nearly 360,000 people. They saw and bought various products from Asian and African countries and expressed their views on these products.

In May 2008, METI and JETRO co-hosted the African Fair 2008 in Yokohama as an official event of the 4th Tokyo International Conference on African Development (TICAD IV). This event was participated in by 40 African countries and they conducted 1402 business talks with Japanese-owned companies.

Also, as a training program for developing countries, training sessions were held in August 2006 at the Association for Overseas Technical Scholarship (ATOS) training center for trainees from 50 developing countries on the creation of products making use of the strength of the country and on the mechanism of associated industrial promotion. (One of the trainees from Timor-Leste recently became a minister and visited Japan again as Minister of Tourism, Commerce and Industry when Xanana Gusmão, the Prime Minister of Timor-Leste, made his official visit in March 2009).

(c) Achievements of the international version of the “One Village, One Product” campaign

(i) Today’s “One Village, One Product” market

The International version of the “One Village, One Product” campaign recently installed the “One Village, One Product” market at Narita International Airport and Kansai International Airport. The market is being participated in by 36 countries, which are exhibiting approximately 380 items.

Opening hours have been extended from eight to ten hours and active PR and renovation of the market in 2009 have made the market more convenient for the visitors. The “One Village, One Product” market serves as an antenna shop for local specialties and provides returning tourists who did not have enough time to buy souvenirs in African countries with another chance to do so.

The market also introduces and sells products which have been popular at other exhibitions in Japan. For example, ground cherry jam from Madagascar was put on the market after it was exhibited and proved popular at FOODEX (the largest food exhibition in Japan held annually in March). This is a case of focusing on the ingredient in which a developing country has a particular strength.

(Photos: Renovated venues at Narita International Airport)



(Typical products available at the “One Village, One Product” market)

Gripping Star (Myanmar) A massage tool. When this star is gripped, acupoints in the hand are pressed. (This shape was chosen based on the opinions of visitors)

Model Bicycle (Madagascar) Made from used cans (in their original shapes)



Shea butter (Ghana) (Successful outcome of technical assistance from Japan)



Ground cherry jam (Madagascar) (Popular at FOODEX JAPAN)



(ii) Successful outcome of assistance for product development and export promotion: cut flowers and stingray skin (galuchat)

There are numerous successful cases of supporting product development and export promotion through technical guidance by experts dispatched from Japan. Here, cases of cut flowers and stingray skin (galuchat) boxes are introduced.

As for cut flowers, we conducted marketing surveys in Japan for cut flowers (a monitoring survey on cut flowers, acceptance of trainees and support for exhibitions) from three east African countries (Kenya, Ethiopia and Tanzania). As a result, public awareness grew in Japan and export volume to Japan rapidly increased after 2006.

Galuchat is a stingray skin product made in Indonesia. It is quite popular as a luxury leather product because of its glossy and unique texture. With on-site technical guidance by experts in the Japanese interior market through JETRO, the stingray skin products were exhibited at the trade fairs, including Interior Lifestyle in June 2007, which greatly increased its publicity. The galuchat products were then sold at a luxury stationary store in Tokyo and quickly sold out (see Figure 3-2-1-18).

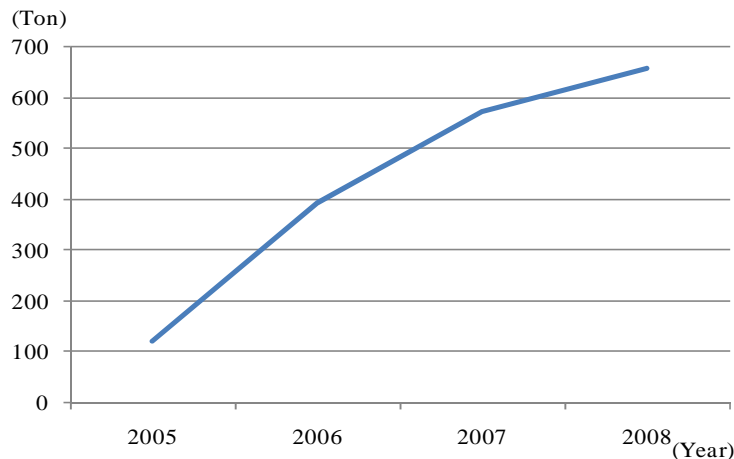
(Cut flowers from Kenya)



(Stingray skin (galuchat) box made in Indonesia)



Figure 3-2-1-18 Changes in Imports of Cut flowers (roses) from Kenya, Ethiopia and Tanzania



Source: Ministry of Economy, Trade and Industry, Japan

(d) “One Village, One Product” movement spreading worldwide

The “One Village, One Product” campaign has drawn attention both nationally and internationally as a mechanism for local industry development, and has been introduced in many Asian and African countries, particularly China, Thailand and Cambodia.

Recently, for example, at the APEC Ministerial Meeting held in Peru in November 2008, Peru’s Minister of Tourism and Foreign Trade, Mercedes Araoz asked the Minister of METI, Nikai, for cooperation in the “One Village, One Product” campaign. In response, Peru Week was organized on the occasion of Minister Araoz’s visit to Japan, in which Peruvian products were exhibited and sold at Narita International Airport. In March 2009, JETRO and JICA cooperated in sending lecturers from Japan to lead “One Village, One Product” seminars in Peru and Columbia, which may also receive high evaluation in both countries.

At the WTO’s unofficial ministerial meeting in Davos, Switzerland, in January 2009, Minister Nikai introduced specific products together with a brochure describing the objectives and purport of the international version of the “One Village, One Product” campaign to other participating ministers. He also called for promoting similar efforts by other countries, which then gained support from many countries, including those from Africa.

(e) Conclusion

The aim of this campaign is to help developing countries capture the benefits from trade by improving export competitiveness under the free trade system advocated by the WTO. Recently, beside exhibition products related to the “One Village, One Product” campaign at airports, activities utilizing public-sector resources are also under way; for example, selling products at Japanese inns (salt from Kiribati) and soliciting evaluations from the marketing point of view by inviting private experts to the country fairs of African products implemented as part of development and import demonstration projects.

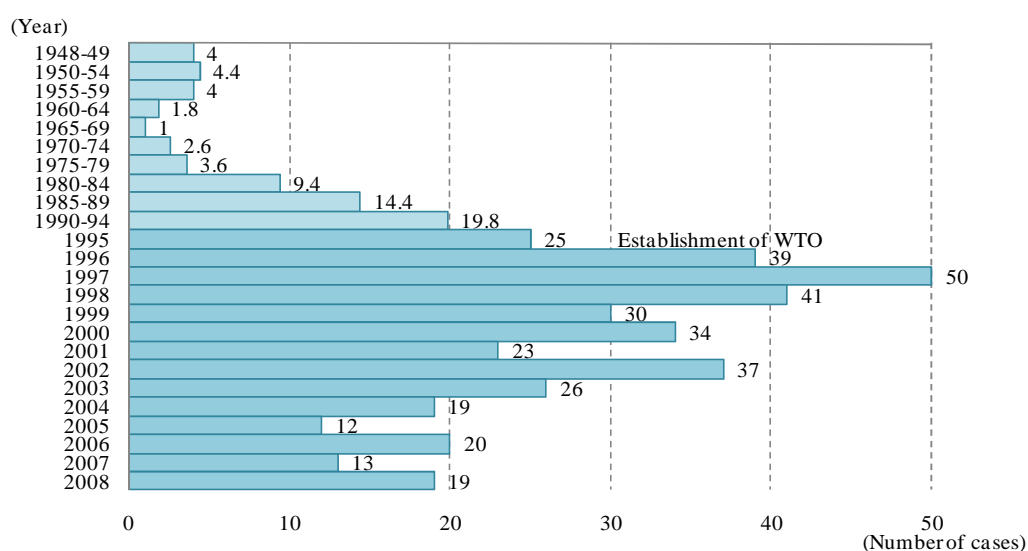
In the future, more success will be sought by actively utilizing the vitality of the private sector in addition to the conventional activities.

(C) Application of the WTO agreements (rules)

The WTO dispute settlement procedure is a mechanism to solve trade frictions among member states through the interpretation of the WTO agreement, which is an international commitment. Since it is equipped with procedures not only to issue recommendations for compliance, but also to impose punitive measures if no corrective action are taken, its effectiveness is much higher than other international dispute settlement procedures. Requesting corrections of trade-related laws and regulations and measures of member countries in violation of the WTO agreement is important not only for reducing the disadvantages inflicted on Japan, but also for ensuring the effectiveness of agreements. Also, in order to prevent trade disputes from becoming a political issue, it is necessary to make arguments and processes based on the rights and obligations as provided for in the WTO agreements. Under such policy, Japan makes a request for improvement through the utilization of the WTO dispute settlement procedure if one country adopts a policy or trade measure that Japan considers to be breaking the WTO agreements. Because the dispute settlement procedure of the WTO has greatly improved, the number of requests for consultations under the dispute settlement procedure is increasing, suggesting that member countries are actively using the trade rules for dispute settlement (see Figure 3-2-1-19). The number of cases brought to the WTO dispute settlement procedure since the establishment of the WTO in 1995 is 392 (as of April 2009). Japan has filed 12 requests as a complaining country and is also involved in a number of cases as a third party.

In proceeding with trade policy in the future, the following 15 cases (prioritized items to be addressed) are considered to be high on the list of priorities (see Figure 3-2-1-20).¹⁷

Figure 3-2-1-19 Number of Requests for Consultation under GATT/WTO Dispute Settlement Procedures



Remarks: Figures for GATT indicate annual average, and those after the establishment of WTO indicate the total number of cases per year.

Source: Compiled from the 2009 Report on Compliance by Major Trading Partners with Trade Agreements – WTO, FTA/EPA, BIT- and documents by METI

¹⁷ METI, 2009 Report on Compliance by Major Trading Partners with Trade Agreements — WTO, FTA/EPA, and BIT (Released on May 27, 2009)

Figure 3-2-1-20 METI priorities for future actions

Issues for which Japan urges prompt implementation of the WTO recommendations
<p>China</p> <ul style="list-style-type: none"> · Correction of automotive policy order to impose customs duties applicable to automobiles on automobile Parts · Handling of counterfeit, pirated and other infringing products <p>The US</p> <ul style="list-style-type: none"> · Halt of distribution under the Byrd Amendment · Prompt implementation of the WTO recommendations on the zeroing methodology · Prompt implementation of the WTO recommendations on anti-dumping measures against hot-rolled steel products from Japan · Handling of measures to invalidate the Damages Recovery Law that was enacted to counteract the US Anti-dumping Act of 1916
Issues already referred to the WTO Dispute Settlement Mechanism
<p>EU</p> <ul style="list-style-type: none"> · Correction of duty rates on products covered by the Information Technology Agreement
Issues that have not been referred to the WTO Dispute Settlement Mechanism, for which solutions continue to be sought
<p>China</p> <ul style="list-style-type: none"> · Improvement with regard to inappropriate application of anti-dumping measures · Withdrawal of the proposed Chinese Compulsory Certification (CCC) for IT security products <p>The US</p> <ul style="list-style-type: none"> · Improvement of the "Buy American" clause included in the American Recovery and Reinvestment Act of 2009 <p>Asian countries and territories</p> <ul style="list-style-type: none"> · Handling of counterfeit, pirated and other infringing products <p>India</p> <ul style="list-style-type: none"> · Abolition of special additional duties on imported products <p>Russia</p> <ul style="list-style-type: none"> · Abolition of the Measure to Increase Duties on Vehicles, etc <p>Argentina</p> <ul style="list-style-type: none"> · Improvement of application of the Non-Automatic Import Licensing System for Elevators, etc <p>Ukraine</p> <ul style="list-style-type: none"> · Abolition of the Measure to Increase Duties

Source: *METI Priorities Based on the Report on Compliance by Major Trading Partners with Trade* (Ministry of Economy, Trade and Industry, Japan)

Column 36 Policy agenda at the OECD

One of the objectives of the OECD is to **contribute to the expansion of world** trade on a multilateral, **nondiscriminatory** basis in **accordance** with international obligations. To this end, the OECD **has** set up the Trade Committee, which plays an important role in maintaining and developing the multilateral free trade system through candid dialogues among member countries and regions and through objective analysis. In launching the Doha Round, the **C**ommittee evaluated the results of the Uruguay Round and analyzed policy issues. Once the Round started, it began analyzing the possible impacts of the success of the Round on the global economy. Such research, analysis and **policy** discussions by the OECD contribute to the further understanding of trade policy issues and clarify the benefits of free trade, complementing the WTO talks from a theoretical perspective.

Recent changes in the status of the global economy have forced sectors encompassing investment, competitive policy, environment, e-commerce, protection of intellectual property rights, product safety and standardization and such sectors as commerce and trade to become closer, creating new issues in some cases. As the OECD deals with a broad range of issues, it is in a good position to

perform cross-sectional and multilateral analysis of such complex multi-sectional issues. While providing a policy coordination mechanism among developed countries, its main functions are designed for information exchange, joint research activities and mutual cooperation. Thus the OECD may be the ideal place to conduct objective analyses and free discussions on new issues with various conflicting interests. With these characteristics, the OECD will continue playing an important role in maintaining and developing the multilateral free trade system led by the WTO by analyzing and discussing urgent issues facing governments and industries all over the world, in addition to the movement of developing international trade rules.

In the context of the recent financial crisis, the OECD, exerting its analytical capability, provides recommendations on measures in a wide range of sectors, including trade and investment. In November 2008, all OECD member states supported the commitment to not erect new trade barriers that had been agreed on at the leaders meeting in Washington D.C. and concerned countries, international organizations agreed to maintain trade finance even under the financial crisis and the OECD published a tax haven blacklist in April 2009, in response to the request made by G20. Amid increasing concern over the rise of protectionism affected by the financial crisis and subsequent economic downturn, an opinion is voiced mainly in Japan that analysis should be conducted on protectionist measures of countries that may have a negative impact on international trade. Japan, in order to deal with the movement to protectionism, proposed to launch a project to ensure and increase the transparency of trade-related domestic regulations of different countries, and it has been widely supported by many countries. This project will be conducted by the Trade Committee.

(4) Promotion of Liberalization of Trade and Investment/Promotion of Conclusion of EPAs/FTAs

This section introduces the progress toward EPAs/FTAs, the bi-lateral framework facilitating the liberalization of trade and investment, the movement of Japan's EPAs/FTAs and the promotion of the use of EPAs (activation of EPA's lifecycle).

(A) Progress toward EPAs/FTAs

(a) Movements of EPAs/FTAs

Movements toward regional integration have accelerated since the 1990s and a number of EPAs/FTAs¹⁸ have been concluded, driven by the changes in the global economic environment and development strategies around the world. The major reasons for such an increase in EPAs/FTAs include the following: (i) Movements have accelerated in the United States and Europe toward economic partnerships with their economically-linked neighboring countries through liberalization and

¹⁸ A Free Trade Agreement (FTA) is an agreement designed to eliminate tariffs and other restrictive trade rules between/among the signatories, while an Economic Partnership Agreement (EPA) is an agreement designed to cover a broad range of sectors, including both sectors covered by FTAs and sectors not covered by FTAs, such as market systems and economic activities. In this document, EPAs/FTAs include tariff unions (an agreement designed to create a single tariff region by eliminating tariffs and other restrictive trade rules in the region and harmonizing tariffs and other restrictive trade rules for external regions). These agreements are generally collectively called "Regional Trade Agreements (RTAs)" by the WTO framework.

the promotion of trade and investment, illustrated by efforts for the NAFTA (enacted in 1994) by the U.S. and efforts for the EU (established in 1993) by the EC; (ii) Newly emerging economies, such as China, Chile, Mexico and Peru, have changed their economic policies, liberalizing trade and investment and introducing market mechanisms, while NIEs and ASEAN have achieved high economic growth by opening up their markets ahead of other countries. In doing so, they have adopted the strategy of promoting EPAs/FTAs; and (iii) East Asian countries, including Japan, have changed their stances in favor of EPAs/FTAs, etc. The number of regional trade agreements reported to the WTO reached 172¹⁹ as of March 2009.

In addition to the increase in the number of EPAs/FTAs, the nature of the agreements signed has also changed dramatically. In terms of the composition of the signatories, economic agreements among developing countries and between developed and developing countries are increasing compared with those among developed countries. While in the past, the majority of EPAs/FTAs were normally signed between countries in the same region, whereas the number of cross-regional EPAs/FTAs signed between countries in different regions now accounts for over 40% of all new EPAs/FTAs signed since 2000, suggesting that moves toward expanding EPAs/FTAs between countries in the same region of the world and moves toward expanding EPAs/FTAs between countries across different regions of the world are proceeding in parallel.

One of the reasons for the increase in EPAs/FTAs signed by developing countries is the fact that the progress in globalization has expanded the international division of labor and accelerated trade between developed and developing countries, and, as a result, the benefits of economic integration between developed and developing countries have increased. Many developing countries, while witnessing their Asian counterparts achieve high economic growth led by export-oriented industries under open economic policies, have begun to recognize that free trade and investment can increase their competitiveness and promote technology transfer from developed countries. This has led them to actively engage in EPA/FTA negotiations. One of the reasons for the change in the geographical proximity of the signatories is the fact that many countries are becoming increasingly aware that signing EPAs/FTAs with their major trade and investment partners, regardless of geographical proximity, will give them the economic benefit of engaging in trade and investment with such partners under more preferential conditions than countries without agreements.

(b) Current State of EPAs/FTAs

(i) Movements of major countries and regions

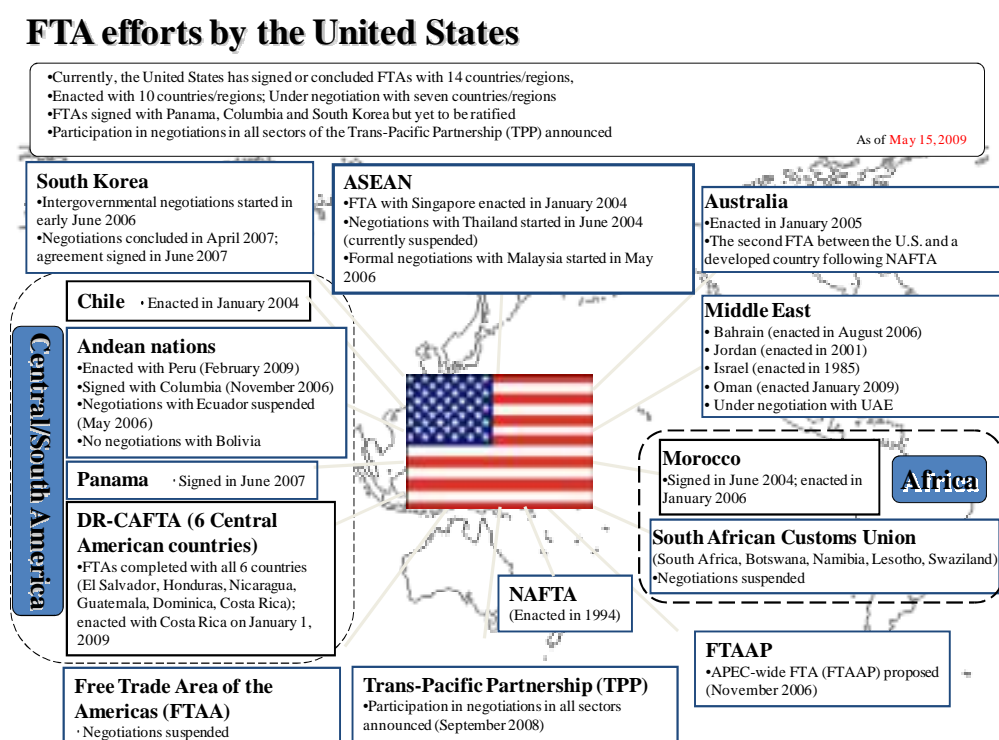
The movements of EPAs and FTAs as described in (i) may be affected by the economic crisis that has been looming over the world since 2008. Nonetheless, the basic flow seems to remain unchanged. This section looks into the movements of EPAs/FTAs of major countries in the past few years.

The United States, the world's largest economic power, has actively promoted FTAs mainly with Central and South America, the Middle East and the Asia-Pacific, under the former Bush administration. The FTA policy of the United States is regarded as adhering to the so-called golden

¹⁹ Of the 194 RTAs reported to the WTO, those reported in duplicate to the GATT and the GATS and those duplicated due to new members being added to existing agreements were excluded.

standard, with a generally high level of liberalization and quality of regulations. In September 2008, the United States formally announced full-fledged commitment to joining the TPP, which is the FTA consisting of Singapore, New Zealand, Chile and Brunei, exhibiting its intention to expand the FTA network in the Asia-Pacific region. At the same time as the U.S. announcement, rumors have circulated that Australia, Peru and Vietnam also want to become members of the partnership, which may become the core of regional integration in the Asia-Pacific region in the future. On the other hand, under the democrat-led Congress, FTAs signed with Panama, Columbia and South Korea are still pending. It is necessary to pay attention to how the new administration implements trading strategies, including FTAs, while seeking coordination with Congress (See Figure 3-2-1-21).

Figure 3-2-1-21 FTA efforts by the United States

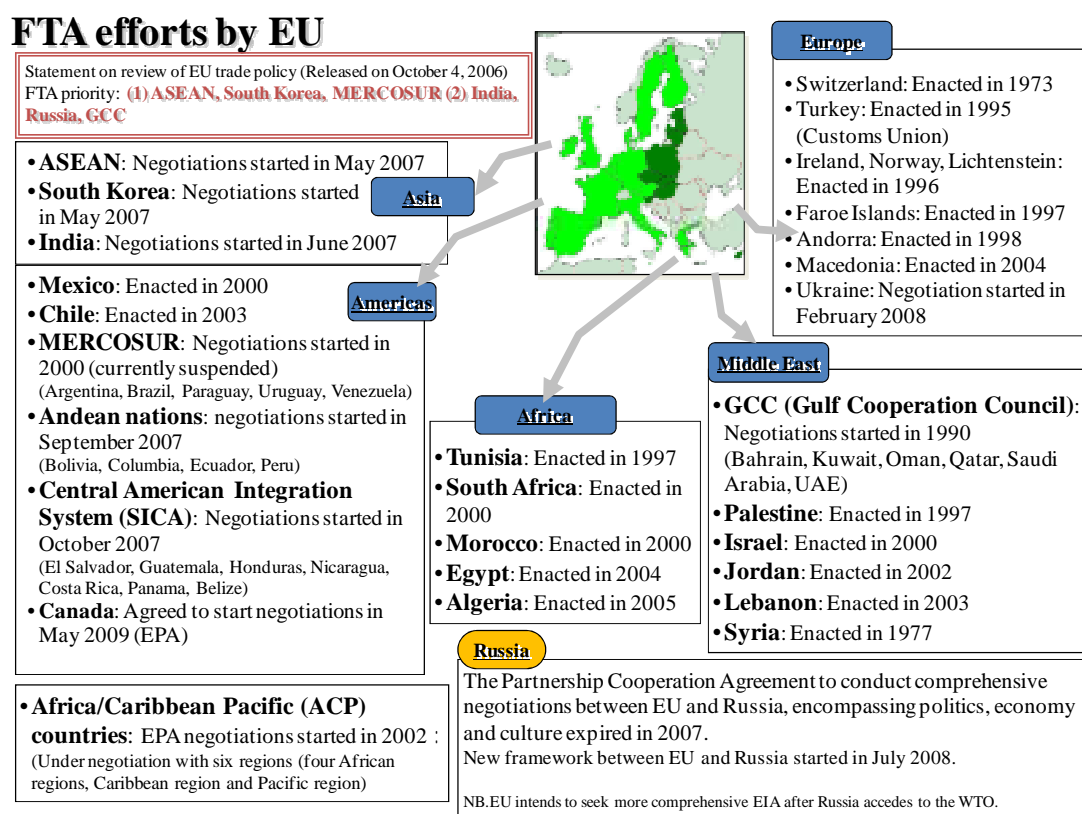


Source: Ministry of Economy, Trade and Industry, Japan

Europe had, in the past, concluded FTAs mainly with neighboring countries; however, it has now taken the stance of being actively engaged in FTAs with Asian countries, such as ASEAN, South Korea and India, in accordance with the priorities laid out in the 2006 communiqué on the trade policy review.²⁰ In particular, with regard to the FTA with South Korea, negotiations began in May 2007, and a provisional agreement was concluded in March 2009, after eight negotiations, but it excludes several issues. Given the possible conflation of different intentions impacted by the economic crisis, the EU in May 2009 announced the start of FTA negotiations with Canada, the first with a G8 country, displaying a proactive approach to FTAs (see Figure 3-2-1-22).

²⁰ The highest priority is attached to ASEAN, South Korea and Mercusor, and the second highest to India, Russia and the Gulf Cooperation Council (GCC).

Figure 3-2-1-22 FTA efforts by EU



Source: Ministry of Economy, Trade and Industry, Japan

In East Asia, the FTA networks have been rapidly formed by the ten ASEAN members and six neighboring countries (Japan, China, South Korea, India, Australia and New Zealand). ASEAN also making efforts to complete the ASEAN Community in 2015: for example, concluding new agreements in the goods sector and investment sector at the ASEAN leaders' summit in March 2009. Six neighboring countries are also accelerating the formation of FTA networks. Specifically, the EPA between Japan and ASEAN (AJCEP) entered into force in December 2008,²¹ the China-ASEAN-FTA entered into force in the goods sector (2005) and services sector (2007), and will be followed by an agreement on the investment sector in 2009. The South Korea-ASEAN-FTA entered into force in the services sector in May 2009, following the goods sector (FTA agreement in investment concluded in April 2009), while the India-ASEAN-FTA in the goods sector was concluded in 2008 and the Australia/NZ-ASEAN-FTA, which covers goods, investment and services, was signed in February 2009. All of these demonstrate the steady progress of the FTA network of "ASEAN+1." With respect to the FTA network among six neighboring countries, there are various movements, including the enforcement of the China-NZ-FTA in 2008, the provisional signing of the South Korea-India-FTA, the agreement to start the India-NZ-FTA negotiations in February 2009, and agreements to start the South Korea-Australia-FTA and South Korea-NZ-FTA in March 2009.

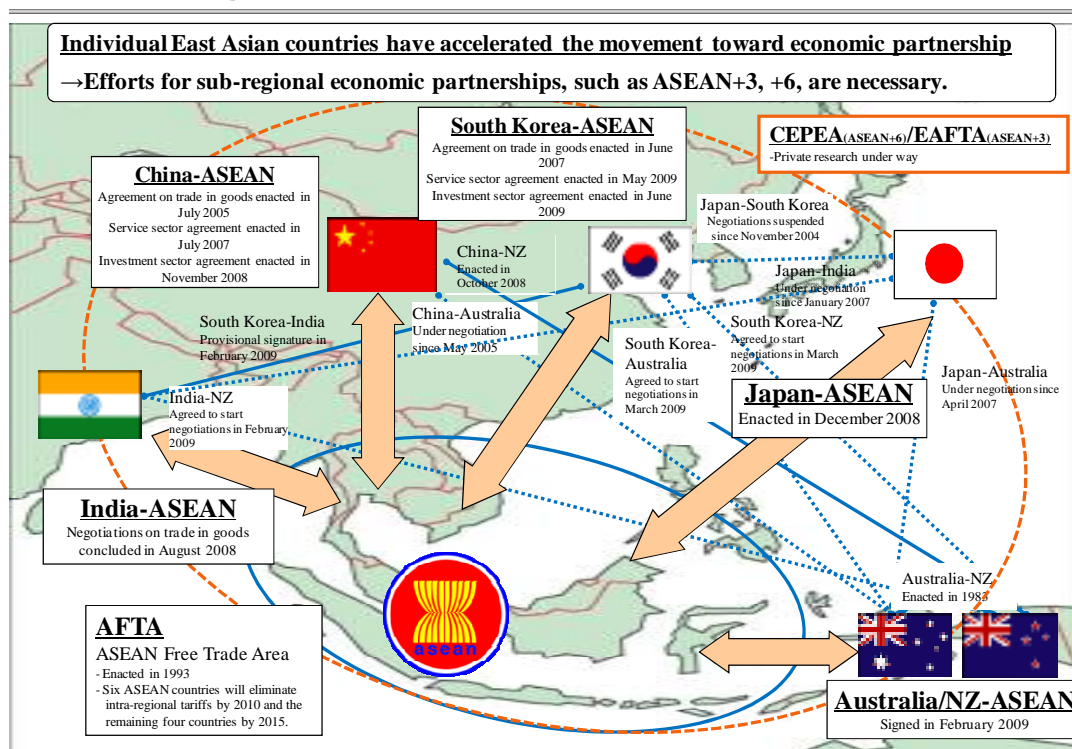
²¹ Entered into force between Japan and Singapore, Laos, Vietnam and Myanmar in December 2008, between Japan and Brunei in January 2009, between Japan and Malaysia in February 2009, and between in Japan and Thailand in June 2009.

Particularly, South Korea is working to expand the FTA network throughout Asia in this manner, and at the same time, appears to steadily promote FTAs with developed countries, such as the U.S. and EU. China is recently making active FTA efforts, as can be seen from the signing of the China-Peru-FTA in April 2009.

Also, in March 2009, the Gulf Cooperation Council (GCC) began to gradually resume the FTA negotiations that had been stalled since around September 2008, re-starting the activities of the FTA (see Figure 3-2-1-23).

Figure 3-2-1-23 FTA efforts by East Asia

FTA efforts by East Asia



Source: Ministry of Economy, Trade and Industry, Japan

(ii) The spaghetti bowl phenomenon/the noodle bowl phenomenon

As described earlier, as many countries and regions promote the negotiations and conclusions of EPAs/FTAs and as the bilateral agreements rapidly become crisscrossed, a “spaghetti bowl” or a “noodle bowl”²² phenomenon could have negative effects on business. In other words, complicatedly intertwined multiple tariff concessions and rules of origin (ROOs) in FTAs can raise the management and transaction cost for enterprises, and may hinder optimal business operations. Some people even point out that multiple ROOs in EPAs/FTAs need to be harmonized and unified in order to improve this situation. We have seen a recent change in the tone of the argument in this respect. According to

²² There is no fixed definition of “spaghetti bowl” or “noodle bowl,” but this section refers to the state where a number of regulations, such as the country of origin rules, are applied due to the same commodity being subject to different Rules of Origin (ROOs) and tariffs in accordance with the EPA/FTA partner countries.

the result of a survey conducted by a company,²³ an enterprise with a large business scale, doing business in many markets, tends to have a negative image of multiple ROOs; however, the presence of multiple ROOs has actually had little impact on enterprises.

With respect to the assertion that multiple ROOs should be harmonized or unified, one must pay attention to the fact that harmonization or unification of ROOs alone cannot be achieved without consideration of the details of tariff concessions. This is because ROOs in EPAs/FTAs are directly linked with the degree of tariff concessions and each country in EPA/FTA negotiations agrees on ROOs, as conditions, for each commodity in accordance with the industrial condition in each country before promising to improve the tariff concessions or market access in the EPA/FTA negotiations. Thus, harmonization/unification of ROOs requires re-negotiation on existing agreements, including tariff concessions, and it is not realistic to engage in simultaneous negotiations on a number of EPAs/FTAs. In the meantime, in Asia (including ASEAN), it is interesting to note that similar ROOs for some commodities²⁴ are seen in several EPAs/FTAs. This suggests that realistic considerations have been given at the time of negotiation on each agreement in light of the production/distribution condition of a commodity while paying attention to the movements of other agreements, which resulted in conversion to similar ROOs. In the same manner, promoting substantive similarities draws attention as one of the ways to handle spaghetti bowl/noodle bowl phenomenon. Many also point out that the aspect of operation, such as simplification and harmonization of ROOs, is more important than ROOs themselves.

(c) The WTO and EPAs

(i) Mutually complementary roles of the WTO and EPAs/FTAs in promoting trade liberalization

EPAs/FTAs are positioned as an exceptional form of most-favored-nation (MFN) treatment. Unlike the multilateral trade liberalization efforts by the WTO, under EPAs/FTAs, countries can flexibly and tactfully choose countries, regions and sectors as long as certain requirements under the WTO agreements are satisfied. It is also possible for them to include sectors not covered by the WTO; thus as some people say, EPAs/FTAs play the role to complement the multilateral free trade system.²⁵ The signing of EPAs/FTAs is expected to have positive effects by promoting the multilateral free trade system led by the WTO through the “domino effects” that synergistically encourage the signing of EPAs/FTAs with countries outside the region. However, in pursuing trade liberalization throughout

²³ Kawai, M. and Wingharaja, G. (2009), *The Asian Noodle Bowl: Is It Serious for Business?*

²⁴ AFTA-CEPT, Japan-ASEAN, ROK-ASEAN and Australia/NZ-ASEAN and bilateral agreements between Japan and an ASEAN member have adopted a ROO in which either change of tariff classification (CTC) or value added (VA) criteria can be selected.

²⁵ The WTO recognizes that RTAs can promote trade liberalization and complement the efforts led by the WTO for the multilateral free trade system, as Article 24, paragraph 4 of the GATT stipulates that “the Contracting Parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of close integration between the economies of the contracting parties to such agreements. They also recognize that the purpose of a tariff union or of a free trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.”

the world, relying exclusively on EPAs/FTAs may require the signing of a tremendous number of EPAs/FTAs and may greatly hinder the maintenance of globally consistent trade rules and order. The WTO agreements are unprecedented in that they are international agreements among many countries made to define the basic principles and procedures for the indispensable components of free trade, including the most-favored-nation treatment, national treatment, etc.

In order to reap the maximum benefits of trade liberalization under the current world economic crisis, Japan needs to make its utmost efforts to maintain and expand the multilateral trade order by reinforcing the reliability and ensuring the implementation of the WTO agreements as its basic external economic policy, with an immediate goal of an early conclusion of the WTO Doha Round. Given the fact that many countries are rushing to sign strategic EPAs/FTAs, pursuing flexible external economic policies through bilateral or regional frameworks is also necessary.

The WTO agreements set conditions on regional trade agreements, such as EPAs/FTAs, to (i) eliminate tariffs and other restrictive trade rules on “substantially all the trade” in goods produced in the region, and (ii) refrain from imposing restrictive tariffs and trade rules on imports from external regions.²⁶ Any EPAs/FTAs that fail to meet their requirements may excessively increase the number of sectors excluded from tariff elimination/tariff reductions or may hamper free trade by increasing the trade barriers against countries in external regions. To avoid such possibilities, each country is required to ensure that its EPAs/FTAs are in conformity with the WTO agreements.

(B) Japan’s EPAs/FTAs

(a) History of Japan’s EPA negotiations

Japan has been negotiating bilateral and multilateral EPAs, mainly with East Asian countries.

As of June 15, 2009, Japan has enacted EPAs with eight other countries/regions (Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Brunei, ASEAN and the Philippines) and signed EPAs with two countries (Vietnam and Switzerland). In FY2008, the Japan-Indonesia EPA, the Japan-Brunei EPA, the AJCEP agreement and the Japan-Philippines EPA entered into force, and the Japan-Vietnam EPA was signed, thus one can say that EPAs with ASEAN countries have almost been completed.

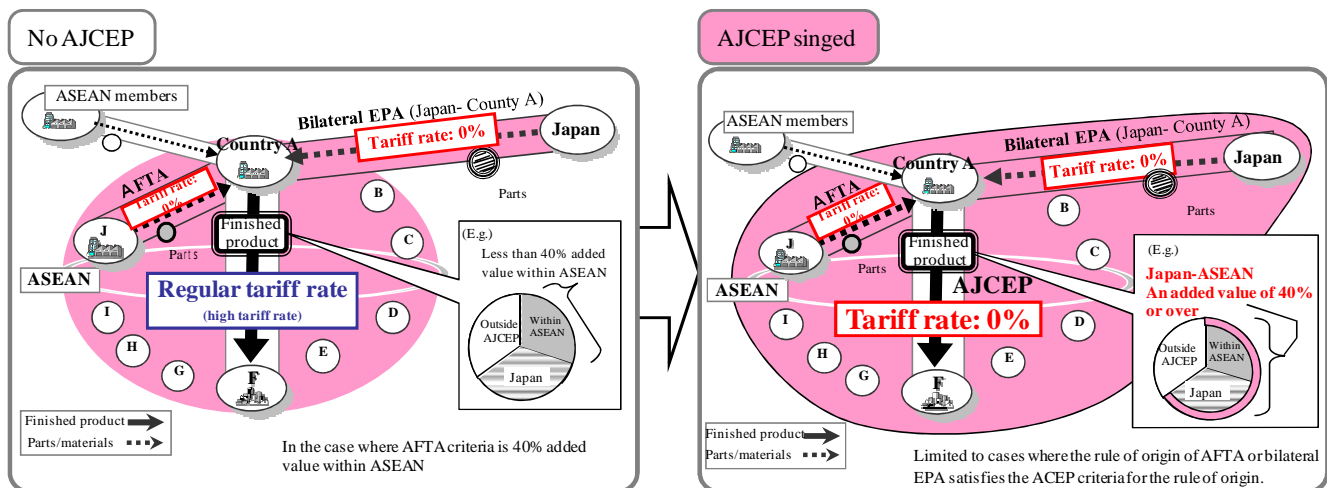
The ASEAN-Japan Comprehensive Economic Partnership (AJCEP) between Japan and Singapore, Japan and Laos, Japan and Vietnam, and Japan and Myanmar was enacted on December 1, 2008, and was enacted between Japan and Brunei in January 2009, and between Japan and Thailand in February 2009. This is Japan’s first EPA involving multiple economies and will contribute to the reinforcement of the production network in joint efforts of Japan and ASEAN countries. A specific merit is that if final products assembled in the ASEAN region from high value-added parts produced in Japan are to be exported to countries in the ASEAN region, the bound rate under the AJCEP will be applied (cumulation rule of the Rules of Origin) as long as the products meet the Rules of Origin (ROOs),²⁷

²⁶ GATT Article 24, paragraph 5

²⁷ As an exception to the indiscriminate principles of the WTO, an EPA/FTA that is designed to reduce or eliminate only those tariffs imposed on signatories can apply the bound rate under the EPA/FTA as long as the Rules of Origin are satisfied. For this purpose, the Rules of Origin, which are the rules to determine

even if such a preferential tariff rate cannot be applied under the ASEAN Free Trade Area (AFTA) or any bilateral EPAs. With this agreement, one can expect that the economic activities in the Japan-ASEAN region will be activated and strengthened (see Figure 3-2-1-24).

**Figure 3-2-1-24 Significance of ASEAN-Japan Comprehensive Economic Partnership (AJCEP)
(tariffs on goods)**



Source: Ministry of Economy, Trade and Industry, Japan

The Japan-Philippines EPA was enacted on December 11, 2008. This is the first bilateral EPA for the Philippines aimed to promote a comprehensive economic partnership, including cooperation, between Japan and the Philippines by promoting free trade in goods, people, services and investment, and by harmonization and defining institutions, such as intellectual property, competition policies and business environment development. It is expected that this agreement would help to manifest the potential complementary characteristics of Japan and the Philippines and help bilateral economic relations to be further strengthened. Based on this agreement, Japan has accepted nurses and care workers, and the Ministry of Economy, Trade and Industry (METI) provides support for a 6-month Japanese language training program.

Japan signed an EPA with Vietnam in December 2008, after a series of negotiations that began in January 2007. Japan is the country with the largest investment in Vietnam and the second largest trade partner, next to China. The comprehensive economic partnership agreement includes liberalization and facilitation of trade in goods and services and improved rules on intellectual property rights. Effects on trade and investment from the conclusion of such agreement with Vietnam are significant since Vietnam is drawing increasing attention from Japan's industries. Also, since Vietnam is regarded as an important production site for the Japanese manufacturing industry, it is quite meaningful that Vietnam has agreed to provide Japan with a higher level of liberalization for parts and materials that Japanese-owned companies or local companies in Vietnam need to import from Japan than Vietnam's

whether the origin of a product is a signatory, should be defined in the EPA/FTA in order to prevent bypass trade via a third country (a method of receiving the bound rate under the EPA/FTA by importing/exporting products from./to the signatories).

FTAs with South Korea and China. At the same time, cooperation for the development of Vietnam's parts and material industry within the EPA framework is expected to contribute to the improvement of the industrial competitiveness of Vietnam and to facilitate production activities of Japanese-owned manufactures in Vietnam.

Furthermore, Japan signed the Japan-Swiss EPA, the first EPA with a developed European country, in February 2009. This EPA includes provisions that make it suitable to be a model EPA with a developed country: specifically, the adoption of the first self-declared Certificate of Origin (C/O) system by approved exporters in a Japanese EPA and the establishment of the first e-commerce chapter in a Japanese EPA, in addition to the high level of liberalized trade in goods.

(b) Future efforts for EPAs/FTAs

As described above, when the Japan-Vietnam EPA is enacted, which was signed in December 2008, Japan's EPA network with ASEAN will be nearly complete. In the future, Japan will steadily implement EPAs already concluded. Japan will also be committed to the following efforts: (i) efforts for early conclusion of EPAs with India, South Korea, Australia and the GCC, which are under negotiation, and the EPA with Peru, for which Japan started negotiations in May 2009; (ii) active participation in and contribution to regional economic partnerships in East Asia and the Asia-Pacific region; and (iii) serious consideration on how to facilitate further development of economic relations with large market zones like the EU, which have a large economic presence in Japan, while taking Japan's interests into account. Industries have made requests to take on feasible cooperation with the United States and Europe. For example, as efforts to reduce trade/investment barriers among developed countries, the annual meeting of the Japan-EU Business Dialogue Round Table held in June 2007 proposed to set up a task force to examine the feasibility of a Japan-EU Economic Integration Agreement (EIA), with the support of the industrial sector. In response to this proposal, a report of the Japan-EU EIA taskforce was submitted jointly by then Prime Minister Fukuda and then President of the European Commission Barroso. At the Japan-EU Summit held in Prague in May 2009, both parties announced their intention to cooperate with each other to strengthen the economic integration of Japan and the EU and, to that end, underscored the importance of focusing on some specific non-tariff barriers that may generate outcomes in a short period of time and confirmed their commitment to review the progress by the Japan-EU Summit in 2010.

(C) Promotion of the Proliferation of EPAs (Activation of an EPA's "lifecycle")

As mentioned above, Japan has enacted EPAs with eight countries and one region and has signed EPAs with two countries as of June 15, 2009. In particular, since the latter half of 2008, a number of EPAs have been enacted with Indonesia, Brunei, ASEAN and the Philippines in addition to the ones already enacted with Singapore, Mexico, Malaysia, Chile and Thailand. Furthermore, in East Asia, not only Japan's EPAs, but also a number of FTAs, including those between third parties, have rapidly been concluded and enacted. The use of such FTAs is much talked about from the perspective the effectuation of a supply chain, and FTAs have actually started to be used in this context. In short, it can be said that EPAs have entered a utilization and operation stage. In the future, it is important to

emphasize the so-called lifecycle of an EPA and to enhance EPA quality: specifically (i) to steadily implement EPAs, (ii) to promote global business expansion of Japanese-owned companies through generating tariff merits and improve the business environment through active utilization of EPAs by the government and private sector and (iii) to understand challenges and new needs by grasping the actual condition of EPAs, leading to improvements. In so doing, it is important to have the perspective of using the FTAs between third countries and exercising influence on them, if possible.

(a) Steady implementation of EPAs

In order to ensure that users feel the benefits of EPAs, it is necessary to develop perfect operational systems (for example, facilitating issuance of C/O certificates and solid operation of MFN tariff rates and tariff quotas). Even if things are matter of fact for Japan, problems may arise due to a lack of capacity of the authority of the partner country. Thus, it is necessary to constantly confirm the situation and encourage the partner country to improve the situation. When a problem arises in the preparatory stage for enactment or after enactment, it is necessary to take strong approaches with the partner government and to provide users with in-depth information in a timely manner by collecting information pertaining to the operations of the partner country, while keeping close coordination with diplomatic missions overseas.

(b) Use of EPAs (Proliferation of EPAs and promotion of use by enterprises)

For an enterprise using EPAs, how to effectuate and advance the supply chain by maneuvering the existing EPAs is an important challenge. However, at this point, issues have been raised: the low recognition rate of EPAs and the insufficient environment for prompt and smooth access to necessary information.²⁸ Therefore, in order to raise the recognition of EPAs among users, the Japanese government is required to actively make further efforts to inform users of the specific merits and the ways to use EPAs while keeping close coordination with various support organizations in and outside the country (for example, national-level institutions, such as JETRO and the Japan Chamber of Commerce and Industry, local-level chambers of commerce and industry, commerce and industry associations and local governments), and with the partner countries. Specifically, it is important to improve the seminars to explain the details of EPAs and the method of use in and outside the country, and conduct understandable PR activities through user-friendly websites and leaflets.

In order to support the use of EPAs/FTAs, including EPAs between third countries, the government provides detailed consultations on specific problems presented by enterprises and it is also important to improve information provision to consultation business operators for FTA use.

²⁸ According to the survey results (number of responding enterprises: 1929) of the “Research Paper on EPAs concluded by Japan: The Effects and Challenges” (Japan Economic Foundation), the proportion of enterprises exporting commodities to EPA partner countries that responded that they had not considered the EPA tariff rates on the exporting commodities by export destination is about 45% for Thailand, about 50% for Indonesia, 56% for Malaysia, about 30% for Mexico and about 30% for Chile. Frequently cited reasons for not using EPAs at the time of export include, “Do not know how to use EPAs” and “Trade volume of commodities applicable for the tariff reduction is low.”

(c) Use of EPAs (Development of business environment)

As Japanese-owned companies conduct daily business activities business environment issues attributable to the systems of partner countries arise. In dealing with such situation, it is necessary to carefully solve business problems that Japanese-owned companies are faced with in each country through an optimal utilization of the framework for dialogue for developing the business environment, including a business environment committee under EPA. Specifically, a business environment committee has been set up in Mexico, Malaysia and Thailand to solve various issues, such as the issues of counterfeit and pirated goods, public order and safety, and ill-prepared infrastructures (electricity) and problems involved in EPA operations. Efforts are being made to draw out responses from partner governments to solve these issues.

(d) Understanding the situation of the use of EPAs

It is crucial to analyze and examine as much as possible how effectively users are actually using EPAs through the efforts described above from (a) to (c), what effects have been generated or whether there are any problems, referring to various available data. Such efforts are important in order to extract issues associated with existing EPAs, understand new needs and reflect them in the improvement through review negotiations.

This section attempts to understand the reality of EPA use with a focus on an enacted EPA: the Japan-Mexico-EPA.

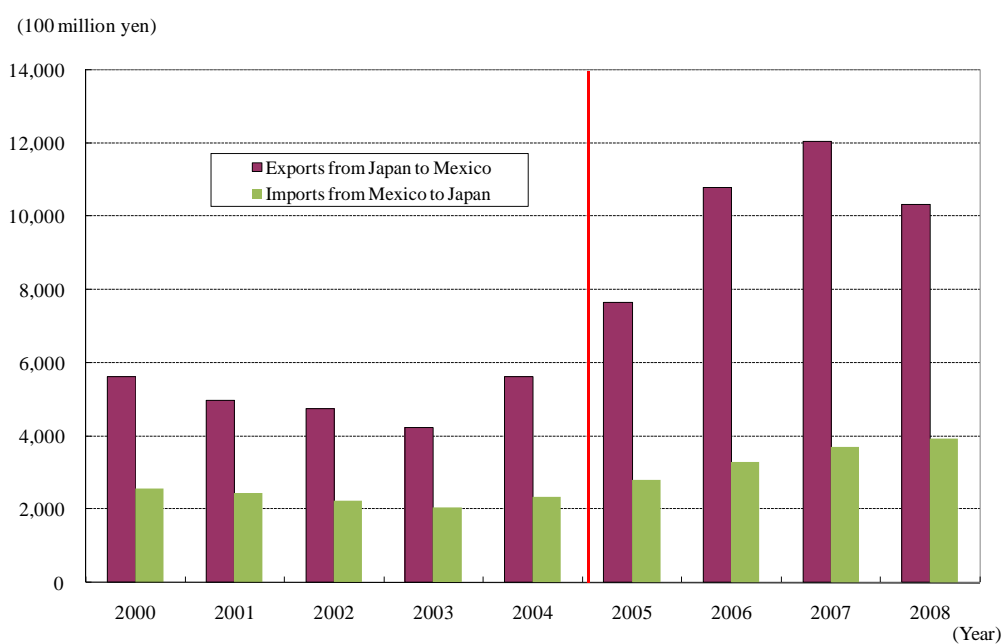
(i) Understanding the use of the Japan-Mexico-EPA

The “Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership” (the Japan-Mexico EPA) took effect in April 2005.²⁹ When the negotiations started, there were lingering concerns over a possible decline in Japan’s position in the Mexican market due to Mexico’s signing of the NAFTA in 1994 and an FTA with the EU in 2000. Thus, the Japan-Mexico EPA was to play an important role in securing an equal competitive footing with the United States and the EU in the Mexican market as the agreement expands access to the Mexican market.

For the trade liberalization, tariffs imposed at an average of 16% on goods from Japan to Mexico have gradually been eliminated or reduced and will be eliminated almost completely within ten years after the enactment. Although the value of exports from Japan to Mexico has declined lately due partly to economic fluctuations, it was on an increasing trend after the enactment of the EPA, fueled by the exports of transportation machinery (see Figure 3-2-1-25).

²⁹ This agreement is designed to bolster economic ties in broad areas, including defining the equal national treatment for services, investment, government procurement, etc., and setting up a business environment committee, as well as eliminating/reducing tariffs on bilateral trade.

Figure 3-2-1-25 Changes in Japan's trade with Mexico



Source: *Trade Statistics of Japan* (Ministry of Finance, Japan)

Detailed data on the exports of transportation machinery, which has been a conspicuous effect of tariff cuts under the Japan-Mexico EPA, reveal that Mexico, in order to promote its own domestic auto industry, exempted tariffs only for a number of imported cars equal to 10% of the number of vehicles produced locally by finished-automobile manufacturers. The general tariff rate was very high, with a maximum of 50%, virtually enabling only Japanese car makers that have production bases in Mexico to export automobiles from Japan to Mexico. The Japan-Mexico EPA created a new tariff exemption framework for exempting tariffs on a number of imported cars equal to 5% of all the vehicles sold in Mexico the previous year, and reduced the general tariff rate, except for some types of cars, from 50% to as low as 20–30%. It will eliminate the general tariff completely in 2011. Upon the enactment of the EPA, Japanese automakers that had refrained from moving into the Mexican market have been expanding their exports to Mexico, and sharply expanding their shares (see Figure 3-2-1-26).

Figure 3-2-1-26 Rise of Japanese-owned car manufactures in Mexico

	FY 2004	FY2007
Share of the number of cars sold in Mexico	27.3%	34.4%
Share of imported passenger cars	10.9%	16.0%

Source: *2008 White Paper on International Trade and Foreign Direct Investment* (JETRO)

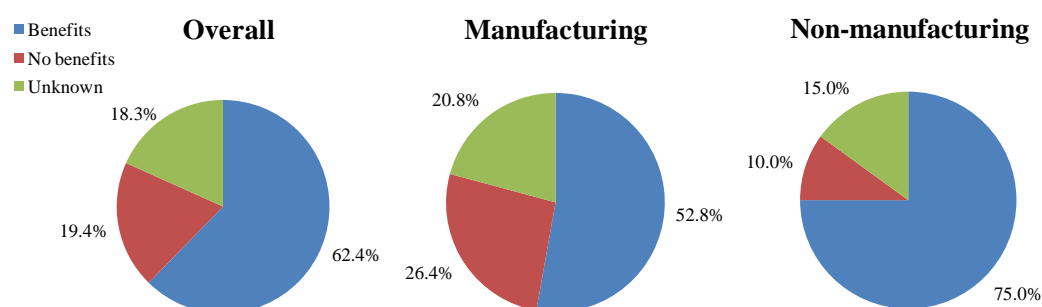
Japan exports a large volume of steel to Mexico and much of it is steel plates for automobile manufacturers. In particular, while the tariff applied to galvanized non-alloy flat-rolled steel under the Program of Sectoral Promotion (PROSEC) is 3%, it can be reduced to zero under the JAPAN-Mexico EPA, which demonstrates the effect of this agreement.

Also the use of the Japan-Mexico EPA can be observed from the number certificates of origin

(C/O) issued. A C/O shall be attached as needed under the EPA, together with shipping documents regardless of the volume of imports/exports. Thus, the number of C/Os issued does not necessarily indicate the actual traded value; however, the items with a record of C/O issuance indicate the use of the Japan-Mexico EPA. In FY2008, there were 17458 commodities for which Japanese-owned companies filed an application for C/O under the EPA for exports to Mexico, most of which were by the automobile industry.

According to a questionnaire³⁰ performed by JETRO on Japanese-owned companies in Mexico, 62.4% of the companies responded that the enactment of the Japan-Mexico EPA has benefited their business activities. The companies which cited a benefit are mostly trading companies, sales companies, and transportation equipment/parts firms. The companies that cited no benefit mostly belong to the electric/electronic parts industry and electrical machinery/electronic devices industry, etc. It is seen that the merits of tariff reduction under the Japan-Mexico EPA are felt by trading companies and transportation equipment/parts companies, which import automobiles and steel from Japan, whereas the effects of the Japan-Mexico EPA are limited on electric/electronic parts companies since tariff elimination has already progressed and they import large volumes from regions other than Japan, such as China and South East Asia (see Figure 3-2-1-27).

Figure 3-2-1-27 Benefits of Japan-Mexico EPA (enacted in April 2005) to business activities



Remarks: Number of valid responses: 93

Source: 8th Survey on Japanese-owned Companies Operating in Central and South America (JETRO)

According to the questionnaire conducted by Japan Economy Foundation in March 2009,³¹ around 50% of companies that export tariffed goods from Japan to Mexico use the Japan-Mexico EPA. Among such companies, the utilization rate of the companies that have looked into the EPA tariff rates is about 70%. As seen, it is evident that both Japanese-owned companies that export goods to Mexico and Japanese-owned companies in Mexico are actively using the Japan-Mexico EPA.

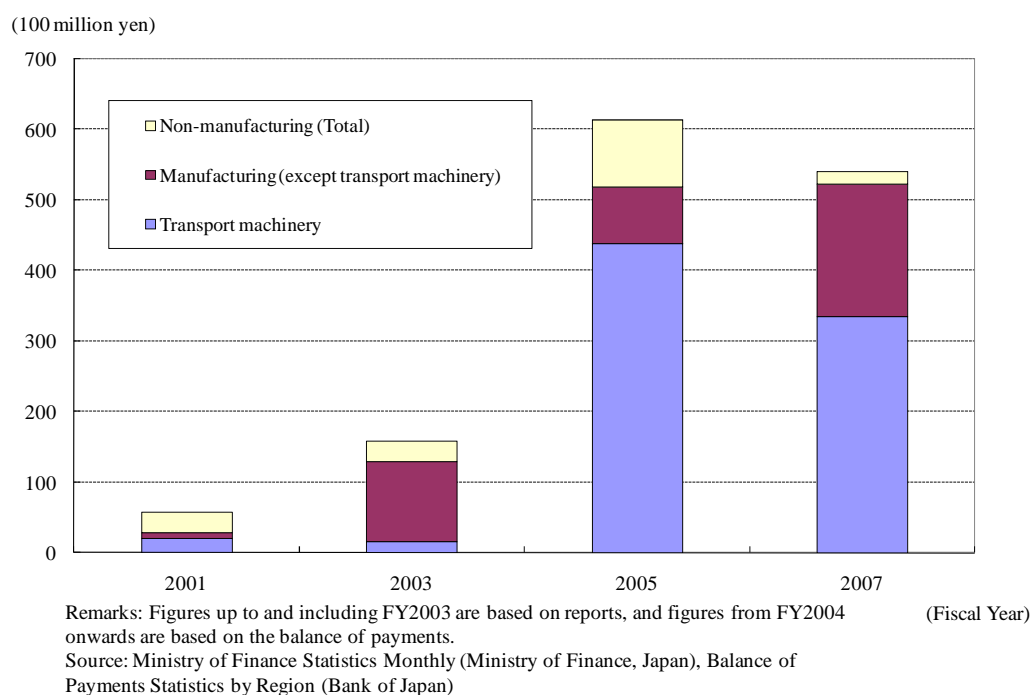
Furthermore, under the Japan-Mexico EPA, Mexico grants national treatment to direct investment from Japan, just as it does to direct investment from the United States and Europe. As a result, the

³⁰ JETRO 8th Survey of Japanese Firms in Latin America, (conducted from July–August, 2007, 93 responses from Japanese-owned companies in Mexico)

³¹ Questionnaire in the “Research Paper on EPAs concluded by Japan: The Effects and Challenges” by the Japan Economic Foundation (2009) (conducted from November–December 2008, 119 responses from Japanese-owned companies)

amount of direct investment from Japan to Mexico has been increasing sharply since 2005, mainly in the transportation machinery sector. This is indicative of the fact that Japanese-owned companies are moving into Mexican markets, putting the entire North American market into perspective (see Figure 3-2-1-28).

Figure 3-2-1-28 Changes in Japan's direct investment in Mexico



(ii) Other cases of EPA use

The “Japan-Malaysia Economic Partnership Agreement” (Japan-Malaysia EPA) took effect following the Japan-Mexico EPA. The Japan Economic Foundation (2009)³² compared the amount of exports by commodity from Japan to Malaysia between 2005, prior to the enactment of the Japan-Malaysia EPA, and 2007, after its enactment. Among the commodities for which the tariff elimination/reduction applies, the amount of exports of steel products, heavy machinery and non-ferrous metal has increased, and the amount of trade in the commodities for which the tariff elimination/reduction applies increased by 39.8%. On the other hand, the amount of trade in the commodities for which the tariff elimination/reduction does not apply increased only by 25.0%, demonstrating the effect of the EPA.

It has recently become noticeable that an increasing number of companies use FTAs concluded between third countries. An international division of labor using the AFTA, bilateral FTAs not including Japan, and ASEAN+1 FTAs is being built in the ASEAN region. For example, by using the early harvest scheme in the Thailand-India FTA, Japanese-owned companies in India have shifted their production sites to Thailand. Data from JETRO (2008)³³ show that AFTA, the China-ASEAN

³² “Research Paper on EPAs conducted by Japan: The Effects and Challenges” by the Japan Economic Foundation (2009)

³³ JETRO (2008) FY2007 Survey of Japanese Firms in Overseas

FTA and the Thailand-India FTA are among the top five enacted EPAs/FTAs that companies are considering to use. As EPA networks develop in the future, it is expected that the movements of companies to use third-country FTAs will accelerate in an attempt to re-structure their supply chain (see Figure 3-2-1-29 and Figure 3-2-1-30).

Figure 3-2-1-29 Change in distribution through utilization of India-Thailand FTA

Company A	At the time of implementation of FTA, Company A shut down a television factory in India and started exporting from a factory in Thailand. Sales of color TVs are rapidly increasing.
Company B	Company B started to export high-value-added refrigerators and washing machines from Thailand to India. Company B applies FTA to the refrigerators.
Company C	Company C previously jointly produced air conditioners in India with a local company, but has transformed the business into a sales company. Currently, air conditioners are exported from a Thai factory to India under the Thailand-India FTA.
Company D	Company D exports picture tubes for color TVs to India under FTA
Company E	Company E exports transmissions produced in Bangalore (India) to Thailand. Automobile parts are exported from Thailand and India. Among them, products covered by the Early Harvest Program (progressive tariff reduction) use FTA.
Company F	Company F exports polycarbonates to India under FTA. They are exported with no tariffs, while its general tariff rate is 7.5%, thus enjoying benefits of FTA.
Company G	Thailand serves as an export center to other countries. Eighty percent of the products are exported to South East Asia, North America and Africa. A factory in China has the capacity to satisfy domestic demand only. There is a factory in Bangalore, India, and domestic demand is rapidly growing. Production is not catching up with demand growth. Thus, Company G is seeking a way to export from Thailand using FTA.

Source: 2006 White Paper on International Trade and Foreign Direct Investment (JETRO) (Some data have been replaced with the latest ones).

Figure 3-2-1-30 Enacted EPAs/FTAs under consideration

EPA·FTA	Composition % (n=114)
Japan-Thailand	57.9
AFTA	27.2
China-ASEAN	23.7
Japan-Malaysia	20.2
Thai-India	18.4

Remarks: Top five only

Source: 2007 Survey on Overseas Business Operations of Japanese Companies (JETRO)

Furthermore, some ASEAN countries collect data on whether FTAs are used for trade in a given product. For instance, according to the Thai Ministry of Commerce, the rate of use of the Japan-Thailand EPA, the Thailand-Australia FTA and the Thailand-China FTA (the proportion of import value using the EPA of the total imports of Thailand between January and June 2008) is 4.5%, 11.0% and 0.7%, respectively. The reasons why the rate of use of the Japan-Thailand EPA is as low as 4.5% are: (i) the Board of Investment of Thailand provides an import tariff exemption as an investment promotion scheme and (ii) the Thai government voluntarily reduced the MFN tariffs to

rates lower than the EPA tariff rates.

(e) Solution to the issues and improvements of EPAs

As the use of EPAs by companies advances, such as customs clearance using the EPA preferential tariff rates and applications for certificates of origin, an increasing number of institutional problems related to EPAs have come to surface. For example, the problem of product-specific rules of origin (ROOs) being not in line with recent production conditions, the problem of the so-called tariff reverse,³⁴ the issue of “response to revision of the HS convention,”³⁵ and the procedures at the customs clearance in the partner country in the cases of retroactive issuance of a certificate of origin (for instance, whether there is an equivalent system to Japan’s “transaction prior to export approval”). In dealing with these issues, it is appropriate to encourage partner countries to improve the systems to be tailored to the needs of the industry.

It is also important for Japan to make efforts to simplify and speed up the issuance procedures for certificates of origin, from the viewpoint of improving user convenience. For example, related government ordinances were revised in April 2008 to exempt the submission of invoices, which had been required for the procedures of application for issuance of certificate of origin. Entry forms were fundamentally simplified in June 2008. The government introduced the issuance of certificates of origin completed online in April 2009; this system was integrated with another issuance system that had only been used for the Japan-Mexico EPA. The Japanese EPAs have adopted the system in which the government or government-designated issuance organizations are to issue the certificate of origin, but the Japan-Swiss EPA, signed in February 2009, has adopted a system whereby government-accredited exporters are allowed to prepare the certificate, in addition to the existing system. In order to guarantee the Japan-Swiss EPA and enable the self-certificate system by accredited exporters to work, the government submitted the “Draft Bill for Partial Amendment of the Act on Issuance of Certificate of Origin under Economic Partnership Agreement” in March 2009.

Also, most of the EPAs provide for the revision of the details of the agreement. For example, the Japan-Mexico EPA provides that on the request of either Party, the Parties shall consult to consider further steps in the process of liberalization of trade between the Parties in respect of goods after 4 years from the date of entry into force of this Agreement. There are many EPAs, represented by ASEAN EPAs, which stipulate to conduct general reviews after 5 years from the date of entry into

³⁴ Refers to the state where MFN tariff rates become lower than or the same as EPA tariff rates when a trade partner country reduces MFN rates after the base rates in the EPA negotiations have been set. To deal with this issue, exporters of the contracting partner were alerted, through concerned organizations, such as JETRO, to confirm in advance the MFN rates and EPA rates on the exporting products of the partner country and in the case where the MFN rates are lower than or the same as the EPA rates, measures shall be taken to apply the same rates as the MFN rates even if the exports clearance was made by obtaining certificate of origin under the EPA.

³⁵ EPAs that Japan has thus far concluded have been developed using tariff codes in accordance with HS2002 (Harmonized Commodity Description and Coding System), but most of the partner countries adopt HS2007 in their customs procedures. Thus, it is necessary to manage two tariff codes for one product for confirmation of preferential tariff rates and ROOs, putting burden on clerical works of enterprises. In Japan, preferential tariff rates of each EPA based on HS2007 are listed on the website of the Ministry of Finance as their information provision service.

force. In the future, it is necessary to improve the quality of agreements using the re-consultation process, by taking up the needs of the industry while using the outcomes of the examination mentioned in section (4).

(5) Global Expansion of Infrastructure-related Industry, Service Industry and Contents Industry

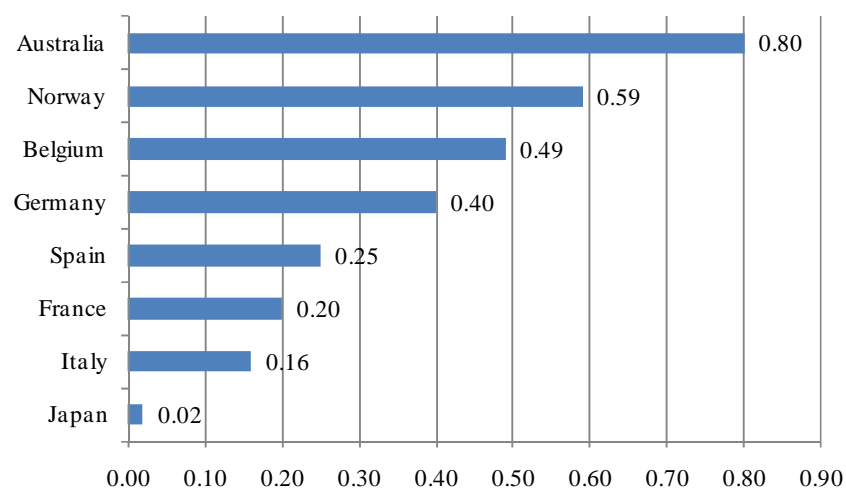
From the viewpoint of domestic and foreign integrated economic measures, it is important to promote global expansion of infrastructure-related businesses, such as power supply, railways and water supply, which had traditionally been provided as an infrastructure for domestic markets the a core industry in Japan. Since Japan has a large demand, with the 2nd largest GDP and the 10th largest population, the promotion of global expansion of the service industry is also an important pillar for domestic and foreign integrated economic measures, although there was little degree of necessity to facilitate its global expansion at the early stage, and it is also important to promote the global expansion of the contents industry, which is characteristically focused on domestic users. The promotion of the global expansion of the service industry and the contents industry is also important in terms of rectifying the problems embedded in the Japanese economy, which emerged after the latest economic crisis. In other words, the fact that Japan's export industry had been heavily dependent on automobiles and electrical machinery, which provide a high production ripple effect on domestic industries, has partly contributed to the worsening of the economic slowdown in Japan affected by the latest economic crisis. However, such promotion will facilitate the diversification of the industries in the global arena.

(A) Global expansion of infrastructure-related industry

Infrastructure-related industries, such as power supply, railways and water supply, have been developed as an infrastructure that bolsters Japan's economic development and as a foundation mainly for domestic demand. Japan's infrastructure-related industry has fostered world-acclaimed technologies in terms of efficiency and energy conservation performance, etc. For example, for railways, Japan has track and vehicle technologies boasting low accident rates (see Figure 3-2-1-31). The water supply business has excellent water-saving systems and the shares of reverse osmosis membrane of five Japanese-owned companies account for 70% of total world shares,³⁶ exhibiting superiority in element technologies.

³⁶ "Technology for Water Treatment and Effective Use of Water Resources" Council of Competitiveness-Nippon (2007)

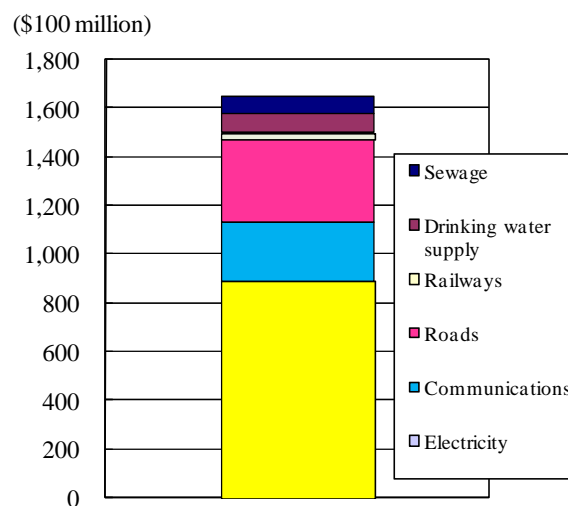
Figure 3-2-1-31 Serious accidents per one billion passenger-kilometers traveled



Source: Compiled from data provided by Railway Section of the Land Transport Division of the Council for Transport Policy, Ministry of Land, Infrastructure, Transport and Tourism, Japan (2007)

On the other hand, domestic demand for infrastructure is nearly saturated as Japan's economy matures. There is still abundant demand for these infrastructures in markets in emerging economies, with an increasing potential for global expansion. For example, infrastructure, such as power supply, in East Asia is currently said to create demand worth \$160 billion annually,³⁷ and the demand is expected to grow even more (see Figure 3-2-1-32).

Figure 3-2-1-32 Estimate of the size of infrastructure projects in Asia (monetary basis)



Remarks: The above statistics do not include India

Source: Report of the Asian PPP Policy Study Group (Ministry of Economy, Trade and Industry, Japan)

Original source: *Connecting East Asia* (WB-ADB-JBIC), 2003

As seen thus far, although Japan's infrastructure-related industry has the potential for global expansion, it has been rather static partly because the domestic business foundation has been stable.

³⁷ Sum of China, Indonesia, Malaysia, Laos, Mongolia, Papua New Guinea, the Philippines and Thailand, but excluding India

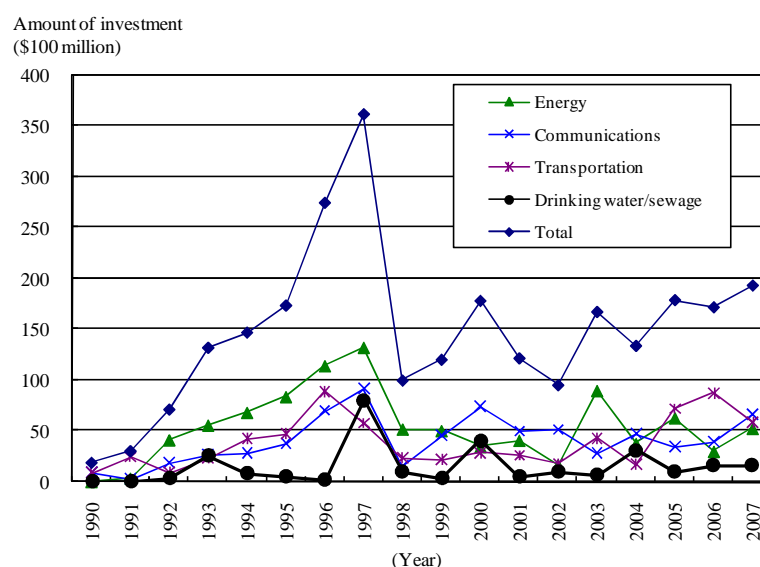
Furthermore, even if individual technologies are at the highest level in the world, the system as a whole does not necessarily have sufficient international competitiveness. Thus, concerted efforts of public and private sectors are necessary in order to promote global expansion, upon analyzing profitability and bottleneck in business development of each infrastructure-related industry.

Column 37 Promotion of Public-Private Partnership (PPP) in East Asia

The promotion of Public-Private Partnership (PPP) is one of the important approaches to the global expansion of infrastructure-related industry.

As mentioned earlier, infrastructure, such as power supply, creates demand worth about \$160 billion (about ¥16 trillion) every year in East Asia. However, the amount of private funds injected into infrastructure projects in the region is merely \$15 billion per year in the four sectors of water and sewage, energy, communications and transportation,³⁸ and as the world economic crisis has deepened since the latter half of 2008, private financial conditions have become tighter. The amount of Official Development Assistance (ODA) provided by the governments of developed countries and international development aid organizations for the development of infrastructure in the regions is on a declining trend and the annual average between 1990 and 2007 is merely \$9 billion (Column Figures 37-1 and 37-2).

Column Figure 37-1 Private investment in infrastructure projects in Asia (monetary basis)



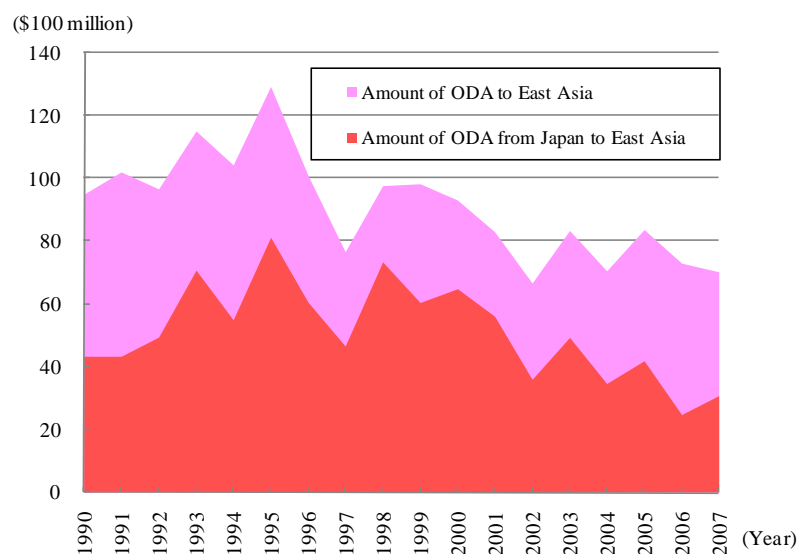
Remarks: The above statistics do not include India

Source: Report of the Asian PPP Policy Study Group, (Ministry of Economy, Trade and Industry, Japan)

Original source: *PPI Project Database* (World Bank)

³⁸ World Bank Statistics

Column Figure 37-2 Changes in public assistance to Asia and the share of Japan



Source: Report of the Asian PPP Policy Study Group (Ministry of Economy, Trade and Industry, Japan)

Thus, despite expectations that East Asian nations will generate a considerable demand for infrastructure investment over a long course of time, it is difficult to finance the investment by the national budget or by public development assistance through international aid organizations. Particularly, the provision of funds by a government of a developing country may cause an increase in the fiscal burden and foreign debt in the country, and incentives of business entities to streamline the business are not likely to emerge. With this situation as a backdrop, the world is now paying more attention to the implementation of effective infrastructure development projects through PPP, in which the public and private sectors appropriately share the procurement of funds and the risks in order to develop infrastructure and provide public services.³⁹

Under such circumstances, the Ministry of Economy, Trade and Industry (METI), the Ministry of Foreign Affairs and the Ministry of Finance jointly announced the Public-Private Partnership for Boosting Growth in Developing Countries, a package of new measures to strengthen links between ODA and companies, and established a framework for private and public sectors to work together for the development of developing countries.

METI also set up the Study Group on Asian PPP policy, comprising public and private representatives, and it released a report in April 2009.

The report lists the following priority items as action plans to be implemented:

- (1) Implementation of pioneering and intensive infrastructure development in the regions serving as a node for regional development

³⁹ Development aid organizations in Europe have dramatically enhanced the private sector assistance to promote PPP, and the World Bank (IFC) and the Asia Development Bank (ADB) have greatly expanded private sector assistance. In Japan, the industrial sector is raising hope for the necessity and effectiveness of PPP, for example, the Japan Foreign Trade Council, Inc. prepared an emergency proposal entitled, "The Future Economic Cooperation under the Global Financial Crisis," in December 2008, and the Nippon Keidanren issued "Pursuing Strategic, Enhanced International Cooperation through Public-Private Cooperation."

- (2) Enhancement of ODA finance tools, including utilization of New JICA's "overseas investment and loan" schemes, establishment of the Asia Infrastructure Development Fund and further facilitation of yen loans
- (3) Parallel implementation of project formulation through pilot projects and legal framework development, and formulation of the Common Guidelines for Asian PPP (provisional name) by ERIA
- (4) Strengthening competitiveness of infrastructure/service business operators, including electric supply, urban transportation, ports and harbors, IT/public services, energy conservation/new energy, roads, etc.

In order to put these actions plans into effect, the government intends to make "all-Japan" efforts to promote PPP by establishing the "Strategic Council on Asian PPP (provisional name)" comprising government authorities and organizations and the "Taskforce for Asian PPP Policy (provisional name)" comprising public and private representatives. In cooperation with a number of private institutions, such as the Asia PPP Promotion Conference (Chairperson: President Yoshihiko Nakagaki, Electric Power Development Co., Ltd.), a private organization to promote PPP in Asia, the government will enhance dialogue/collaboration with companies that are keen to participate in PPP projects. The government will also actively provide support to overseas developments in the areas where Japan's potentials and technologies can be exploited (water, environment, energy conservation/new energy, IT, etc.).

The government, in cooperation with companies engaged in PPP, has cooperated in the dissemination and promotion of PPP in Asia through, for instance, the dissemination of PPP through policy dialogue with partner developing countries in Asia, such as Vietnam, India, and Indonesia; the formulation of projects for water and sewage, electric supply, railways and IT/public services; and support for legal framework development in preparation for the introduction of PPP. Particularly in Vietnam, seminars and workshops have been held every year since 2007 and the Japan-Vietnam High-Level Forum on PPP was held in March 2009, creating a series of opportunities to exchange views on PPP promotion at a various levels between public and private sectors of Japan and Vietnam.

Also, in FY2008 the Ministry of Land, Infrastructure, Transport and Tourism set up a study group on PPP comprising public and private representatives to consider the introduction of PPP for roads in Vietnam and water supply in Mongolia. The ministry also set up a study group on the port sector in March 2009, demonstrating the progress in the efforts and collaboration with other ministries.

(B) Global expansion of service sector

The service sector is an important industry, accounting for about 70% of Japan's GDP, and is also crucial as another engine for growth, besides the manufacturing industry. Led by Service Productivity & Innovation for Growth (SPRING), established in May 2007, various efforts are in place for improving productivity in the service industry. Meanwhile, as far as the domestic market is concerned, it is expected that the service industry will be affected by population decline caused by falling birthrates. In order to promote the global expansion of the service industry and generate external demand, METI held the Global Service Study Group to identify and discuss the significance and

challenges for global expansion of Japan's service sector. In the future, it is important to specifically implement solutions for these challenges and promote support for the promotion of the global expansion of the service sector.

(a) Significance of global expansion

The significance of the global expansion of the service sector is that it acquires external demand. It is effective to promote market expansion, considering Asia in particular, where the middle-class is growing larger, as a consumption market. For global expansion, it is important to carry out efforts for value creation⁴⁰ in each market of partner countries, by adapting to the culture of the partner country, understanding the needs of the local people and changing the service models to meet their taste. As efforts for value creation advance in each country, it is expected that companies will create innovation in the services of their own as they gain new knowledge from the local community and markets.

(b) Challenges of global expansion

First of all, it is important to identify the priorities for global expansion within an enterprise. Also, there are other challenges as follows: (i) The conversion to formal knowledge, such as manualization, is difficult since Japan is a high-context society⁴¹ with a high proportion of implicit knowledge; (ii) It is necessary for global expansion not to apply Japan's existing service model but to convert the service model to meet the local market conditions and response of the customers; and (iii) It is imperative to develop Japanese personnel and local personnel to realize the said conversion.

(c) Specific efforts in the future

In light of these challenges, the Study Group points out the effectiveness of the following efforts:

- (1) Sharing best practices to resolve challenges to the global expansion
- (2) Strengthening the information provision system with respect to the local consumer markets overseas
- (3) Matching Japanese-owned companies with local companies, dispatching missions
- (4) Improving the local business environment through trade talks and negotiations

As a body to promote these activities, the Global Service Forum will be established within SPRING. In order to put various recommendations of the study group into action, the Forum will gather information on the local consumer markets and best practices in cooperation with other organizations like JETRO and share such information to promote the global expansion of the service sector.

⁴⁰ Value creation is not to regard the customers as only the target of service provision, but as a body that co-produces values, and to find potential for innovation through continuous interaction with the customers.

⁴¹ A society with a high proportion of implicit knowledge such as tacit, non-linguistic and implicit methods and rules

(C) Global expansion of contents business

Japan's soft power, such as contents and the fashion and design industry, is often referred to as Cool Japan and is redefining its reputation as a pioneer. Many foreign tourists visit the district globally known as Ura Harajuku (Harajuku Backstreet), the source of Japan's soft power. In particular, the number of foreign visitors to Akihabara reached 9 million, increasing by 3 million in the past five years. The soft power has the potential to further increase the value of Japanese products and services and hence support a range of industries. J-Recovery Plan (Council on Economic and Fiscal Policy, April 2009) also lists the soft power as a priority sector for medium- and long-term economic growth.

In the future, it is important to make efforts to enhance utilization, development and dissemination of soft power and expand the market size of the contents business to ¥20 trillion yen by 2015, and explore new product and service markets.

(a) Efforts for strengthening contents business

"The Departures" and "La Maison en Petit Cubes" (translated literally: Block House) won Academy Awards in February 2009, a fact which demonstrates nationally and internationally that Japan's contents business has a strength in the global setting.

The government recognizes the contents business as Japan's leading industry in the Outline of Economic Growth Strategy (decision made by the Council on Integrated Reform of Finance and Economy, July 2006) and the Follow-ups and Revision of the new Economic Growth Strategy (Cabinet decision, September 2008), and set forth the goal of expanding the contents market to ¥20 trillion by 2015.

In order to achieve this goal, Japan International Contents Festival (aka Co-Festa)⁴² was launched in 2007 as a center for dissemination of Japan's contents throughout the world.

The Ministry of Economy, Trade and Industry (METI), based on "Contents Global Strategy/Final Report" (September 2007), formulated the Asia Contents Initiative, a medium- and long-term policy package for Asia (July 2008), to promote the expansion of contents business throughout Asia. In response, the government plans to hold the Asia Contents Business Summit in October 2009 and invite leading figures from the public and private sectors associated with contents business in Asia to promote contents distribution there.⁴³

⁴² A comprehensive contents festival, aiming to promote partnerships among contents sectors and to increase synergy effects of business negotiations and global dissemination by simultaneously holding events related to movies, animation, games, Manga/character goods, broadcasting and music. In 2008, coordination was enhanced between TIFFCOM (an international contents market), which had been installed at the Tokyo International Film Festival, and the International Drama Festival, a festival for TV dramas; as a result, 2559 business negotiations took place there, and 719 business agreements and contracts amounting to just over \$19 million were made.

⁴³ Japan hosted the kick-off conference for the Asia Contents Business Summit in October 2008. Six countries/regions participated, including China, South Korea and Singapore, which decided to hold the Summit. The first working-level meeting was convened in March 2009. The second working-level meeting is scheduled to be held in Thailand in June 2009.

(b) Efforts for the fashion industry

Fashion has long been cherished by people in all generations regardless of age or gender as the most familiar means of self-expression. Even today, it is one of the soft power resources of Japan as the main tool to express one's lifestyle, together with games, animation and movies, etc. Such attractive points of Japanese fashion are generated by excellent sensitivity and craftsmanship. But fashion, as an industry, continues to be challenged by such issues as the enhancement of communication capabilities and international competitiveness.

Thus, METI, in order to publicize the attractiveness of Japan's fashion to the world, has supported Japan Fashion Week (JFW) in cooperation with the Organization for Small and Medium Enterprises and Regional Innovation and JETRO, etc. JFW aims to promote coordination between Japan's value-added fashion and high quality textile materials and to develop a communication center dispensing information from Japan to the world, thereby establishing a fashion business center in Tokyo. JFW, launched in October 2005, has been held eight times thus far, with various events, such as fashion brand shows, joint exhibitions and fashion events for general consumers, etc. At the 8th JFW held in March 2009, the SINMAI Creator's project enhanced the matching function between the world's up-and-coming fashion designers and the skills of Japanese craftsman. In the future, METI intends to help JFW to become an independent fashion business.

(c) Efforts for global expansion of home products (daily commodities) industry

Since home products, such as furniture, lighting and tableware, are familiar goods in daily life, the industry is easily and greatly affected by pullbacks in consumer spending caused by economic slowdown. The industry is also facing a challenge from overseas products in that the domestic market is being occupied by overseas products: for luxury products, by well-known products (or products with high brand power) and for low-priced products, by inexpensive products mainly produced in Asia. As a result, the shipments of domestic manufacturers have been on the decline.⁴⁴

In Japan, there are many high-quality home products (daily commodities) with good designs, reflecting Japan's living culture, traditions and adept craftsmanship. It is important to nurture world-class brands and explore the world market for such products, in order to empower Japan's home industry so it can catch up with Asian nations and counter the penetration of European-brand products in the domestic market.

Thus, the Ministry of Economy, Trade and Industry (METI) has implemented, since FY2007, the Brand Creation Project for Home Industry (aka "sozo_comm"),⁴⁵ which aims to expand sales channels to overseas markets by organizing the Japan Fair to exhibit selected home products (daily commodities) at the internationally renowned trade fairs.

Through this project, in January 2009 Japan organized a Japan Fair at the Maison et Object, an interior design fair that attracts attention around the world as a trend setter, and another at the

⁴⁴ In 1995: ¥8.5 trillion →2006: ¥4.9 trillion (Industrial Statistics, METI)

⁴⁵ Exhibitions in the past: Ambiente International Trade Fair in Frankfurt in February 2008, Milan/Salone International Furniture Trade Fair in April 2008, Paris' International Interior Decoration Fair "Maison et Object" in January 2009, Milan/Salone International Furniture Trade Fair in April 2009

Milan/Salone, the world's most prestigious furniture fair, said to be most difficult to participate in (April 2008 and 2009). These activities have generated numerous outcomes, such as contracting with overseas retailers and features by both national international media. METI will continue organizing Japan Fair exhibitions at well-known trade fairs as integrated efforts of public and private sectors, providing information to domestic business operators and supporting the expansion of sales channels before, during and after the fairs.

(d) Efforts to strengthen design industry

Japan established the Good Design Award to recognize designs with excellence in 1957 and recently promotes futuristic designs under the theme of "From the Demand Side in the Near Future." The Good Design Award had traditionally focused on products sold in Japan but has been opened to products to be sold overseas since FY2005, increasing its reputation throughout the world. Efforts are currently taking place to raise awareness of the high quality of Japan's designs by expanding this award in Asia and other countries. A collaboration system with a design award in Thailand was just established in 2008.

In 2007, METI formulated the "Kansei Value Creation Initiative" to promote manufacturing that focuses on "Kansei (sensitivity or sense cultivated by national traditions and cultures)," which is an important element of design. METI held the Kansei-Japan Design Exhibition in Paris in December 2008 aiming to advocate the production of goods with values, refined skills of producers as well as history and culture that would appeal to the sense of users, intrigue them and arouse their emotions in addition to conventional values such as functionality and price. A similar exhibition is scheduled to be held in New York in May 2009.

2. Promotion of volume zone innovation

Chapter 2 Section 2-2 contended that the acquisition of the middle-class market (volume zone) in emerging economies, which is expected to grow considerably in the future, needs to be considered in light of the fact that Japan's (and other developed countries) exports declined rapidly due to the latest financial crisis, and that in order to acquire the volume zone, it is necessary to develop products and services that are relatively high in quality but in a low price range, in addition to the conventional sales strategies of high function and high quality.

This section introduces policies contributing to the promotion of company efforts to generate innovation ("Volume Zone innovation") that would allow unconventional low-cost technologies, marketing, and production processes, as well as those contributing to licensing production, investment, local production and reflow of profits that would be necessary for such a business model.

(1) Human resources development contributing to expansion of local production

For the promotion of mutual understanding and economic partnerships in Asia, the Ministry of Economy, Trade and Industry (METI) and the Ministry of Education, Culture, Sports and Science and Technology (MEXT) have been implementing an initiative called the Asian Human Resource Fund program since FY2007 with the aim of "utilizing wisdom and excellent capabilities of human