

## **Chapter 3 Japan's current situation and direction of progress after the economic crisis**

### **Section 2 Course of Japan's external economic policy**

#### **3. Contribution to the global economic infrastructure**

##### **(1) EPA / FTA active promotion of regional economic integration**

##### **(A) EPA / FTA progress**

##### **(a) EPA / FTA movement over the past**

Since the 1990s, as a result of the acceleration of regional integration and the changing international economic environment and international development strategies, the number of concluded EPA/FTA<sup>96</sup> has been increasing year by year.

As background, the movement that 1. Western countries with strong existing economic ties were actively promoting economic cooperation, trade, investment liberalization and facilitation among neighboring countries (i.e.: U.S. and EC respectively NAFTA (entered into effect in 1994) and EU ((established 1993) and efforts to accelerate), 2. Meanwhile, NIEs and ASEAN pushed to achieve high growth through faster economic liberalization, and economic policy, and emerging economies such as Chile, Mexico, and Peru, will shift with the introduction of market mechanisms to trade and investment liberalization in which they took on strategy adopting EPA / FTA, 3. East Asia, including Japan, became positive towards EPA / FTA. As of September 30, 2009, the number of regional trade agreements that have been reported to WTO is up to 261<sup>97</sup>. In addition, EPA / FTA has not only increased the number of concluded agreements, but has also greatly changed its contents. First, looking at a combination of member states, in recent years, expanding the economic cooperation and partnership between developed countries and emerging countries or among emerging countries is increasing, compared to that of developed countries. There is a movement simultaneously and actively that EPA / FTA have concluded with taking in neighboring countries as well as between countries geographically close.

As the background of "Increased involvement of emerging countries with EPA / FTA", the benefit of integrated economy between developed countries and emerging countries as a result of their active trading and expanded international division of labor across borders with increasing globalization. Thus the emerging countries became more positive to conclude their EPA / FTA, recognizing to have promoted bringing in technologies from developed countries under trade and investment liberalization, and strengthening competitiveness, as actualizing the progress centered on Industries catered for exports under Open Economic policy of Asian countries. And for the other background that "change of geographical proximity between parties" is occurring, it is more focused if the countries with EPA / FTA concluded in comparison to ones who had not. They are able to gain economic profits from

---

<sup>96</sup> Free Trade Agreement (FTA) refers to the agreement content of eliminating tariffs and other restrictive trade regulations among the states parties, and Economic Partnership Agreement (EPA) refers to a wide range of subject areas, including efforts to integrate the FTA elements of market institutions and economic activities. Here the discussion includes the customs union (agreement to create the unified tariff region by eliminating the region's tariffs and other restrictive trading business regulations and also to have the common trade rules with outside the region). Thus, within a framework of WTO, these agreements are collectively named Regional Trade Agreement (RTA).

<sup>97</sup> Of 261 reports, 160 reported was based on GATT Article 24, 28 reported was based on Enabling Clause, and 73 reported was based on GATS Article 5 (within an agreement, reported individually based on each GATT, Enabling Clause and GATS, and reported as new member joining the existing agreement have been counted as one report).

trading and investments even though they are not necessarily close in geographical proximities.

### **(B) Recent trends in major countries and regions**

As described in (a) it is considered that the basic trend in EPA / FTA is unchanged after the economic crisis of 2008. Especially countries in East Asia, or East Asia and other regions have been developing the FTA network as all the countries in the world are inspired by each other in a way that moves others to aggressively conclude EPA / FTA initiatives.

First, the United States, as the world's largest economy, under the Bush administration, has been actively promoting FTA with Latin America, Central and South Americas, the Middle East, and Asian Pacific regions. U.S. policy on FTA is often, in general, a high level of trade liberalization and regulations. In addition, in September 2008, the United States was actively involved with Singapore, New Zealand, Chile, and Brunei, by expressing their full participation to the Asia-Pacific FTA to expand the "Trans-Pacific Partnership Agreement (TPP)", they showed a willingness to expand in the FTA network in Asian Pacific regions.

However, the United States underwent a regime change in 2009 to Democrat President Obama, and a trade policy agenda is not pursued as aggressively as the domestic policy ,as viewed by the public. The current administration is not as aggressive as the previous administration, in promoting bilateral FTA and the current concluded FTA with Panama, Colombia and South Korea have yet to be approved by Congress. Meanwhile, in November 2009, when President Obama toured Asia, he expressed the goal to be involved with TPP countries by creating a high level of participation in a wide range of regional arrangements referring to strengthen and maintain U.S. leadership in Asia Pacific. The next December, the government notified the U.S. Congress of its intention to negotiate TPP. Along with the U.S., Peru, Australia, and Vietnam expressed the intention to participate in this TTP agreement and the first round of talks was held in March 2010. In the future, it is necessary to pay close attention to President Obama's administration as it proceeds with FTA policy including TTP (see Figure 3-2-3-1).

In Europe, countries are aggressively promoting FTA with Asian countries; ASEAN, South Korea, and India, based on priorities<sup>98</sup> established in the 2006's Trade Announcement; "Global Europe". It reached a provisional signing with South Korea in October, 2010, after eight separate meetings that started in May 2007. Regarding FTA with ASEAN countries, the negotiation with ASEAN as a whole was suspended in March 2009 and the decision to re-open negotiations with individual ASEAN members was agreed upon in December 2009. Singapore began negotiations in March 2010 and agreed with Vietnam to begin negotiations. In addition, in October 2009, it started to negotiate a FTA agreement with Canada, one of the first G8 countries, and is also showing signs of an active start of FTA negotiations with countries outside Asia (see Figure 3-2-3-2)

In East Asia, the ASEAN 10 countries and surrounding 6 countries (Japan, China, Korea, India, Australia, and New Zealand) are building FTA networks rapidly. ASEAN has, in February 2009 concluded a new agreement<sup>99</sup> for the investment goods sectors during the ASEAN summit.

---

<sup>98</sup> Listed as countries and regions with the highest priorities are: ASEAN, South Korea, and Mercosur, followed by India, Russia and GCC.

<sup>99</sup> A new agreement in the field of Goods is ASEAN Trade in Goods Agreement (ATIGA), and a new agreement in the field of Investment

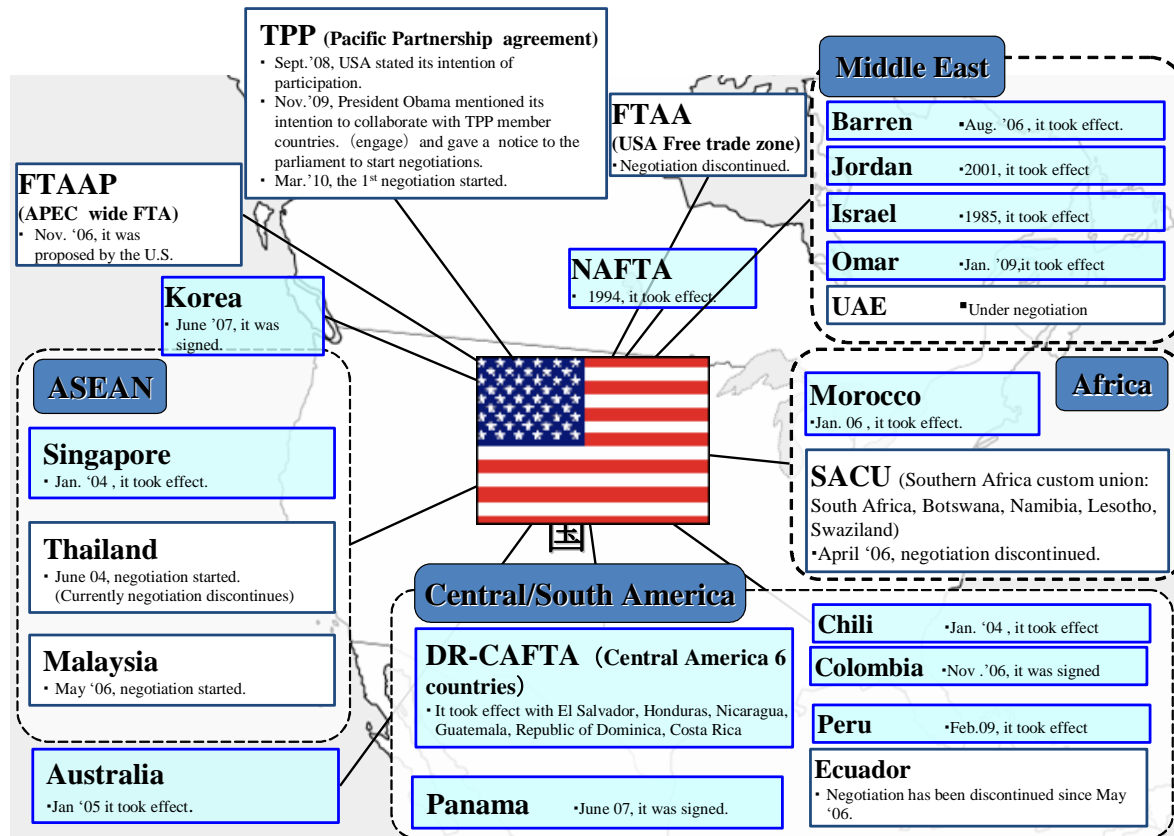
The "ASEAN" Community"<sup>100</sup> has continued efforts to form by the end of 2015. The six countries surrounding ASEAN also are aggressively promoting forming a FTA network having ASEAN as a hub. In particular, Japan and ASEAN's EPA (AJCEP) entered into effect in 2008, following the area of investment treaty, China-ASEAN-FTA for the goods sector (2005), and the service sector (2007), signed in the investment sector in 2009, for Korea-ASEAN-FTA for the goods sector (2007), service sector and investment sector entered into force in 2009. For more signs, in India, the ASEAN-FTA goods sector came into effect in January 2010, the Australia / NZ ASEAN-FTA agreement came into effect in a comprehensive investment of service and goods in January 2010, "ASEAN + 1" of the FTA has steadily developed networks. In 2010, in the original six ASEAN member countries, the tariff will be eliminated in principle, "ASEAN + 1" of the FTA takes effect in all goods sectors, It was an Epoch Making Year for the East Asia FTA countries which advanced to the new phase. In addition, the movements include the six countries surrounding ASEAN'. The China NZ-FTA came into effect in 2008, the India NZ-FTA had an agreement to start negotiation in 2009, the Korea-Australia FTA and Korea-NZ-FTA negotiations also started. The Korea-India-FTA came into in effect in January 2010. The FTA between the three countries, Japan, China and South Korea, was initiated by FTA in research with Industry-Government-Academia collaboration as well.

---

is ASEAN Comprehensive Investment Agreement (ACIA).

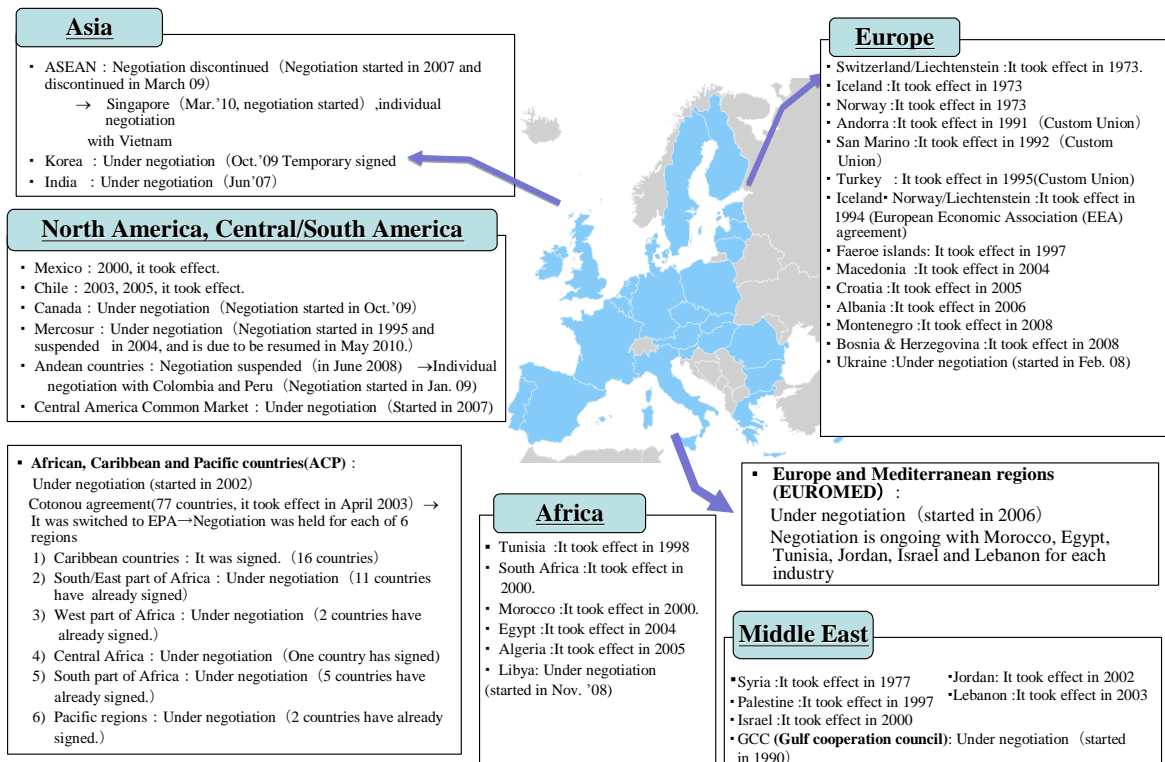
<sup>100</sup> In the ASEAN Summit Meeting, it has been agreed to form ASEAN Community by 2015 which will be consisted of three organizations: "ASEAN Security Community (ASC)", "ASEAN Economic Community (AEC)", and "ASEAN Social and Cultural Community (ASCC)".

Figure 3-2-3-1 US's commitment in FTA



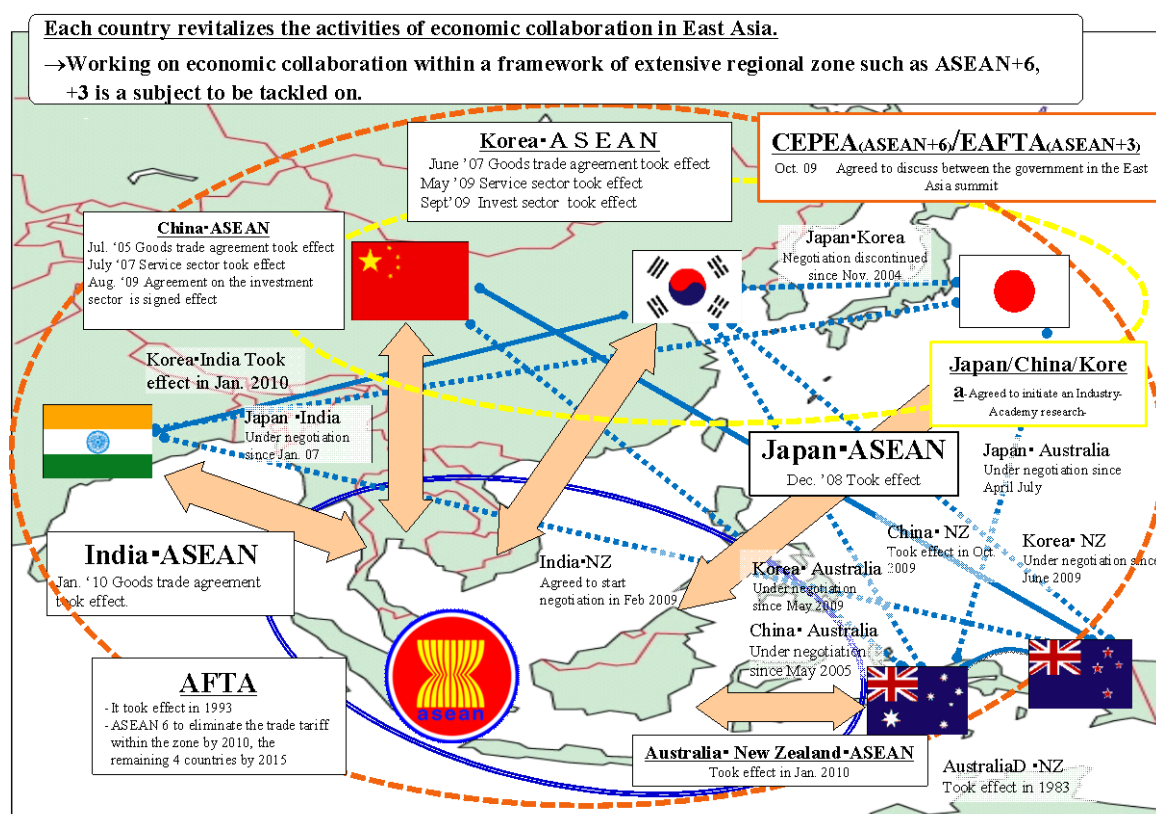
Source: The Ministry of Industry, Trade and Economy

Figure 3-2-3-2 EU's commitment in FTA



Source : The Ministry of Industry, Trade and Economy

**Figure 3-2-3-3 Economic collaboration in East Asia**



Source : The Ministry of Industry, Trade and Economy

By these developments in East Asia, the next step is the movement aimed at economic cooperation in a regional framework with ASEAN + 3 (ASEAN 10 countries and Japan, China and South Korea) and the ASEAN + 6 (ASEAN + the 3 countries mentioned plus India, New Zealand and Australia), Discussions between the governments started in 2010<sup>101</sup>.

In addition, countries have become active in efforts outside East Asia. The ASEAN countries, Singapore, Vietnam, Thailand and the Philippines are showing signs of aggressive negotiations with the EU countries, Vietnam also participated in negotiating a TPP agreement which was launched in March 2010. In addition to South Korea's negotiations with other emerging countries, such as Peru and Colombia, and even developed countries like U.S. and EU, it has been promoting efforts while taking necessary measures in domestic matters<sup>102</sup>. Even in China, a joint FTA study began with Switzerland in February 2010. The FTA with Peru will go into effect in March 2010 and is showing signs of active movement (see Figure 3-2-3-3).

## (B) Japan EPA / FTA initiatives situation

### (b) EPA / FTA negotiations promotion

As mentioned in (A) (b), the national EPA / FTA will have to accelerate its efforts. Japan continues to promote companies' global business development, in consideration of the most adverse affects for the domestic industry, so will actively tackle EPA / FTA negotiations.

<sup>101</sup> For details refer to "(B) Japan EPA / FTA initiatives situation"

<sup>102</sup> For South Korea's FTA efforts, refer to "Chapter 3, Section 1, 3. Main countries' Economic Growth Models"

### **(i) Efforts in East Asia**

In particular, having a huge population, Asia is expected to rise as a more attractive market, with the expansion of domestic demand for the expanding middle class in the future. EPA / FTA will create a seamless market in Asia, which could become an important tool to capture the vitality of the region. Japan's seven bilateral EPA<sup>103</sup> with ASEAN countries, and sectional EPA with ASEAN as a whole, is in effect and is currently working with India, Australia and East Asian countries beyond existing ASEAN countries. The EPA's negotiating efforts is hoped to move forward.

Negotiations with India were launched in January 2007. India's economy has achieved rapid growth in recent years. It has a population of more than 10 million people and is still showing steady and high level growth from an international viewpoint, despite the global economic crisis which has relatively slowed its progress. The scale of trading and investment between Japan and India, a country with a possibly vast economic market, is relatively small. It is expected that bilateral EPA conclusion can activate vital economic relationships.

The EPA negotiations with Australia were launched in April 2007. Japan is intending to strengthen "a comprehensive strategic relationship" with Australia sharing fundamental values and strategic profits with Australia. It is expected to benefit from expanding trading and investments owing to tax removal and this will provide stable resources, energy and food supplies.

The EPA negotiations with South Korea which began in December 2003, were suspended after the 6<sup>th</sup> meeting in November, 2004. Since 2008, both countries have started moving towards resuming negotiations. Under the agreement made between the leaders in April 2008, efforts in working-level talks to build up an environment for discussion and study were held four times in order to work towards resuming negotiations. The Japan-South Korea EPA was agreed in February 2008 at a summit meeting, symbolized as "Japan-Korea New Era", it is also significant in the expansion of bilateral trade and investment, multi-faceted bilateral and international competitiveness and therefore an early resumption of negotiations is hoped.

Regarding regional efforts, in three countries: Japan, China, and South Korea have implemented public-private joint research of FTA among CJK countries since 2003. It was decided at the 6<sup>th</sup> CJK Economic Trading Ministries Meeting to start Industry-Government-Academia joint research in the first half of 2010, directed by the result of the 2<sup>nd</sup> CJK Summit held in October 2009. Receiving direction at the 1<sup>st</sup> CJK, an FTA Industry-Government-Academia joint research meeting was held in May 2010. It was to discuss plans in the goods, investment, and service fields. In the future, the aim is to reach a conclusion before the Summit Meeting in 2012.

In addition, EPA / FTA of "ASEAN + 1" reached its completion in January this year when India-Asian, Australia-New Zealand/ASEAN's FTA became effective. Surrounding ASEAN "plus one" bilateral FTA, networks between the countries are also evolving. Companies utilizing these FTA efforts for heightening the supply chain in throughout East Asia regions, recognize the importance of actualizing the wide range of economic integration in East Asia regions.

---

<sup>103</sup> 7 countries total: Singapore, Malaysia, Thailand, Indonesia, Brunei, Philippines, and Vietnam.

The East Asia Free Trading Zone (EAFTA) plan that was created by “ASEAN+3” that consists of ASEAN 10 countries and CJK, was started with the joint experts research team in 2005. The East Asia Comprehensive Economic Association (CEPEA) plan that was created by “ASEAN+6” consists of Japan, China, South Korea, India, Australia and New Zealand and was started with public researchers in 2007. It was suggested by Japan in 2006 and it was agreed to start discussion over the final report that was submitted to Government Executives and Economic Ministers in 2009. In the discussion between governments, it was agreed to discuss four different fields: Regulation regarding Certificate of Origin, Tax procedure, Tax Categories and Economic Cooperation.

As East Asia's wide regional range economy advances, it is recommended to split the processes in the region, heightening the efficiency of the economy as a whole through integration of production hubs and best locations. It is expected that this will strengthen industries' international competitiveness in the East Asia region. On the other hand, as utilizing EPA / FTA regulation in the Certificate of Origin for each agreement is supported, it is necessary to get a Certificate of Origin issued through various required processes. It is pointed out that the administrative cost among EPA / FTA users is increasing due to the different regulations and procedures per each agreement. Such discussion has been considered since 2005. ASEAN10 three countries plus countries CJK "ASEAN + 3" East Asian Free Trade Area (EAFTA) and plan, proposed by Japan in 2006, and private research in 2007 launched "ASEAN + 6" (Japan, China, Korea, India, Australia and New Zealand) of the Comprehensive Economic Partnership in East Asia (CEPEA) plan of the two initiatives, the economic ministers and leaders of the last in 2009. The report was submitted and it was agreed to initiate discussions on the government report about the contents. Discussions between the governments covered rules of origin, customs procedures, trying to cover the four areas of tariff classification, and economic cooperation.

As regional economic integration in East Asia progresses, to facilitate the inter-process division of labor within the region which increases overall economic efficiency through optimal allocation of production facilities and the aggregate, to strengthen the international competitiveness of industry in East Asia can be expected to lead. On the other hand, EPA / FTA with the satisfied rules of origin of the partner in use, but must be subject to the issuance of Certificate of Origin through the procedures required for different procedures and rules by agreement, EPA / FTA have pointed out that there is an increase in administrative costs for the user. Discussions for resolution of these issues are being considered as an important factor on promoting regional economic integration. There is also the basis for discussions at the intergovernmental regional economic integration. Japan participated with officials from 16 countries in the region in February 2010 and the "Rules of Origin in Economic Integration in East Asia Workshop" was held. The existence of the rules of origin on promoting regional economic integration was discussed. Companies in the regional EPA / FTA will benefit so troublesome rules and procedures must be examined in each agreement and pointed out to customs authorities. FTA sudden outreach is important to the user and system maintenance procedures in the processing corresponding to the increase in customs, in order to resolve these issues. Companies (users), customs, and the issuing authority of all parties, in fact, pointed out that cooperation is necessary.

**Column 45 East Asia-ASEAN Economic Research Institute (ERIA) efforts**

ERIA has the purpose of promoting economic integration in East Asia, 16 countries in East Asia and the East Asia Summit in which to participate (the ASEAN10 countries, Japan, China, Korea, India, Australia and New Zealand). For leaders, ministers and international organizations, policy recommendations are based on research on the challenges of the region.

On the history of ERIA in August, 2006, in the ASEAN Economic Ministers Meeting an "East Asian version of OECD" plan proposal began. It was then discussed at the summit level and at the ministerial-level meeting of East Asian countries, based on the chairman's statement and the 3rd East Asia Summit in November 2007. On June 3, 2008, ASEAN Secretary General Surin held the inaugural meeting in the presence of representatives from 16 countries in East Asia and ERIA was formally established.

ERIA policy research efforts are mainly divided into dissemination and policy advocacy. Policy measures such as research in "The promotion of economic integration in East Asia", "Regional economic development disparities," "How to achieve sustained growth," and major policy areas. The efforts are to promote unity in Asia. In 2009, policy research projects "The comprehensive development plan in Asia" project; "Deepening economic integration in East Asia (such as quantitative evaluation of the progress of East Asian Economic Community)" was conducted along with 10 projects in integrated East Asia. We are addressing research issues such as the "Comprehensive Development Plan Asia" project, doubling the income for Asian region hardware and software infrastructure development, industry promotion, harmonization of systems and standards and to develop strategies in an integrated manner to promote a middle class for that purpose.

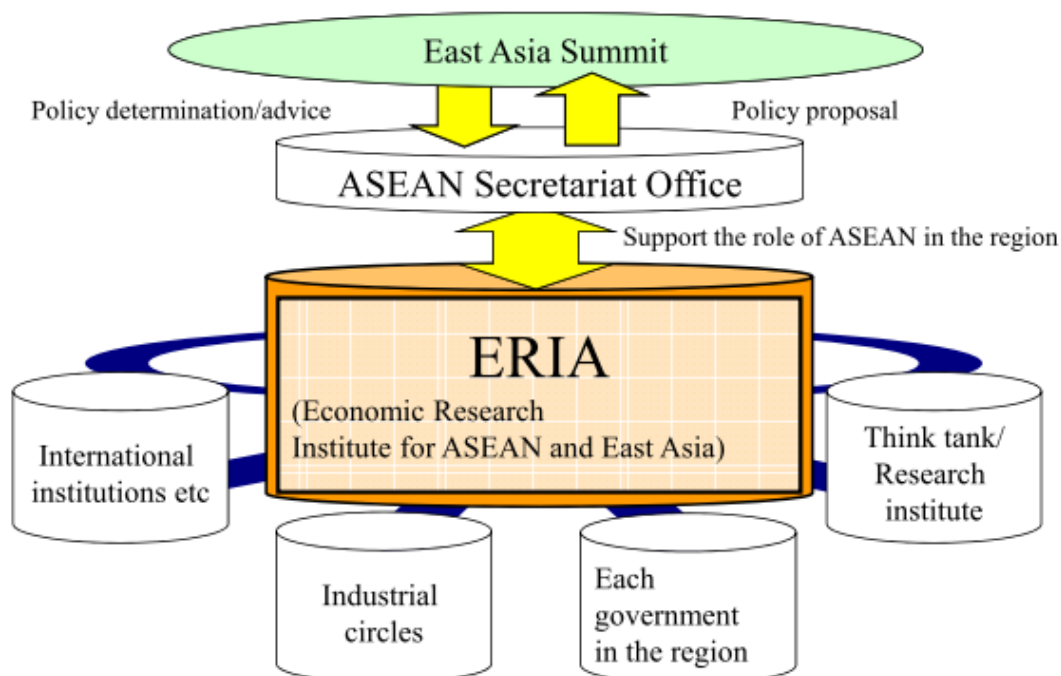
As an effort to expand Policy initiatives, ERIA has conducted capacity-building projects aimed at emerging countries' improvement in Policy Research capability and symposium seminars aimed at promoting exchanges of industrial and academic stakeholders in the region and broad dissemination of research in various countries. As a major capacity building project in fiscal year 2009, "ERIA / JENESYS Next Leaders Program", was conducted. This is the "East Asian youth's large exchange program for century 21" (JENESYS Programme). As a part of a graduate school program in Japan, to provide scholarships and internship opportunities in the ERIA office during a long holiday, given to students from each ASEAN country majoring in humanities or social science field. In addition, from October 2009, for the students-recipients of the first scholarship program who had studied in specified graduate schools in Japan, the offering of this scholarship began. Meanwhile, a major symposium of seminar projects was held at ERIA in cooperation with JETRO Asian Institute in Tokyo on December 1, 2009. The International Symposium "East Asian economic crisis and restructuring the world economy" was held with about 500 participants. In addition to the symposium, Prime Minister Hatoyama and ASEAN Secretary-General Surin addressed keynotes . A panel discussion themed "East Asian Economic Prospects and the global economic crisis" and other themes were held. In addition, ERIA's efforts such as policy recommendations, utilizing a forum for world leaders in East Asia



Summit and the results of policy research projects were proposed to ministers and the implementation of policies in integrated East Asia region were promoted. For example, during the 15th ASEAN Summit on October 23<sup>rd</sup>, 2009, the chairman's statement was issued to create a Master Plan for the ASEAN high-level Task Force to, in cooperation, with ASEAN Secretariat and Asian Development Bank (ADB) and others to connect ASEAN region countries. Following up to “ASEAN Leaders statement regarding ASEAN Connectivity” issued the same day, and to suggest policies at 17th ASEAN Summit. Also, at the 4<sup>th</sup> East Asia Summit in October 25, 2009, the leaders of participating countries evaluated ERIA’s beneficial research and practical policy recommendations that contributed to regional cooperation, and accelerated completing the “Asia comprehensive development plan”. ERIA was requested to provide support to ADB and the ASEAN Secretariat. However, ERIA will continue beyond 2010 and plans to provide practical policy recommendations to East Asia’s Leaders and Ministers at the East Asia Leaders Meeting, ASEAN Summit and other meetings.

In the future, ERIA is expected to continue to implement policy research aiming at economic integration of East Asia through an “Asia comprehensive development plan” and other projects. It will providing practical policy recommendations as an international research institute which provides detailed policy recommendations in each East Asian country’s Policy Forum during the East Asia Summit and other meetings, based on increased cooperation from the ASEAN Secretariat and East Asian countries’ government’s joint efforts and research institutes within and out of the region. (see Column Figure 45-1 Framework of East Asia-ASEAN Economic Research Institute (ERIA))

### Intellectual contribution to promote the unification of East Asia Economy

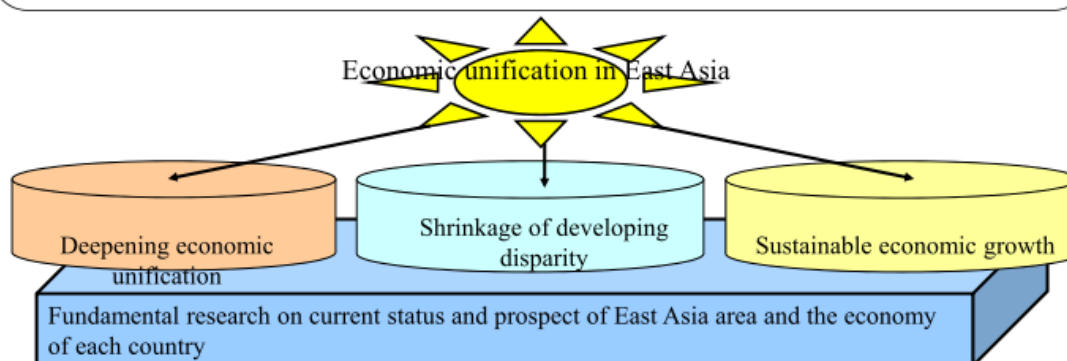


Source: Ministry of Economy, Trade and Industry

Column Figure 45-2 Fields of development study East Asia-ASEAN Economic Research Institute

deals with

- As three pillars for the Policy Research Project, “Deepening economic unification”, “Shrinkage of developing disparity”, and “Sustainable economic growth” were selected. In 2008, the Policy Research Project was launched.
- ERIA contributes for the policy discussion by concerned people in East Asia by presenting practical policy proposals based on various policy researches. Moreover, through the constructive cooperation with researchers and research institutions in East Asia area and the world, it leads academic discussion as an influential research center.
- Example of projects in fiscal year 2008: The improvement of East Asia business environment, Environment and energy security



Source: Produced by Ministry of Economy, Trade and Industry

## (ii) Efforts with Resource-rich countries and emerging countries

For economic growth in Japan, and for strengthening economic resources outside East Asian countries and emerging countries, growth of those countries must be captured. Japan is now in EPA / FTA negotiations with Peru and GCC.

The EPA negotiations with Peru were launched in May 2009. In addition to Peru's imports of major mineral resources such as copper and zinc for our country, in recent years it has boasted the highest growth rate in the Americas. The EPA with Peru with the benefits in improving access in fast-growing Peru markets and an enhanced stable supply of mineral resources are expected.

FTA negotiations with the GCC were started in September 2006. This area is about 70% of our total oil imports (2008) account. The total exports from Japan reached 2.8 trillion yen (2008). In addition, there is a large demand for infrastructure with population growth in each country and public and government in cooperation actively promoting the sales. In addition to our energy security and in terms of expanding trade and investment, it is important to maintain a friendly relationship including the formation of economic relations between the countries.

Moreover, Mongolia also located in Northeast Asia, surrounded by China and Russia, has abundant underground resources and has attracted international attention in recent years so the interest to strengthening economic relations between Japan and Mongolia's private sectors is also growing. With this rising expectations, in regards to EPA information, a public-private joint research project is to start during the first half of 2010 and has been discussed in ministerial meetings. EPA with Mongolia, is considered to contribute to Japanese companies' further expansion of trade and

investment by strengthening economic relationships to secure a stable supply of energy and mineral resources.

### **(iii) Efforts with large market countries and countries invested**

To ensure free trade and an investment environment and to capture the dynamism of the world economy is essential to our economic growth. From this perspective, the world's single largest market with shared values such as democracy and the rule of law, it is a pressing issue to strengthen economic relations with EU countries. In particular, under the provisional FTA agreed by EU and South Korea in October 2009, the demand from industry is strong in economic integration agreement (EIA) with EU. In November 2009, from Nippon Keidanren "the 3<sup>rd</sup> phase proposal document regarding Japan-EU EPA" was released. The harmonization of standards and mutual recognition of standards, and the protection of geographical indications including a non-tariff area, "Economic Integration Agreement" outline was presented. At the Japan-EU business round table meeting (BRT) held in April 2010, the EU and Japan planned to expand trade and investment between Japan and the EU. Japan-EU industry leaders handed the recommendation to Japan-EU leaders that both governments should agree upon the conditions met and that well-balanced and mutually beneficial bilateral agreements negotiations should be started.

Behind these moves, in the April 2010 Japan-EU Summit, the two leaders established the "Joint High Level Group", strengthening and integrating comprehensive economic Japan-EU ties and agreed to work jointly in investigation. At the same time, based on the "Joint High Level Group" results and options in the Summit to be held in 2011, the appropriate next steps were to be determined. Prime Minister Hatoyama, promoted "study co-operation" and expressed the idea to begin negotiations of Economic Partnership Agreements.

### **(b) Activation of existing EPA and EPA's "Lifecycle"**

Japan has been focusing on East Asian bilateral, multiple countries EPA. Japan-Switzerland EPA and Japan-Vietnam EPA became effective in 2009, and as of May 2010, the issued EPA has come into force in 11 countries (Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Philippines, Brunei, ASEAN, Switzerland and Vietnam). Japanese companies are beginning to penetrate the utilization of EPA and EPA has reached "Utilization and Operation Phases"<sup>104</sup>.

Even Japanese government users can fully enjoy EPA's benefits, by promoting efforts to ensure prudent management of the system. The most unfortunate thing, but for reasons such as an insufficient system, EPA has generated a lot of measures that do not perform properly and agreement on the treaty after the coming into force, lobbying the partner government with each problem. The solution has been sought. For example, with the AJCEP (Japan-ASEAN EPA) on the issue date in each country, in some cases the Certificate of Origin countries was not released in some countries. It has helped to resolve this quickly by working on the issuing process. Also, the Japan-Thailand EPA and Japan-Philippines

---

<sup>104</sup> For the actual usage, refer to "(C) EPA / FTA actual utilization (operations of EPA / FTA)".

EPA's steel tariff quota system, Japan-Indonesia EPA's Exempt Specified Usage tariff system, and other new EPA related system establishment and operation have seen many problems that required consultations with other governments to resolve various issues<sup>105</sup>. In addition, some questions asked by companies everyday include more than a few consultations for the smooth issuance of certificates of origin, the receiving authorities in other countries and to encourage other countries governments to resolve the problems.

In order to promote Japanese companies' international expansion as EPA is in "Utilization and Operational phases", as mentioned, 1. Steady EPA enforcement efforts, 2. EPA to improve the business environment and enjoy the benefits of tariffs, 3. EPA will improve understanding which leads to new needs and challenges through a reality check focus over the support, "EPA's Lifecycle" and the perspective becomes increasingly important to improve the quality of EPA.

### **(C) EPA / FTA actual utilization (operations of EPA / FTA)**

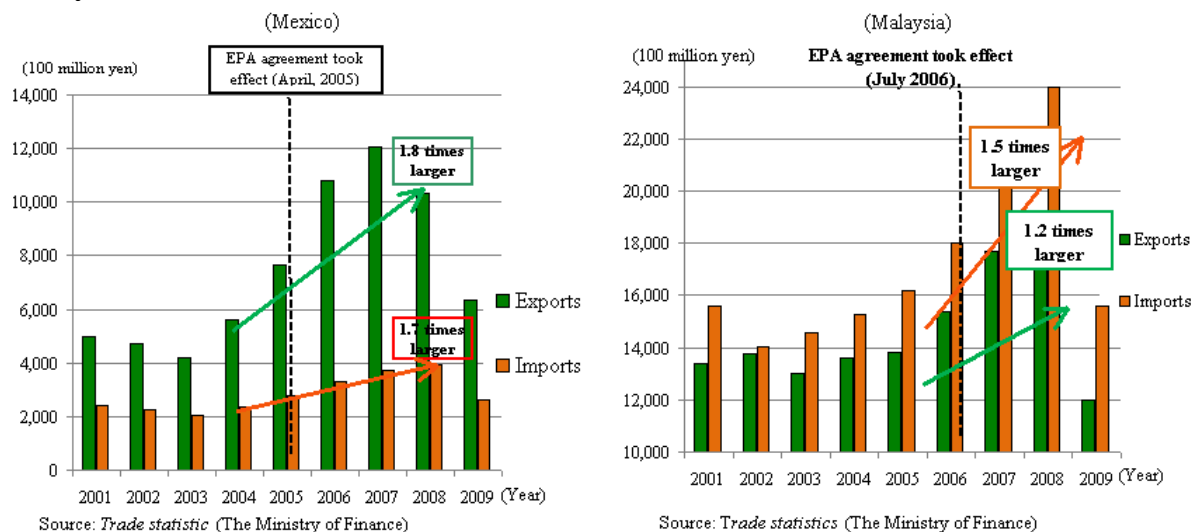
#### **(a) EPA / FTA actual use and effectiveness**

Below, how much of Japan's existing EPA has been used, or has been effective have been organized on the basis of available data. These analysis or examination processes are to extract concerns of existing EPA and to identify new needs or to reflect improvement and further promote the use of these revisions and negotiations and have important implications for activation of "EPA's life cycle".

---

<sup>105</sup> Japan-Thailand EPA's Steel Quota System, once agreed during the negotiation to make Steel Processing Manufacturers as duty-free importers, after the agreement effective date, they had not been recognized as qualified duty-free importers. After the negotiation, it was resolved in June, 2009. Japan-Philippines EPA's Steel Quota System had been delayed to incorporate it due to the development delay of national law; it became effective in May, 2009. Also the reimbursement for items that were subject to tariff quota was provided for the already imported applicable products prior to start of operations from the effective date. In regards to Japan-Indonesia EPA's Application Specific Exempt System, some of the hot-dip galvanized steel sheet, should originally be tax exempt was removed from the applicable list due to the change in HS Code interpretation of the Indonesian Customs officials; it was resolved in February, 2010 as a result of negotiation.

**Figure 3-2-3-4 Changes in trade amounts with EPA partners (Example of Mexico and Malaysia)**



#### (i) Change in the value of trade parties with the EPA after coming into effect

Since the end of 2008, trade activity has been stalled worldwide due to the global economic crisis, Japan and EPA Parties' in trade are also in the declining trend. On the other hand, observing the situation before the global economic crisis, the EPA parties that came into effect have generally increased. For instance in the pre-effective EPA which came into effect in the early period, trade volume with Mexico was increased 1.8 times (exports 1.8 times and imports 1.7 times). Also, when the EPA with Malaysia came into effect in 2006, between 2005 and 2008 it has increased 1.4 times (1.2 times the exports and imports 1.5 times) (see Figure 3-2-3-4). In addition, the EPA with Chile, and the EPA with Thailand, during the year 2008 when it came into effect, was increased 1.1 times (exports 2.3 times and imports 0.97 times), and 1.1 times (exported 1.2 times and imports 1.1 times) respectively from the previous year.

In addition, EPA reduced due to the different circumstances of each product in the elimination of tariffs so it is effective to understand the changes in trade volume of each product. For example, Japanese vehicle exports to Mexico have increased 2.3 times in four years from 2004 to 2008. The share from the previous year for Japanese companies in Mexico auto sales accounts has increased from 27.3% in 2004 to 38.1% in 2009<sup>106</sup>. For Japan-Mexico EPA, except for some models, a 5 percent equivalent of the previous year's domestic sales in Mexico is given outside the tax rate by the gradual reduction which will be eventually abolished in 2011 as will a considerable number of tariff-free quotas which effect seems to play a certain role. And for Malaysia, after the tax exemption for the specific use system was incorporated in steel and steel products<sup>107</sup>, it has increased by 1.4 times (1.6 times as high as steel products) from 2005, a year prior to the EPA becoming effective, to 2008. In addition, exports to Chile of general machinery<sup>108</sup> and automobiles<sup>109</sup> increased 1.7 times and 1.6

<sup>106</sup> JETRO's METI Information (published on January 20<sup>th</sup>, 2010),

<sup>107</sup> All tariffs to be eliminated by 2016; effective immediately for the most of parts exempt per application

<sup>108</sup> All tariffs to be eliminated immediately.

<sup>109</sup> All tariffs to be eliminated except for some parts

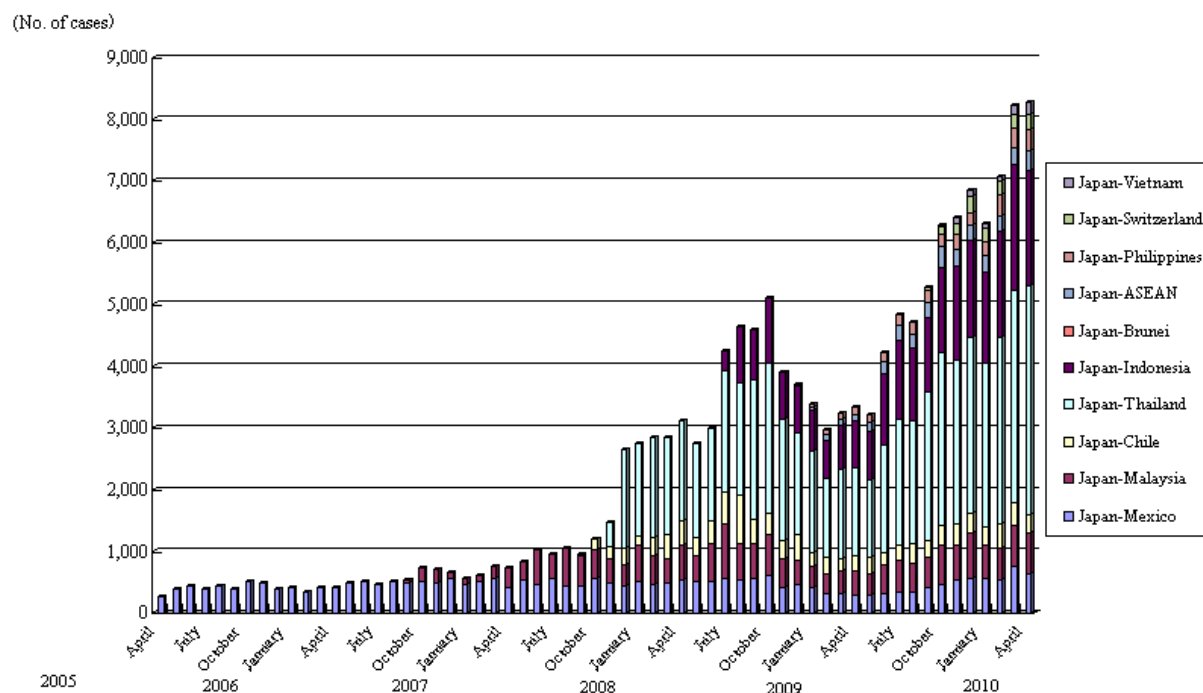
times respectively. With exports to Thailand, steel and steel products<sup>110</sup> and automobiles<sup>111</sup> increased 1.5 times and 1.2 times respectively (all from 2006, the year previous in effect, to 2008). Goods on which EPA has reduced or has eliminated tariffs in other countries have been increased in exports. Although all can not be said to be the effect of the EPA, the EPA is believed to have played a certain role in expanding trade between the Parties.

## (ii) Conditions of a Certificate of Origin issued under an EPA

From a specific number the Certificate of Origin issued based on a EPA, the national and sectional utilization of an EPA can be read. The Certificate of Origin is usually the shipping documents accompanying the shipment at any time regardless of the size and volume of exports and imports. The EPA is not issuing a number that indicates the volume of trade, for the items issued in the past, EPA has been utilized.

The number of certificates of origin issued in Japan is in increasing trend with the increased number of agreements. Since the end of 2008, it declined temporarily due to global slowdown, and then it began to increase again with Japan-Thailand EPA and Japan-Indonesia EPA, especially every month after October 2008 with over 6,000 cases (see Figure 3-2-3-5). Overall, automobiles, auto parts, and steel areas account for the majority issued (see Figure 3-2-3-6).

**Figure 3-2-3-5 Changes in the number of issuance of Certificate of Origin based on EPA**



Source: Created by the Ministry of Industry, Trade and Economy based on the data of Japan chamber of commerce

<sup>110</sup> All tariffs to be eliminated by 2017; effective immediately for approximately half of all exported amounts per Quota system

<sup>111</sup> 60% of large vehicles due to the gradual tariff reduction in 2010 and in principle all automotive parts by 2014, the tariff will be eliminated.

**Table 3-2-3-6 Major products on which Certificates of Origin based on EPA were issued frequently**

Japan-Mexico	Automobile parts, steel, automobiles
Japan-Malaysia	Automotive, auto parts, stationery, steel
Japan-Chile	Automotive, auto parts, medical equipment, stationery
Japan-Thailand	Automotive parts, rubber products, steel, electrical equipment and parts
Japan-Indonesia	Automobile parts, electrical equipment and components, rubber products, machinery parts
Japan-ASEAN	Electrical equipment and parts, textile fabrics, plastic products
Japan-Philippines	Steel, automotive parts, automotive, plastics
Japan-Vietnam	Automobile parts, machine parts
Japan-Switzerland	Automotive, auto parts, stationery, motorcycle

Sources: Japan Chamber of Commerce

**Table 3-2-3-7 Issuance of Certificates of Origin on fresh fruits based on Japan-Thailand EPA**

(Unit: Number of cases)

	Tariff concessions on EPA by Thailand	2007	2008	2009
Apples	10% → 0%	36	144	173
Pears	30% → 0%	12	38	69
Strawberries	40% → From the 6th year it was reduced to 0 %	0	10	65
Peaches	40% → 0%	0	19	12
Oranges	40% → From the 6th year it was reduced to 0%	0	1	3

Note : 'Pear' includes Quince and 'Orange' includes dried oranges.

Sources: Data of Japan chamber of commerce

**Table 3-2-3-8 Japan's export amounts on fresh fruits to Thailand**

(Unit : 1,000 Yen)

	2006	2007	2008	2009
Apples	98,320	121,143	147,172	137,768
Pears	3,518	5,577	4,445	6,311
Strawberries	209	663	1,557	962
Peaches	0	374	318	0
Oranges	0	0	854	1,197

Note : 'Pear' includes Quince and 'Orange' includes dried oranges.

Source: *Japan trade exports statistics* (The Ministry of Finance)

**Table 3-2-3-9 Number of issuance and amounts of Certificates of Origin issued by Vietnam**

	Agreement	Export destination	2007	2008	2009
Number of issuance (Cases)	Japan-ASEAN EPA	Japan	—	—	37,018
	China-ASEAN FTA	China	—	24,828	34,185
	Korea-ASEAN FTA	Korea	—	24,617	33,300
	AFTA	ASEAN	—	17,794	24,454
Value issued (1 million dollars)	Japan-ASEAN EPA	Japan	—	—	1,703.2
	China-ASEAN FTA	China	210.4	446.3	1,065.0
	Korea-ASEAN FTA	Korea	358.7	1,189.8	1,651.3
	AFTA	ASEAN	535.7	633.7	901.6

- Note:
1. The overall number of Certificates of Origin issued by each export and import administration department in: Hanoi, Ho Chi Minh City, Vung Tau, Binzuo, Dong Nai, Hai Phong, Da Nang, Quang Ninh, Lang Son, Lao Cai, Tienzan, Thai Nhoa, Nghe An, Thai Binh, Hai
  2. Japan-ASEAN EPA has entered into force in December 2008. China-ASEAN FTA took effect in July 2005. Korea-ASEAN FTA took effect in July 2007. The AFTA came into force in January 1996.

Source: *Trade publicity* (24 March 2010) (Jetro)

**Table 3-2-3-10 Japan's final suppliers of textile products(inclusive of plans)**



Before EPA take effect		After EPA took effect	
Country	Companies responded	Country	Companies responded
China	13	Vietnam	5
Japan	3	Thailand	4
Vietnam	1	Indonesia	4
Indonesia	1	Others	5

Source: *Jetro censor*(Dec. 2009), Jetro

Original source: *Japan Textile Importers Association's report*

The Japan-Thailand EPA has lower volume, yet cases as apples (10% abolish immediately) or pears (30% abolish immediately), and strawberries (40% to abolish in 6<sup>th</sup> year) in agricultural products, the issues are increasing (see Figure 3-2-3-7, 3-2-3-8). Japanese companies are believed to have been actively using the EPA for market development. There is recent growing interest in Japan's high-quality fruit in Indonesia and Vietnam and Japan has begun to export with EPA.

It is also useful to see the status of certificates of origin issued in other countries to understand the utilization of EPA. Vietnam announced the numbers of Certificate of Origin issues for four EPA / FTA agreements; Japan-ASEAN EPA (AJCEP), Korea-ASEAN FTA, China-ASEAN FTA, ASEAN Free Trade Area (AFTA), and, in 2009 ,both the number of issues and the amount were most among the AJCEP (see Figure 3-2-3-9). Seafood such as shrimp and squid, and wire harnesses for electrical equipment, garments, wood products, footwear and such primary and secondary products were imported into Japan using AJCEP<sup>112</sup>. Among the sewing area, it is becoming an advantageous business to import into Japan after both the fabric production and the sewing process is completed in ASEAN regions through effective AJCEP. According to the Japan Textiles Importers Association's survey, it is becoming more apparent that Japan's textile products supplier's sources are shifting to Vietnam and other ASEAN countries and companies are taking advantage of strategic logistics through EPA (see Figure 3-2-3-10).

In addition, Thailand has been announced the number of Certificates of Origin issued based on Japan-Thailand EPA, Thailand-Australia FTA, Thailand-India FTA, China-ASEAN FTA and AFTA. Many of Certificates of Origin, based on the Japan-Thailand EPA, are issued for the food industry in particular. In fact, processed chicken , shrimp, and frozen fish, on which Japan reduced or eliminated tariffs, have increased in imports from Thailand right after EPA came in effect. It is assumed that EPA has brought the good effects<sup>113</sup>.

In addition, Malaysia is also announced the number of Certificates of Origin issued, regarding Japan-Malaysia EPA, Japan-ASEAN EPA, China-ASEAN FTA, South Korea-ASEAN FTA, AFTA,

<sup>112</sup> JETRO's METI Information (published on March 24<sup>th</sup>, 2010).

<sup>113</sup> Yoji Shibata (2009) "Looking back one year after JETEPA (Japan-Thailand Economic Partnership Agreement (EPA)) became effective" (from "Trade and Tariff", March 2009 issue by Japan Tariff Association).

and Malaysia-Pakistan FTA. Many Japan-Malaysia EPA Certificates of Origin are issued for palm oil, plastic and many such chemical products.

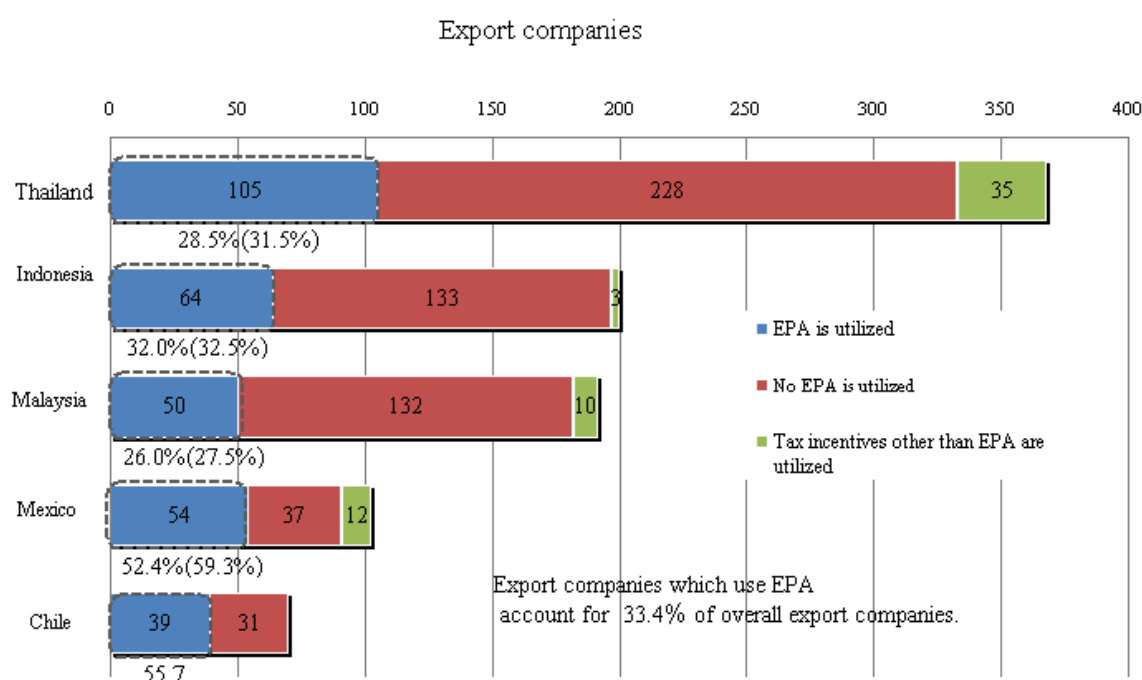
### (iii) EPA / FTA utilization rate

#### (iii-1) Survey of EPA / FTA utilization rate

Various national and international institutions are calculating the EPA / FTA utilization rate through company surveys. The usage rate is defined as a percentage of companies used (or intend to use) EPA / FTA, so the impact to the traded amount is immeasurable so it should be noted that multiple results cannot be simply compared because of the different sample groups. It is still a good indication to assess the company's degree of interests to EPA / FTA and its trend.

As the results of the recent survey conducted for companies in Japan, the International Economics Foundation (March 09)<sup>114</sup> and JETRO (March 10)<sup>115</sup> have been mentioned. The International Economics Foundation's survey investigated how many of the companies that import and export taxable items, utilize EPA. To have the number of companies that benefited from EPA as a parameter (companies dealing with tax-free goods have no need to utilize EPA) so a more realistic usage rate can be obtained. According to this data, overall, 33.4% of exporting companies utilize EPA. About 30% of ASEAN countries use EPA, while Mexico and Chile's utilization rates each exceed 50%. If only the import companies are looked at, more than half of all three countries are using EPA already. (see Figure 3-2-3-11).

**Figure 3-2-3-11 Status of EPA utilization among companies of taxable commodities**



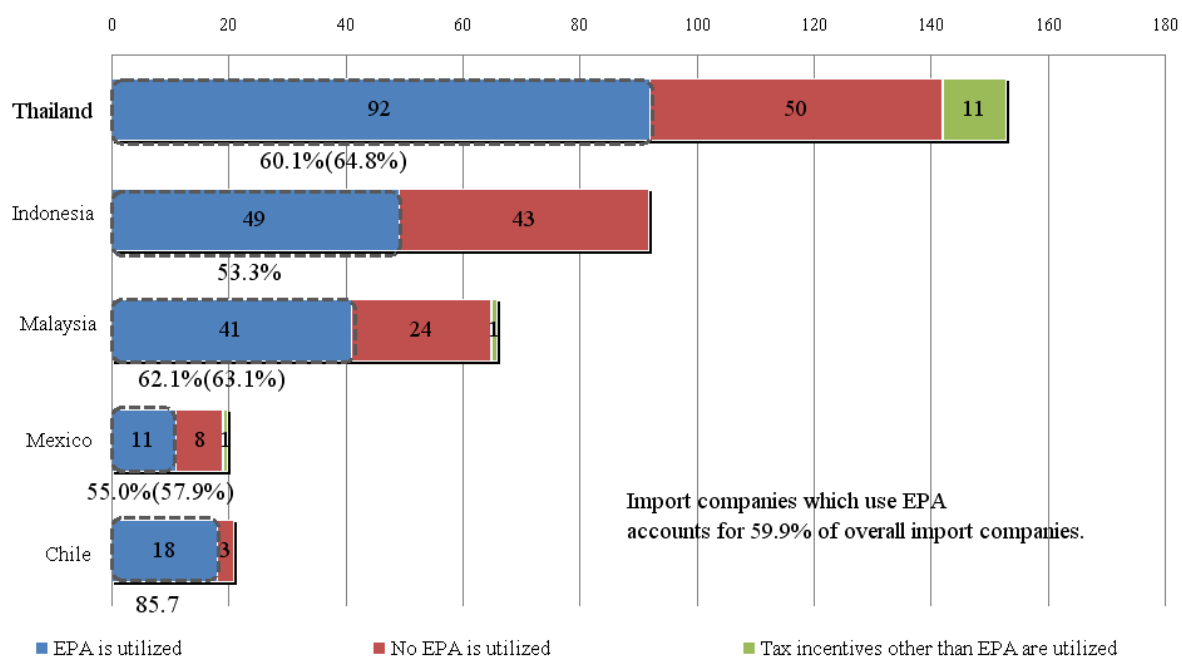
Note: The figures in the parenthesis: EPA utilization ratio after the number of companies which utilize a tax incentive other than EPA is deducted from the overall number of export companies of taxable commodities.

Source: *Research report on the effectiveness of EPA that Japan signed, and related issues* (International economic organization)

<sup>114</sup> Japan Economic Foundation (2009), "Research Report regarding effects and concerns of concluded Japan EPAs" (responded by 1,912 companies in November to December 2008).

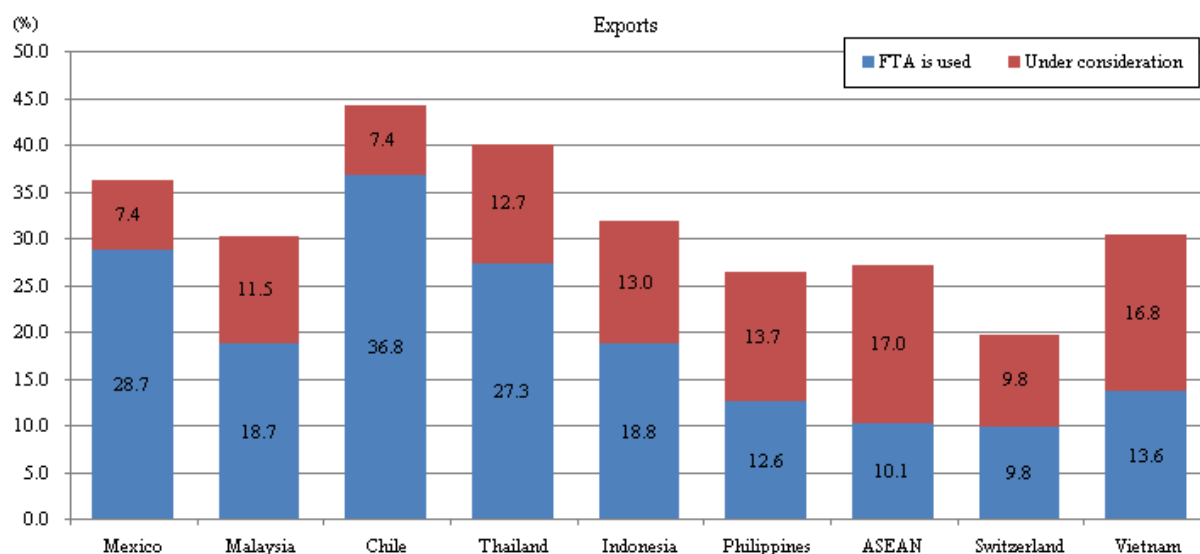
<sup>115</sup> JETRO (2010), "Survey on overseas business operations of Japanese companies in FY 2009 (Heisei 21<sup>st</sup>)" (responded by 935 companies in November to December 2009).

## Import companies

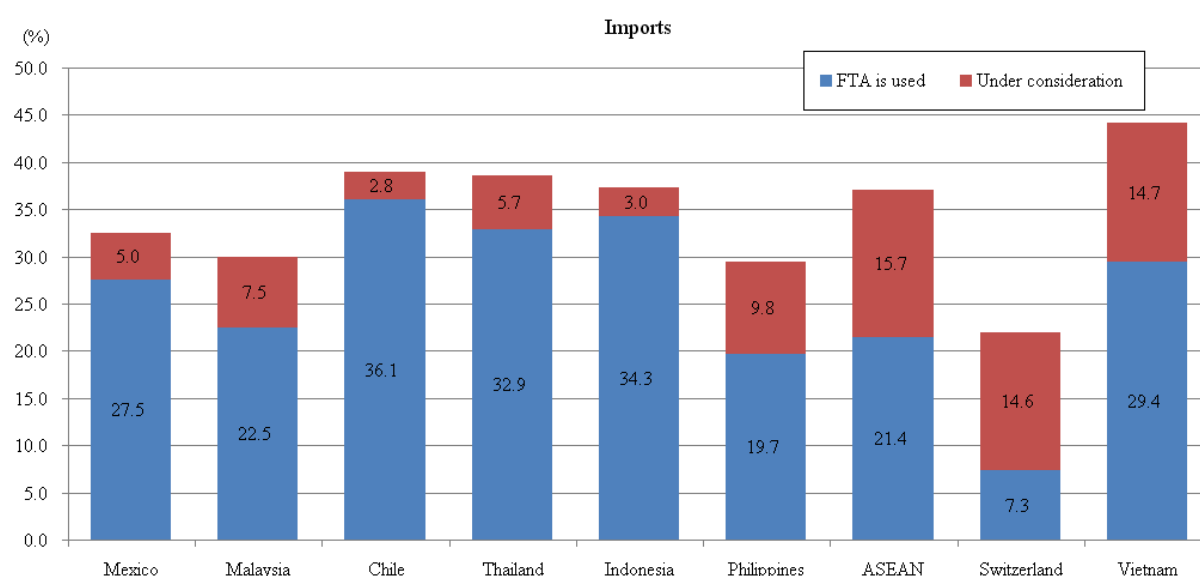


Note: The figures in the parentheses: EPA utilization ratio after number of companies which utilize a tax incentive other than EPA.

**Figure 3-2-3-12 Status of utilization of and intention of utilization of FTA tax incentive among Japanese companies**



Source: Questionnaires on Japanese company's overseas business development 2009 (JETRO)



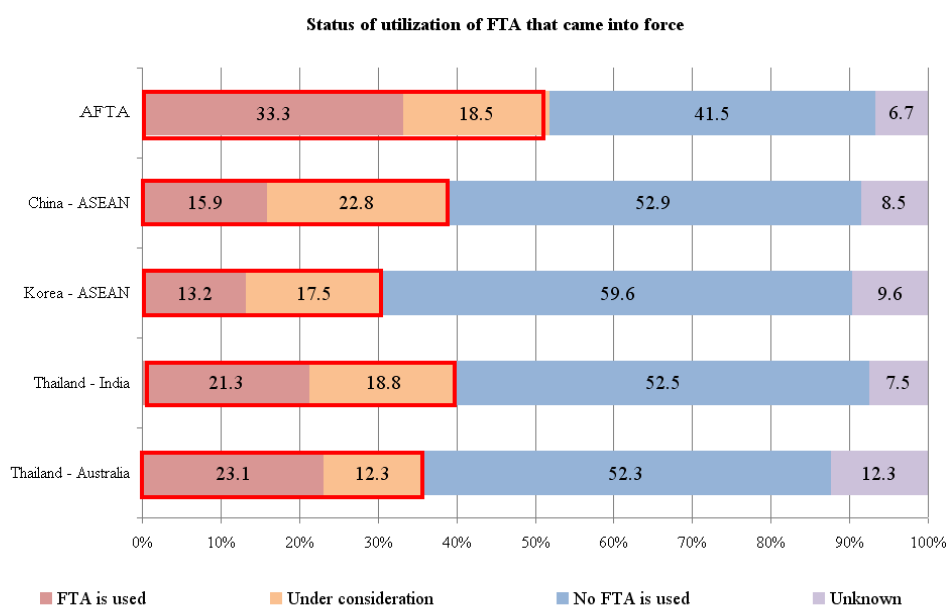
Source: Questionnaires on Japanese company's overseas business development 2009 (JETRO)

Meanwhile, in JETRO's survey of companies using EPA, it explores the possibility of utilizing EPA<sup>116</sup> by extracting companies considering the use of EPA<sup>116</sup>. The percentage of all companies who are already using EPA or considering its use totaled 33.8 percent which is a 6.3 points increase from the survey conducted a year ago. Therefore companies' utilization of EPA is in an increasing trend. Also, the ratio of import companies who responded, either using AJCEP which has not had much time since issuance, and using EPA in Japan-Vietnam EPA, or considering it, is rising and it is expected that the usage of these EPA will increase (see Figure 3-2-3-12). Moreover, this study covered Japanese

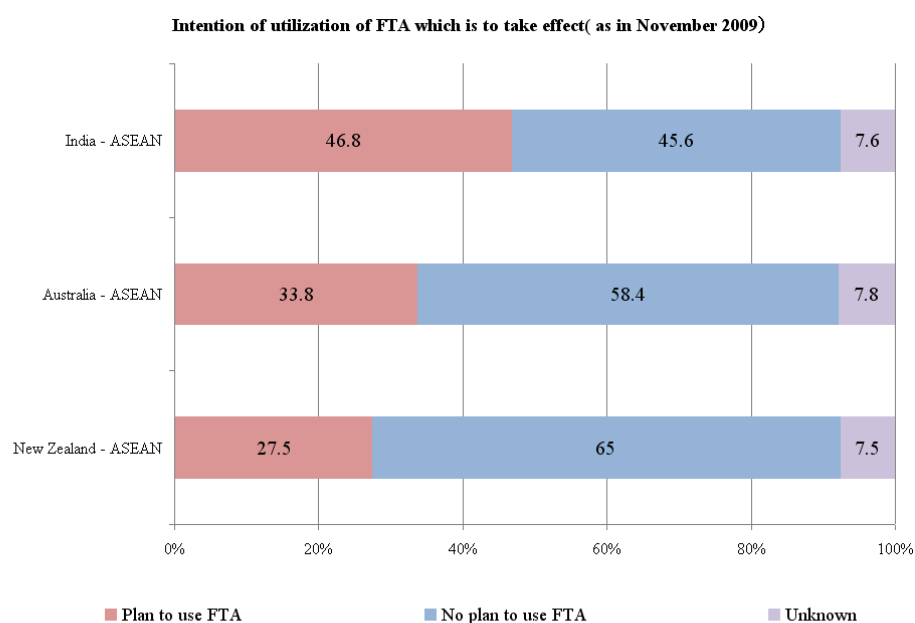
<sup>116</sup> This survey includes the companies who are not in the trading, as a denominator when calculated. Therefore it has a tendency to show the utilization entirely lower than the Japan Economic Foundation's calculation.

companies' third-country EPA / FTA usage. The most used policy, ASEAN Free Trade Area FTA (AFTA) is used by one third of trading companies; it will exceed 50% if including the companies who are considering it. In addition, India ASEAN-FTA (forecasted be in effect as of November 2009 and to be officially effective in January 2010) has attracted a positive attitude toward its use and nearly half of companies are showing interest. From the perspective of supply chain efficiency of Japanese companies, not only Japan's EPA, but also third-country's FTA is attracting interest (see Figure 3-2-3-13).

**Figure 3-2-3-13 Status of utilization and intension of utilization of three-country -FTA among Japanese companies**



Source: Questionnaires on Japanese company's overseas business development 2009 (JETRO)



Source: Questionnaires on Japanese company's overseas business development 2009 (JETRO)

Japanese companies' high interest for EPA / FTA is indicated in ADB's survey results<sup>117</sup>. According to this, already in Japan, companies that take advantage of EPA / FTA are 29.0 percent, which is higher than Singapore (17.3%), Korea (20.8 percent), Thailand (24.9%) and the Philippines (20.0 percent). Including the companies that plan to use it reaches 47.4%<sup>118</sup>. On the other hand, looking at the EPA usage by Japanese companies abroad, in research JETRO conducted (January 2010)<sup>119</sup>, 41% of Japanese companies in Mexico and 70% of Japanese companies in Chile responded that they utilize EPA with Japan. Japanese companies in Mexico handle electrical machinery, appliances and electronic components with a high proportion of imports from countries other than Japan. China and Southeast Asia, Japan-Mexico EPA may possibly have a low utilization rate. According to the survey results, of Japanese companies' 72.8 percent utilize NAFTA. For Japan-Chile EPA, it has a long history after the agreement was signed, not much less than NAFTA and is praised by many companies. The system has penetrated deep in to Japanese companies. In a similar survey<sup>120</sup> conducted by the Japan Chamber of Commerce about local Japanese companies in Thailand the total usage rate is as low as 38% due to the much preferred tax exemption for imported goods. The BOI (Board of Investment), when investigated by industries, has an especially high utilization rate in food and textiles. That is consistent with the contents in ( ii ).

### **(iii-2) Trade amount on the EPA / FTA utilization**

Some countries announce the EPA / FTA usage rate in traded Amount. Regarding exports in Thailand 1. Usage rate for EPA / FTA with the other partner country's total exports, 2. EPA / FTA utilization rate for the total exports of goods have been released. 3. is the rate that was calculated for the products with a MFN tax rate lower than the EPA / FTA tax rate in the partner country (goods not needed to use EPA / FTA), it is the more accurate value. The highest usages in 2008 are shown; the bilateral FTA between Thailand and India (approximately 84%), followed by the Thailand and Australia FTA (approximately 83%), and then the Japan and Thailand EPA (approximately 64%)<sup>121</sup>. India's exports to Thailand using FTA mostly include general machinery exports and transportation equipment to Australia, that many Japanese companies use<sup>122</sup>.

### **(b) Agenda for promoting the use of EPA**

As mentioned in (a), Japanese companies have started using EPA actively, especially in areas with a large reduction or elimination of tariff so there are effects in increased trade and change in logistics.

<sup>117</sup> Kawai, Wignaraja (2009), "The Asian "Noodle Bowl": Is it serious for Business?". ADBI Working Paper, No. 136, April 2009. (responses received from Japan (38 companies), Singapore (75), South Korea (120), Thailand (221) and Philippines (155): total 609 companies)

<sup>118</sup> The rates of companies utilizing or planning to utilize the system in Singapore, South Korea, Thailand and Philippines are 28.0%, 54.2%, 45.7% and 40.7% respectively.

<sup>119</sup> JETRO (2010), "10<sup>th</sup> Business survey for Japanese companies who entered into Central and South Americas" (received responses from 292 Japanese companies in 9 Central and South American countries, from July to August 2009)

<sup>120</sup> Trade and Tariff; "Looking back one year after JETEPA (Japan-Thailand Economic Partnership Agreement (EPA)) became effective, 1 (March, 2009)" (Bangkok Chambers of Commerce of Japan received responses from 130 Japanese companies in Thailand in August 2008).

<sup>121</sup> NAFTA which has a long history since the agreement came into effect and also actively utilized by the companies, the subject items' utilization rate is approximately 83%. (Anson, Cadot. (2005), "Rules of Origin in North-South Preferential Trading Arrangements with an Application to NAFTA", Review of International Economics, 13 (3), 501-517)

<sup>122</sup> There are some countries who are calculating the usage rate by aggregating data if the particular trading used FTA as going through the custom when imported. For example, the usage rates of issued FTA 2<sup>nd</sup> year in effect were, 98% for South Korea-Chile FTA, 31.4% for South Korea-Singapore, 41.9% for South Korea EFTA-FTA, and 49.1% for South Korea-ASEAN FTA.

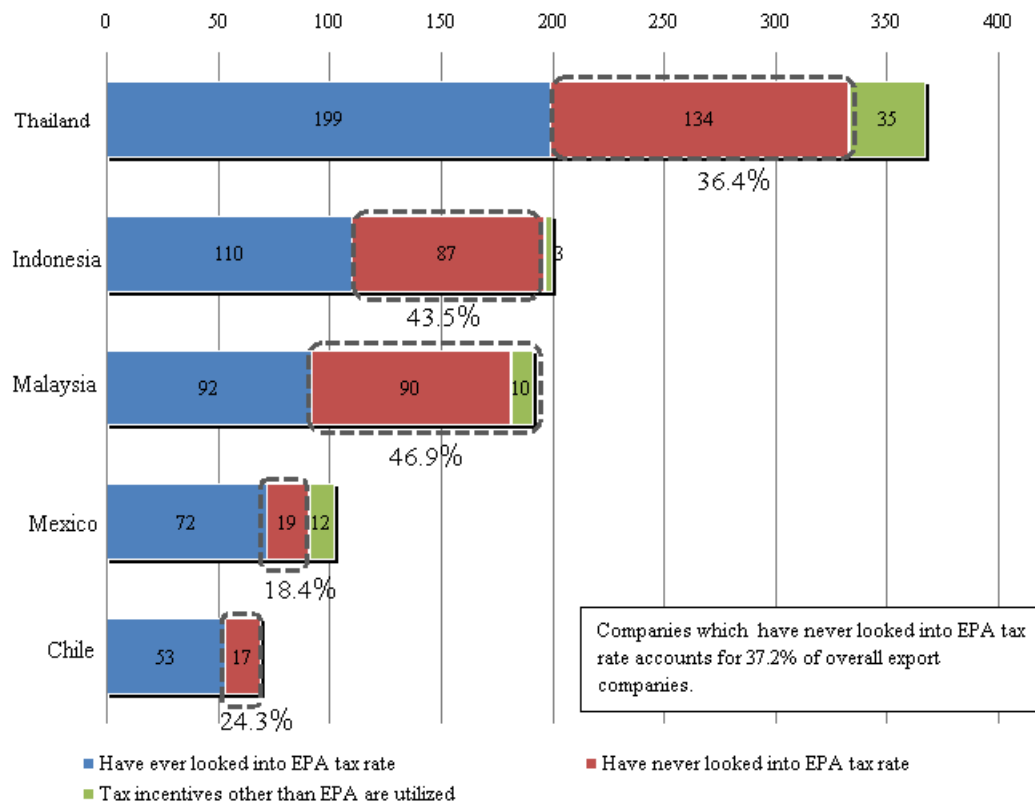
On the other hand, as seen in the figure of 3-2-3-13, despite import and export items that are taxable (possibly EPA may be utilized), companies not using the EPA are still 60% or more of exporters and about 40% of importers. In addition, for Japanese companies doing business in ASEAN countries and the EPA, compared to the EPA in Latin America, the usage is low.

**(i) Increased interests and awareness, efforts on “Businesses who do not know EPA”**

The Japan Economic Foundation researched companies' awareness and interest in EPA, in companies who are importing and exporting taxable goods (companies which can potentially benefit from EPA), the tax rate of EPA was researched. According to this, of the companies trading taxable goods, 32.8% have never researched the EPA tax rate. By comparing exporting companies to importing companies, importing companies who have never researched were 21.3%, and were especially lower in Mexico at 10% and Chile at 5%. On the other hand, exporting companies who have never researched was as high as 37.2%. In particular, about 40% of ASEAN countries have never researched the EPA tax rate so these companies' interest can be perceived as quite low (see Figure 3-2-3-14). The background of the cause which results in this difference, exporters who are responsible for paying the tax can benefit from reduced the tariff. The Ministry of Economy, Trade and Industry conducted a hearing investigation with companies who have used EPA and they started to utilize the system at the request of their local delivery companies, agencies, and trading companies so importers are motivated to use EPA.

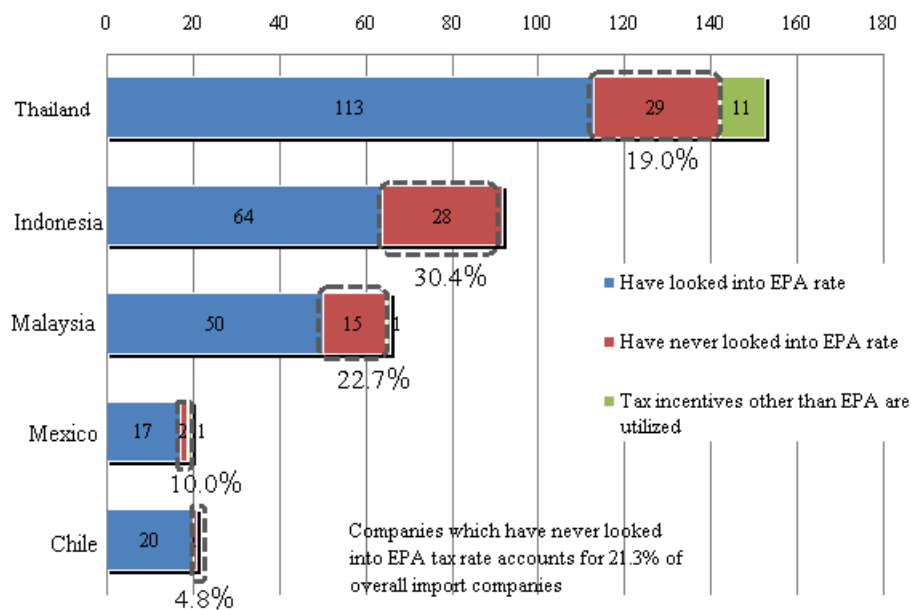
**Figure 3-2-3-14 Companies of taxable commodities which have looked into EPA tax rate and those not.**

### Export companies



Sources: Research report on the effectiveness of EPA that Japan signed and related issues (International economic association)

### Import companies



Source: Research report on the effectiveness of EPA that Japan signed and related issues (International economic association)



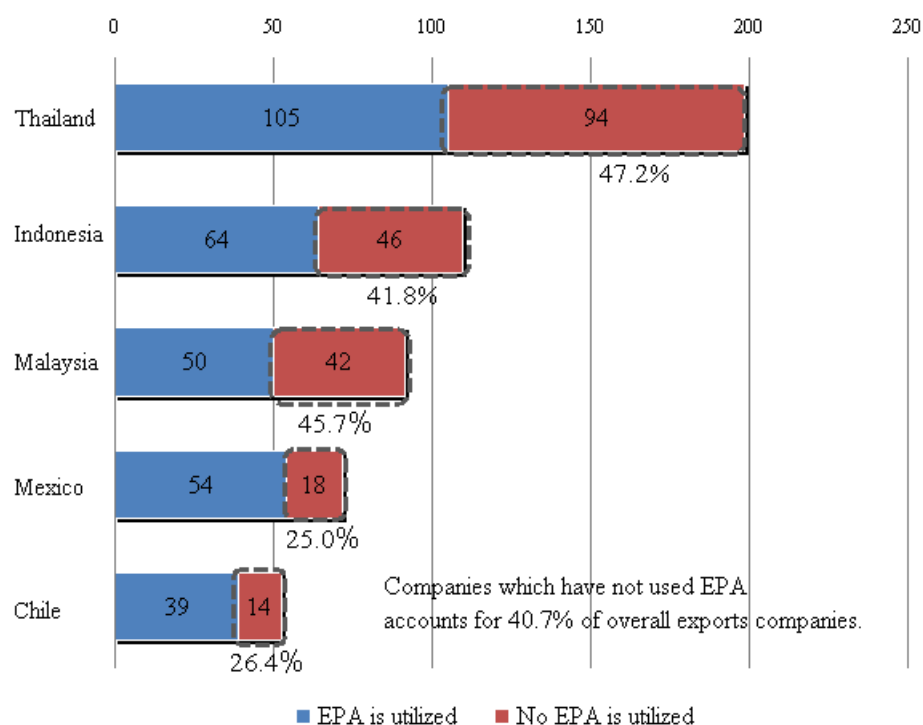
However, initially for export companies incorporating the EPA into a company's corporate strategy, improves the supply chain's efficiency and expands its own business opportunities (which could also be the selling point for the delivery companies). Therefore, exporting companies who currently have no interest in EPA, must not only have a deep awareness but have to recognize EPA as one of the management's decision tools. Therefore, ideas to advertise as one element of the corporate strategy with other management systems and information when planning to outreach in the future, may be sought. Moreover, given a message such as this, through financial institutions, consulting companies, and organizations that play the role of management advisors in day to day business to the companies, may also be effective for the outreach. It is also necessary to heighten awareness of EPA with the country who is importing.

In addition, with some exporters, working level associates know EPA exists, yet the cost of certain procedures to obtain Certificate of Origin may be creating a situation to make the decision to utilize EPA difficult. For those companies, promoting top-down decision making is important to let the benefit be known by the management of the company.

**(ii) Improving the ease of EPA use, efforts for "Companies who knows EPA"**

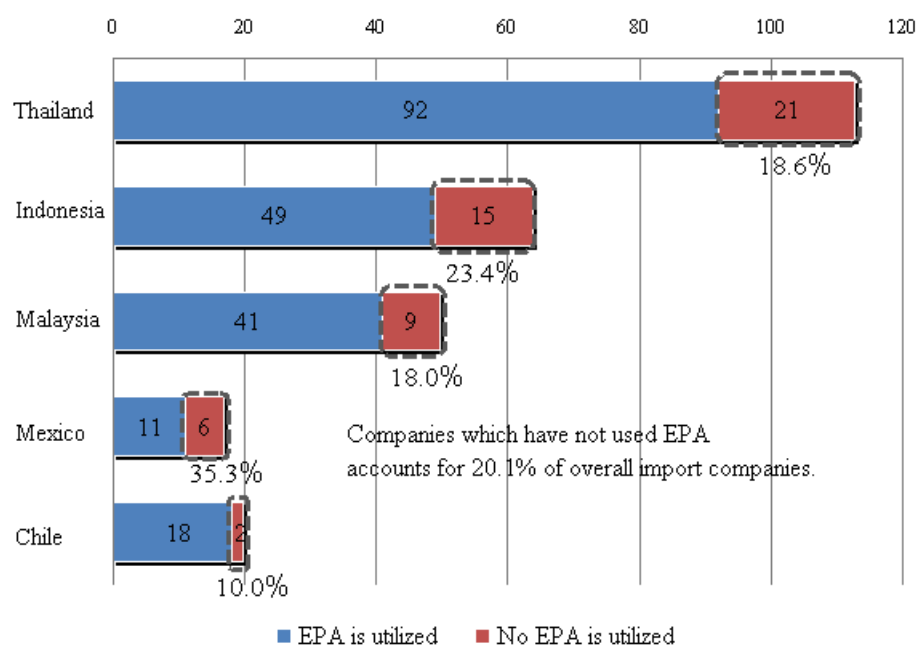
According to the Japan Economic Foundation's research, companies who researched the EPA tax rate, yet practically do not use EPA are 40.7% of exporting companies and 20.1% of importing companies (see Figure 3-2-3-15). These companies already knew about EPA, but something is preventing them from its use. Therefore, to remove those elements preventing its use is necessary for the promotion of the use of EPA.

**Figure 3-2-3-15 Status of EPA utilization among companies which have ever looked into EPA tax ratio**



Source: Research report on the effectiveness of EPA that Japan signed and related issues (International economic association)

#### Import companies



Source : Research report on the effectiveness of EPA that Japan signed and related issues (International economic association)

The most common reason given for not using EPA is the “high cost of use” (see Figure 3-2-3-16). The Ministry of Economy, Trade and Industry conducted each hearing investigation with companies

who have used EPA. Importing companies noted the cumbersome process of obtaining Certificate of Origin and exporting companies noted difficulties finding out EPA partner country's information (the system issuing the Certificate of Origin) These are possible specific issues to be considered when considering EPA's usage cost. In an effort to resolve the former issue, The Ministry of Economy, Trade and Industry in FY 2009, published the guideline (for all industries and for the textile industry) regarding the compliance of a Certificate of Origin and its regulations<sup>123</sup>. This guideline instructs the necessary verification method to prove the origin of exported products and to prepare documents for exported products through clarifying key points of the proof of origin process and a company's compliance cost, summarized to emphasize a better understanding of a company obtaining Certificate of Origin. From now on, promoting this guideline's usage as well as considering creating a new guideline which describes more of the products with special rules, it is necessary to make efforts on reducing the cost of acquiring a Certificate of Origin through efforts made to simplifying the Certificate of Origin system (incorporating a self-certifying system) during the renewal discussion. On the other hand, to get information on EPA partner countries, JETRO in cooperation with the EPA partner country's government can request to be provided with the local information.

**Table 3-2-1-16 Reasons why a company does not use EPA**

	Responded by companies which do not use EPA(N=1074)			
			Companies which have ever looked into EPA ratio, but haven't utilized EPA yet. (N=448)	
High usage cost	347	32.3%	190	42.4%
Small merit is derived from its utilization	323	30.1%	137	30.6%
Do not know how to go about	259	24.1%	39	8.7%
Others	145	13.5%	82	18.3%

Note: Companies which do not utilize EPA were posed questions on the reasons. Multiple replies. N means the number of replies

Sources: The ministry of Industry, Trade and Economy recompiled reply items based on *Research report on the effectiveness of EPA that Japan signed and related issues* (International economic association)

Other issues preventing companies from EPA usage are listed as “Merit of use is insignificant” and “Not understanding the usage”. The measure for the first is to make efforts to further achieve tax reductions during the negotiation and it is demanded to expand the merit of tariffs using EPA even if the negotiation is new. Regarding the latter issue, EPA is required to provide detailed information of how to use EPA which is easily understood and so efforts for straightforward information dissemination through web sites and other briefings from the perspective of users, need to respond individual company's counseling needs sincerely and quickly.

<sup>123</sup> Guideline is posted in Home Page of Ministry of Economy, Trade and Industry;  
[http://www.meti.go.jp/policy/trade\\_policy/epa/index.html](http://www.meti.go.jp/policy/trade_policy/epa/index.html)

## **(2) Arrangements of market environment through Investment Agreements, and the development of International Standards and such Institutional Arrangements**

The Globalization of Asian and other Japanese companies and cross-border investment and trade is important to improve the business environment-related activities in other countries. Development of the business environment means to improve various business problems many companies are facing, such as institutional investment, development of industrial infrastructure, simplification and facilitation of administrative procedures and the protection of intellectual property rights. Economic Partnership Agreements in Japan (EPA) provide an opportunity to talk about such development of the business environment in the private and government sectors jointly, not only relying on the EPA for resolving problems. It is effective to promote international standards and agreements between the two countries. Regarding bilateral agreements in particular, investment agreements and the effective treatment for the investment property portfolio, the tax treaty effective for adjusting double taxation, valid social security agreements concerning issues on social security for exchange personnel with cross-border double burden are addressed here: 1 the bilateral investment treaty, 2 treaty, 3 social security agreements, 4 the promotion of strategic international standardization, its role and an overview of its current state, and the importance of the development environment for promoting expansion for overseas is discussed.

### **(A) Bilateral investment treaty**

#### **(a) Japan in direct foreign investment trends**

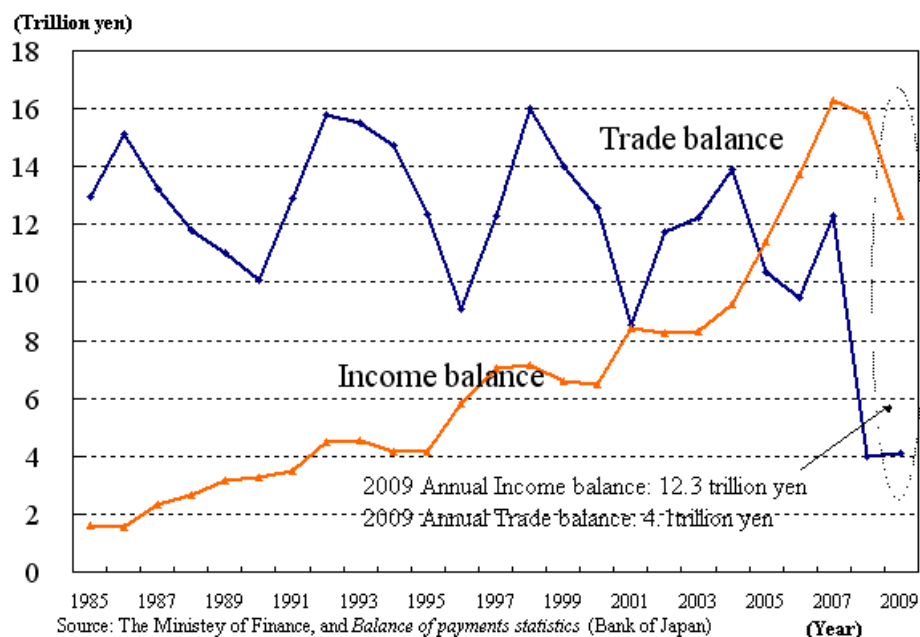
Since the 1980s, world FDI has expanded rapidly and has played a major role in leading the world's economic growth as well as trade. According to the investment report created by UNCTAD ( the United Nations Conference on Trade and Development) in the 2009 World Investment Report, the direct overseas investment balance ratio to GDP was; 8.5% for direct foreign investment and 9.1% for direct domestic investment in 1990, whereas they were 26.9% and 24.5% respectively in 2008.

Looking at Japan's international balance sheet of payments since the late 1980s, it began to regularly gain a surplus and has gradually expanded its investment overseas. In recent years, the receipt of income generated from foreign investments has increased. In 2009 the foreign investment income balance was 12.3 trillion yen, which greatly exceeded the trade balance of 4.0 billion yen. Foreign investment income has exceeded the trade balance for the fifth consecutive year (see Figure 3-2-3-17). In 2009, receipt of direct investment income remarkably remained at 4 trillion and 2,806 billion yen (preliminary figures).

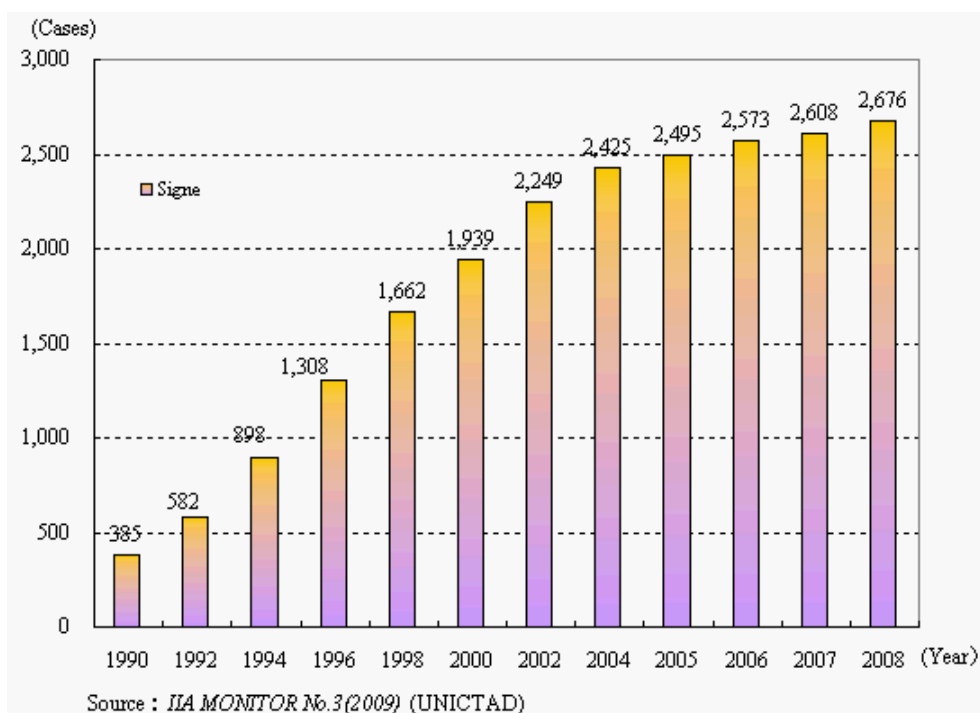
#### **(b) World bilateral Investment Agreements**

Based on the expansion of FDI, from the late 1950's, countries have concluded the bilateral investment treaty, in order to protect their own country's investors and their property portfolio against risk of discriminatory treatment and expropriation (including state ownership) in the country under its investment.

**Figure 3-2-3-17 Trends in Japan's trade balance and income balance**



**Figure 3-2-3-18 Trends in the number of bilateral investment agreement**



In the world, the investment cooperation between two countries in recent years has increased dramatically, and has now reached 2,676 cases in 2008 (see Figure 3-2-3-18). Looking at the situation in countries such as Germany, China, Britain, and Canada each with bilateral investment agreements

with around 100 countries, Japan, when compared, remained in 24 cases<sup>124</sup> including the Economic Partnership Agreement (see Figure 3-2-3-19).

In addition, with investment agreements, the Investor (company) has often arranged for dispute settlement procedures of the investment that are not advantageous if such an investment agreement is not signed. Including dispute settlement procedures, it is not easy for the investor (company) to get a legal basis for resort investments to the arbitration institution. According to UNCTAD, the number of investor arbitration state/ investment international investment agreements (the number of cases referred to arbitration institutions) was limited to a total of 14<sup>125</sup> from the first case in 1987<sup>126</sup> until 1998. However, that number has increased rapidly since the late 1990s<sup>127</sup> and now totals 318 as of December 2008. There is only one successful investment company story in the arbitration system<sup>128</sup> with foreign subsidiaries.

#### **Table 3-2-3-19 Status of Japan's bilateral investment agreements**

---

<sup>124</sup> As of May 2010.

<sup>125</sup> Asian Agricultural Products Limited's case against Sri Lankan government (ICSID Case No. ARB/87/3).

<sup>126</sup> UNCTAD (2005), "INVESTOR-STATE DISPUTES ARISING FROM INVESTMENT TREATIES : A REVIEW".

<sup>127</sup> The interest in the investment arbitration was said to be heightened as Ethyl Case in 1996 at NAFTA, (U.S. company suing Canadian government for "Expropriation" of NAFTA environmental regulation. Canadian government settled with U.S. company for monetary compensation).

<sup>128</sup> In 1998, in London, a subsidiary of Japan's securities firm has acquired banks in the Czech Republic through the "paper company" in Netherlands, regarding to the measures taken by the Czech government under bilateral investment treaty between Netherlands and the Czech Republic, the case was referred to the arbitration by the United Nation's Commerce Commission (UNCITRAL) Arbitration Rules.

Partner (Country and region)	Signed	Took effect
Egypt	28-Jan-1977	14-Jan-1978
Sri Lanka	1-Mar-1982	7-Aug-1982
China	2-Aug-1988	14-May-1989
Turkey	12-Feb-1992	12-Mar-1993
Hong Kong	15-May-1997	18-Jun-1997
Pakistan	10-Mar-1998	29-May-2002
Bangladesh	10-Nov-1998	25-Aug-1999
Russia	13-Nov-1998	27-May-2000
Mongolia	15-Feb-2001	24-Mar-2002
Singapore (Economic Partnership Agreement)	13-Jan-2002	30-Nov-2002
South Korea	22-Mar-2002	1-Jan-2003
Vietnam	14-Nov-2003	19-Dec-2004
Mexico (Economic Partnership Agreement)	14-Sep-2004	17-Sep-2005
Malaysia (Economic Partnership Agreement)	13-Dec-2005	13-Jul-2006
Philippines (Economic Partnership Agreement)	9-Sep-2006	11-Dec-2008
Chile (Economic Partnership Agreement)	27-Mar-2007	3-Sep-2007
Thailand (Economic Partnership Agreement)	3-Apr-2007	1-Nov-2007
Cambodia	14-Jun-2007	31-Jul-2008
Brunei (Economic Partnership Agreement)	18-Jun-2007	31-Jul-2008
Indonesia (Economic Partnership Agreement)	20-Aug-2007	1-Jul-2008
Laos	16-Jan-2008	3-Aug-2008
Uzbekistan	15-Aug-2008	24-Sep-2009
Peru	21-Nov-2008	10-Dec-2009
Vietnam (Economic Partnership Agreement) ※	25-Dec-2008	1-Oct-2009
Switzerland (Economic Partnership Agreement)	19-Feb-2009	1-Sep-2009

\* Japan-Vietnam investment agreement which took effect on 19 December 2004 is incorporated in it

Source: Ministry of Foreign Affairs Web site.

### (c) Investment agreements as a tool to promote and facilitate investment protection

Bilateral Investment Treaty, traditionally, is positioned as an “Investment Protection Agreement”, for expropriation of property investment in the investment host country. It protects investors from the risk of arbitrary laws in that country favoring nationals and most-favored treatment, expropriation requirements, the form and amount of compensation, unrestricted transfer of funds, dispute settlement between parties, disputes between investors and host investment country. In the 1990's, a new investment agreement was introduced covering investment property protection, national treatment and the most-favored treatment of investment establishment phase, the prohibition of performance requirements<sup>129</sup>, banning tightened foreign currency regulations and progressive liberalization efforts responsibility. It was a new type of ("freedom of investment protection agreement") investment agreement that includes securing the transparency (publication of laws and regulations, and duty to

<sup>129</sup> For example, the special requirement as a condition of investment imposed are to satisfy certain level of local material (local contents) ratio, or to export certain ratio of manufactured products.

answer inquiries from other countries) (see Figure 3-2-3-20)<sup>130</sup>.

**Table 3-2-3-20 Merits of concluding Investment agreements**

<b>1. Property protection and fair treatment for investors and investment</b>
1) Once a business license was granted, it can not be revoked later.
2) The business assets won't be expropriated nor nationalized
3) It prevents a situation from occurring where reinforcement of regulations makes business unable to continue ("indirect expropriation").
4) Investment agreement/concession agreement which concluded with the counterparty government will be complied(umbrella clause).
5) Freedom of remittance to Japan is ensured.
<b>2. It prohibits discriminatory treatment between companies other than companies of local capital (Foreign companies).- Most favored nation(MFN)</b>
<b>3. Prohibit discriminatory treatment between companies of local capital (national treatment (NT))</b>
<b>4. Obligation of providing fair and equitable treatment(FET) to investors and properties invested.</b>
<b>5. Some agreements prohibit from imposing investment permit requirements as follows. (Performance Requirement (PR))</b>
1)Demand to export a certain percentage and standard of goods and services
2)Demand to achieve a certain percentage and standard of local procurement
3)Demand to prioritize purchase and utilization of local goods and services
4)Demand to relate import volume and value with export volume and value or foreign currency earnings.
5) Demand to relate domestic sales volume/value of goods manufactured and services with export volume/value or foreign currency earnings.
6) Demand to limit exports or sales for the purpose to export
7) Demand directors /managements to be of a certain nationality
8) Demand local capital partners to transfer technologies
9) Demand a headquarter (management hub which covers a certain region) to be placed in the local country.
10)Demand to employ a certain percentage/number of local people
11)Demand to appropriate a certain amount of R&D budget in the local country.
12)Demand to supply products exclusively in a certain region(Do not let other supply hub be established in other countries.)

\* In the event where a counterparty country violated the above, the investor can appeal to international arbitration against the country in question.

Source : The Ministry of Industry, Trade and Economy

**Table 3-2-3-21 Countries which Japan concluded Tax Treaty with**

List of Japan's tax treaty partners		(47 agreements, 58 countries/as in April 2010)			
〈East • South East Asia〉	〈Middle East〉	〈East Europe • Central Asia〉		〈Europe〉	
Indonesia	Israel	Azerbaijan	Russia	Ireland	Denmark
Korea	Egypt	Moldova	Armenia	England	Germany
Malaysia	Turkey	Ukraine	Slovakia	Italy	Norway
Singapore		Kyrgyzstan	Czech Republic	Austria	Finland
Thailand	〈Africa〉	Georgia	Hungary	Netherlands	France
China	Zambia	Tajikistan	Bulgaria	Switzerland	Belgium
Philippines	South Africa	Turkmenistan	Poland	Sweden	Luxembourg
Vietnam		Belarus	Romania	Spain	
Brunei	〈North America〉	Uzbekistan	Kazakhstan		
	America				
〈South Asia〉	Canada				
India	〈Central/South America〉	〈Oceania〉			
Sri Lanka		Australia			
Pakistan	Brazil	New Zealand			
Bangladesh	Mexico	Fiji			

Source: The Ministry of Finance Homepage

<sup>130</sup> As a typical investment chapter; there is NAFTA, and for Japan for these types are bilateral EPA Investment Chapter as well as Japan-South Korea, Japan-Vietnam, Japan-Cambodia, Japan-Laos, Japan-Uzbekistan and Japan-Peru Investment Agreements.



#### **(d) Investment Agreement Policy initiatives**

The reasons to have Investment Agreements with countries that have Investment Environmental Development are: some established Japanese companies or Japanese companies which are expected to enter foreign countries with low openness and flawed legal aspects (frequently changing law and poor transparency). On the other hand, the investment agreement negotiations necessitate a negotiation cost and the government may be restricted by resources. Therefore, prioritizing needs in candidate countries is important and required to reach a conclusion of the Investment Agreement quickly and flexibly.

As candidates to become partner countries of Investment Agreement frequently change so do laws and regulations. Low transparency countries and countries with unstable Investment Environments must satisfy the following conditions: first, the country that already has certain investment stock and is expected to grow and potentially has an investment environment, second, resource-rich countries with oil and natural gas productions such as Middle Eastern countries and the former Soviet Union, and rare-metal production countries, and lastly, the hub country in the South American region and African region. If the potential partner country is aggressive, a high quality agreement can be achieved with a low negotiation cost for the candidate countries.

In addition to the promotion of investment treaty negotiations, JETRO, NEXI, JICA, JBIC and other organizations' tools are important from the viewpoint of protection of investment and its facilitation<sup>131</sup>. Therefore, in addition to government and private industry organizations consisting of those agencies, the "Foreign Investment Strategy Council," was established in November 2008. Two plenary sessions and six coordination meetings were held, discussing investment agreement negotiating with candidate countries and the effective use of related tools.

#### **(B) Tax treaty**

##### **(a) The role of the treaty and a current overview**

The tax treaty determines the scope of taxable income for bilateral investment and economic activities, adjusting the double taxation situation in the international environment. In addition, the conclusion on mutual agreement, a legal framework is built to exchange information on a mutual agreement between the taxpayer and the government and will contribute to the prevention of tax avoidance and tax evasion related to conflict resolution. It is expected that these measures to ensure legal stability for the taxation of overseas companies will further promote sound economic exchange investment.

Japan currently has 47 tax treaties that applied to 58 countries (see Figure 3-2-3-21).

##### **(b) Recent tax treaty conclusion and revision, and concerns**

In recent years, a new agreement with resource-rich Middle Eastern countries was signed and a

---

<sup>131</sup> Nippon Keidanren (Japan Business Federation), issued on April 15, 2008, "Opinion on the state of developing the global investment environment - improvement of legal basis for foreign investment in Japan" and Japan Foreign Trade Council, issued on March 19, 2008, "Agreements to promote investment demand", are as well looking for the immediate improvement of high quality legal basis for the investment. Responding to such business community, these plans to utilize the strategic investment agreement were to be incorporated in to, "Economic and Fiscal Policy Reform 2008" organized on June 27, 2008.

series of revisions of the developed countries were made. It has seen results such as negotiations reaching a basic agreement with the Netherlands in late 2009. Industry demand for conclusion and revision of tax treaties is still strong for other countries. The contents are mainly the reduction of withholding tax rates and the introduction of an arbitration system for investment income (interest, fees and dividend). In particular, the arbitration system improved facilitation and effectiveness of mutual consultation between tax authorities. The introduction of arbitration can prevent long-term mutual discussion, eliminate double taxation and is desired to reduce the risk of taxation for taxpayers as an effective improvement.

**Table 3-2-3-22 History and current status of tax treaties with other countries, with the Japan-US tax treaty to begin with**

(As in April 2010)		
◇ Signature		
November 2003	Japan - U.S. tax treaty	(Enacted 2004)
February 2006	Japan - UK Tax Treaty	(Enacted 2006)
February 2006	Japan - India tax treaty	(Enacted 2006)
December 2006	Japan - Philippine tax treaties	(Enacted 2008)
January 2007	Japan - France tax treaty	(Enacted 2007)
January 2008	Japan - Pakistan Tax Treaty	(Enacted 2008)
January 2008	Japan - Australia Tax Treaty	(Enacted 2008)
December 2008	Japan - Kazakhstan Tax Treaty	(Enacted 2009)
January 2009	Japan - Brunei Tax Agreement	(Enacted 2009)
January 2010	Japan - Luxembourg Tax Treaty	(Yet effective)
January 2010	Japan - Belgium tax treaty	(Yet effective)
February 2010	Japan - Bermuda tax agreement	(Yet effective)
February 2010	Japan - Singapore tax agreement	(Yet effective)
February 2010	Japan - Malaysia tax treaty	(Yet effective)
February 2010	Japan - Kuwait treaty	(Yet effective)
◇ Basic agreement		
June 2009	Japan - Saudi Arabia tax treaty	[New]
June 2009	Japan - Switzerland tax treaty	[Amended]
December 2009	Japan - Netherlands tax treaty	[Amended]
March 2010	Japan Hong Kong tax treaty	[New]
◇ Under negotiation officially at present		
	United Arab Emirates	[New]

Source: The Ministry of Finance Homepage

In general, emerging countries maintain tax revenue, being passive in withholding tax cuts for investment income. In the future, it is important for emerging countries to respond effectively to negotiate the revision of existing tax treaties with Japan (see Figure 3-2-3-22).

## **(C) Social Security agreement**

### **(a) Role of the agreement and recent signed status**

With the expansion of our overseas business and increasingly active international human exchange, Japanese nationals will be sent to foreign countries and overseas personnel will be sent to and Japan. Potential problems are: 1 The public pension system leads to double payments, 2 premiums paid in other countries may not refunded, if a certain number of years of eligibility requirements to join cannot be met. Social security agreements are to help avoid such problems by eliminating the burden of double payments by companies paying large premiums and are aimed at enhancing the competitiveness of Japanese companies by contributing to promote inward FDI by foreign companies.

So far, the social security agreement to achieve premium refunds and to avoid duplicate payments

has established the following two major contents.

**(i) Application adjustment**

If the prospective period does not exceed five years worked in foreign countries, during this period, it will be exempted from the application of laws of other countries and its own country's laws apply. Only if the duration is expected to exceed five years, the laws of other countries apply.

**(ii) Total insurance period**

The total time earned in two countries satisfies the required minimum length from the country of residence and each will receive a pension according to that country's pension appropriate for the total length of time.

The social security system will be different from country to country so, the contents and scope of bilateral agreements will be different. In the case of transferring associates between countries, bilateral agreements and the domestic system of the country of transfer must be thoroughly reviewed.

Japan's first social security agreement was entered into with Germany in 2000 and there are now social security agreements in force in 10 countries and signed with 3 countries as of May 2010,. Currently, preliminary talks between authorities and the sequential bilateral negotiations have begun (see Figure 3-2-3-23). Also in 2007, national were organized so that Japan is to facilitate the implementation of the social security agreement<sup>132</sup>.

---

<sup>132</sup> Establishment of "Law regarding Special Act on Pension Insurance Act on the implementation of Social Security Agreement. It is no longer necessary to establish national legislation that traditionally enacted for each separate pact because of the well-appointed environment which allows to concurrently negotiate or consult in order to conclude agreements with other countries. Ministry of Health, Labour and Welfare's home page: "Policy Report: promoting social security agreements" <http://www.mhlw.go.jp/seisaku/10.html>

**Table 3-2-3-23 Conclusion of Japan's social security agreements**

Agreement that already took effect					
Counterparty	Date effective	Social security system with the risk of double payment		Calculation of total period of insurance	
		Japan	Counterparty country		
Germany	1st Feb. 2000	•Public pension system	•Public pension system	Yes	
United Kingdom	1st Feb. 2001			No	
South Korea	1st April 2005			No	
United States	1st Oct. 2005	•Public pension system •Public medical insurance system	•Social Security system (Public Pension system) - Public health insurance system (Medicare)	Yes	
Belgium	1st Jan. 2007		•Public pension system •Public health care system •Public labor insurance system •Public employment insurance	Yes	
France	1st June 2007		•Public pension system •Public medical insurance system •Public labor insurance system	Yes	
Canada	1st March 2008		•Public pension system	•Public pension system (Except Quebec pension system)	Yes
Australia	1st Jan. 2009	•Public pension system •Public medical insurance	•Retirement pension security system	Yes	
Netherlands	1st March 2009		•Public pension system	•Public pension system	Yes
Czech Republic	1st June 2009		•Public medical insurance	•Public medical insurance system •Employment insurance system	Yes
Agreement that already effect					
Counterparty (Date signed)		Spain (Nov. 2008), Italy (Feb. 2009), Ireland (Oct., 2009)			
Under bilateral negotiation					
Counterparty (Date initiated)		Switzerland (July 2009), Hungary (Nov. 2009), Brazil (Jan.2010)			
Preliminary negotiation between relevant authority					
Counterparty (Date initiated)		Sweden (March 2008), Luxembourg (April, 2009)			

Source: Ministry of Health, Labor and Welfare Homepage as in 1st May, 2010.

Selection of partners in social security agreements consider the following: “1 the size of burden for social insurance premiums of social security systems in other countries, 2 Japanese residents in foreign countries and the status of Japanese companies established in other countries, 3 Specific amounts requested from the business community, 4 bilateral relations, 5 comprehensive consideration of differences in the social security systems of other countries and Japan. In the past, there were large amounts caused by duplicate payments of social security expenses as Western developed countries with mature social security systems.

### (b) Expectations from industry to Social Security agreement

Expressed hope from industry to the social security agreement from the Japanese Business Federation, Japan Overseas Enterprises Association, and Japan Foreign Trade Council raised and called<sup>133</sup> for the early conclusion of the United States and other countries that were not signed as of September 2002. A submission followed with an agreement that called<sup>134</sup> for developed countries, mainly in Europe, based on the estimated amount of double payment of social insurance in other

<sup>133</sup> Nippon Keidanren (Japan Business Federation), Japan Overseas Enterprises Association (JOEA), Japan Foreign Trade Council, “Seek early conclusion of a social security agreement” (September 17, 2002), <http://www.keidanren.or.jp/japanese/policy/2002/055.html>

<sup>134</sup> Nippon Keidanren (Japan Business Federation), Japan Overseas Enterprises Association (JOEA), Japan Foreign Trade Council, “Seeking further promotion of signing social security agreements” (October 17, 2006), <http://www.keidanren.or.jp/japanese/policy/2006/069.html>

countries in October 2006. Since then, as part of feedback<sup>135</sup> seeking investment climates overseas in 2008, and called<sup>136</sup> for the start of negotiations for a Japan-EU Economic Integration Agreement 2009 Reference was made to the tax treaty with the social security agreement. Based on feedback from industry, in order to accelerate further agreements, aiming to improve the national legislation to cope with any countries' agreement, the "Law for the Implementation of the Social Security Agreement with Welfare and Pension Insurance, and other special examples" was enacted in 2007, starting an agreement signing or negotiations as an order of national priority.

Along with expansion of Asian and other emerging countries' markets, there is expected to be an increase in further expansion into these areas. In increasingly competitive emerging countries' markets, Japan should not to suffer the disadvantage in our businesses competitiveness so the need for a regional agreement with these regions will progress as the emerging national social security system develops.

#### **(D) Strategic promotion of international standards**

##### **(a) Major international standardizing organization and Japan's international standardizing organizations**

Leading international standards organizations are developing international standards. These are the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC), and International Telecommunication Union (ITU) 3 (Table 1). ISO and IEC are non-governmental organizations. When voting on international standards decisions, one vote is allowed to each country and one organization is allowed for each nation. The scene of the vote, through the European Cooperation in the development of European standards, as often cooperative, and there are many aspects that reflect the intentions of the EU. From Japan, as a representative organization, the Japan Industrial Standards Committee, under the Industrial Standardization Law Council (JISC), has joined ISO / IEC for each core area of international standards-setting discussions in TC (Technical Committee) and SC (Specialist Committee). In the actual meeting, the conferences and industry associations, national institutions, related companies and research institutions have joined under the name JISC and have participated.

##### **(b) Increasing importance of international standards**

Accelerating the globalization of markets, the WTO / TBT Agreement in 1995, an agreement on Government Procurement came into force in 1996. China's WTO<sup>137</sup> accession in 2001, and even with advances in science and technology; modular, digital, and network<sup>138</sup> due to the progress of the

<sup>135</sup> Nippon Keidanren (Japan Business Foundation), "Opinion on the state of developing the global investment environment - improvement of legal basis for foreign investment in Japan" (April 15, 2008) <http://www.keidanren.or.jp/japanese/policy/2008/017/honbun.html#part2>

<sup>136</sup> Nippon Keidanren (Japan Business Foundation), "Seeking the economic integration agreement negotiation between Japan and EU – third phase proposal regarding Japan-EU EPA" (November 17, 2009) <http://www.keidanren.or.jp/japanese/policy/2009/099.html>

<sup>137</sup> When WTO member states create the forced regulation, conformity assessment procedure and procurement standard, they are required to fundamentally base on International Regulations (such as ISO and IEC, etc.)

<sup>138</sup> As the products and technologies becoming more advanced and complex, it is getting further difficult to cover all the skills needed for the products on their own, encouraging to convert from the Business Model that surrounds multiple types through achieving consensus, to Business Model that is open and specialized types, the standard regulating the interface has the increased importance to the combining parts. Also the Digitalizing facilitates further combination of components and greater modularity and the progress of network that

importance of international standards as means to acquire and maintain a dominant position in the product. It is increasingly becoming important to have International Standards for obtaining and maintaining an advantageous position while expanding into the international market. In addition to Europe, USA, and China, Japan is actively promoting the International Standard.

**(c) The importance of strategic international standardization**

Standardization is the rule making process to draw a line between competitive areas and corporation areas. There will be merits of expanding and creating markets as in “Who controls the Standard is who dominates the market”. On the other hand, if the wrong line is drawn, there will be demerits that the market will not select the products even if they came in with outstanding technologies. When the method of standardization is used, strategies in business and intellectual property must be taken into account and the analysis of who the players are and the trend in the entire market and their own strengths and weaknesses. It is important to be ahead of the situation strategically and actively leading other countries by making suggestions when a standard needs to be made or blocking if an inconvenient standard may be created.

**(d) Japan responding to international standards so far**

The Ministry of Economy, Trade and Industry, in order to achieve the strategic international standardization target is reflecting Japan’s opinion into the ISO / IEC international standardizing process based on the international standardization action plan that JISC has created to promote actively responding to international standardization with the following efforts.

**(i) Responding to upper level meetings in ISO / IEC**

In ISO, Japan become a permanent member nation in the Technical Management Board<sup>139</sup> (TMB) and continues to be a TMB member country without election process although the term will expire in 2010. Therefore, Japan can express its opinions regarding international standardization. In addition, one of Japanese members has taken a vice president position this year, 2010 to 2011, and six Japanese members have been appointed to upper members posts improving the presence of Japan owing to its contribution of human resources.

**(ii) Cooperation with other countries with the aim of fostering international cooperation in international standardization activities**

As a multilateral cooperation, currently from 2008 to 2010, JISC has undertaken the Secretariat position, hosting the PASC (Pacific Area Standards Congress: Pacific Area Standards Meetings with currently 25 member countries and regions participating) that was established for strengthening cooperation and promoting the participation of ISO / IEC activities among the organization of Asia

---

interconnects products and services in different fields such as information appliances, and increasingly raising the importance of standardization for a rule in order to get “connected”.

<sup>139</sup> The TMB plays an important role in the international standardization process; authorized in ISO appointment of the secretariat of committee and establishment of technical committees.

Pacific region's standardization. The Northeast Asian (CJK) Standard Cooperation Forum exchanges opinions of each fields' cooperation in ISO / IEC and other standardization activities with participants of CJK's standardization organization and regulatory associations.

Cooperation between two countries are as follows; the United States (NIST: National Institute of Standards and Technology), EU (European Commission Directorate General Company, CEN (European Committee for Standardization), CENLEC (European Electrical Standards Committee)), South Korea, (KATS: Korean Agency for Technology and Standards), China (SAC: Commission of the Chinese national standard), ASEAN (ACCAQ-METI) and regular consultations have been conducted. They are aimed to build cooperation by exchanging views in the fields of mutual interest areas every year. With respect to Europe, there are regular consultations between the governments of the European Commission (EU standards and certification working group) , Regarding relations with the United States, in addition to regular consultations with the Ministry of Economy, Trade and Industry and the National Institute of Standards and Technology (NIST), the National Institute of Advanced Science and Technologies (ANST) and NIST concluded the MOU (Memorandum of Understanding) in May, 2009 to implement standards in the areas of energy and the environment, nanotechnology, and biotechnology.

The number of proposals to ISO / IEC, has increased from the first three years (2001 to 2003) with an average of 63 to 102 for the next three year average (2006 to 2009). The number of acceptances as ISO / IEC secretariat also increased from 63 in 2006 to 74 in 2009 (see Figure 3-2-3-24, 3-2-3-25).

**(e) The promotion of international standards to apply these strategic strengths of our industry (policy initiatives in the future.)**

The government, in the Intellectual Property Strategic Program 2010, notes that with global growth expected and Japanese industry having superior technology, selected and concentrated "designated strategic fields of international standard" were presented to promote international standardization leading to strengthen international competitiveness. Specifically, the selected strategic areas were chosen to quickly create a strategy to improve competitiveness including the international standardization roadmap and a plan to implement it.

Prior to this, the Ministry of Economy, Trade and Industry on January 28<sup>th</sup>, 2010, made an announcement "For the international standardization regarding next generation energy system". As part of promoting environmental improvement of Japanese companies expanded to overseas markets, a roadmap was put together as international standardization for a so-called smart grid<sup>140</sup>.

A "New Growth Strategy (Policy)", was also approved by the Cabinet in late 2009. Japanese technical standards pertaining to the environmental field and product safety field carried out international standards in Asia with cooperation. There was expanding growth in Asian countries with "safety and security", that was indicated in a plan to improve Japanese companies' business environment. Based on this, the Ministry of Economy, Trade and Industry in April 2010 compiled the

---

<sup>140</sup> <http://www.meti.go.jp/press/20100128003/20100128003.html>



"Asia Pacific Industrial Technologies International Standardization Program" and promoted collaboration with other Asian countries.

### **(3) WTO efforts (protectionist responses to post-crisis movement, promoting the Doha Round)**

Since the global economic crisis triggered by the shock of Lehman in September 2008, the political pressure seeking to introduce protectionist measures that would help domestic industries and assure employment, were heightened in each country<sup>141</sup>. When countries have run into domestic protectionism under such pressure it leads to a chain of reprisals from other countries following the trend and protectionism spread throughout the world which has a negative impact on global trade and economy. In fact, under the influence of recession, world trade declined 12.2 percent in 2009.

However, on March 26, 2010, the World Trade Organization (WTO) announced that the trade outlook for 2010 has grown by 9.5 percent and reported that the spread of protectionism has appeared as much as was feared from each country's compiled Trade Policy Report ("1. International trade Monitoring Policy "section) on several levels.

This, WTO as the multilateral trading system, to suppress protectionism, indicates that they are working effectively to maintain the free trade system. Member States must continue to maintain and strengthen the system.

**Table 3-2-3-24 Changes in the number of proposals for ISO/IEC global standardization(three years' average)**

	Number of Proposals		Number of Proposals
2001-2003	63	2004-2006	94
2002-2004	71	2005-2007	96
2003-2005	86	2006-2008	102

Sources: The Ministry of Industry, Trade and Economy

---

<sup>141</sup> Refer to METI White Paper 2009, Chapter 2, Section 3

**Table 3-2-3-25 Changes in the number of occasions to act as secretariat**

February 2006

	Germany	USA	England	France	Japan	China
ISO	126	123	100	77	47	9
IEC	25	25	25	25	13	3
Total	151	148	125	102	60	12

↓

January 2010

	Germany	USA	England	France	Japan	China
ISO	129	127	85	75	58	25
IEC	32	23	20	24	15	3
Total	164	151	105	99	73	28

Source: The Ministry of Industry, Trade and Economy

WTO's roles in international economy and trade, are possibly in the three major areas; 1 monitoring national trade policies, 2 the Doha Round negotiations for further trade liberalization, 3 enforcement of existing rules. This was emphasized in Minister Naoshima's speech during the 7<sup>th</sup> WTO ministerial meeting held in Geneva from November 30<sup>th</sup> to December 2<sup>nd</sup> last year (in the block below), look at three roles in summary.

**Minister Naoshima's speech at the 7<sup>th</sup> WTO Ministerial Conference (excerpts) (December 1<sup>st</sup>, 2009)**

(Assessment of WTO activities – 1. surveillance of trade policies)

I believe that the WTO has three major roles.

The first is the monitoring of trade policies. Following the financial and economic crisis of last year, fortunately, the chain of protectionism in the 1930s has not occurred. However, global employment continued a slowdown. Government procurement of domestic products and trade incentives is still often seen as the easy imposition of remedies.

I appreciate that the WTO and its role in monitoring trade measures to deter many countries from protectionist measures and hope that it will continue. Our member countries and observer countries are required to take action ahead of protectionist measures and to correct measures already introduced.

(2. Operating a dispute settlement system)

The second role is the management of the dispute settlement system. Recently, the WTO dispute settlement system has been referred in 400 disputes since its inception in 1995. Initially, the focus was for developed countries to sue. However today, developing nations are actively taking advantage of this system.

Japan has witnessed a number of trade frictions that have been resolved by the power of involved countries. But now, it does not politicize the process of resolving the trade disputes and the norm is to resolve according to the rules the WTO established. I applaud the fact that the WTO has a good reputation by having implemented a mutually agreeable dispute settlement system.

However, member states must respect it, otherwise this system will easily become a mere facade.

We member states, even if against our own interests, are responsible for promptly complying with the recommendation.

### (3. Promotion of round)

For years, member states and the WTO have worked on a third role and have poured energy into the multilateral trade liberalization negotiations by member States. Unfortunately, the Doha Round has not concluded yet. We need to work further towards an early conclusion.

This round is to liberalize trade for all 153 members and brings the benefits of growth and development worldwide. Tariffs, the elimination or reduction of non-tariff barriers, including the liberalization of trade in services, improving market access, strengthening trade rules and further making free trade more robust. In particular, I would like to provide a means of strengthening anti-dumping rules.

The Doha Round negotiations included trade liberalization in environmental goods. Negotiations to facilitate the dissemination of products and technologies to reduce environmental impact are said to be an important element of climate change. I would appeal that trade liberalization is effective especially for energy-efficient products.

### (A) Monitoring national trade policies

Beginning with the multilateral trading system, protectionism was rampant in the 1930s. It was partly a reflection of the national economy blocked by the lead up to the Second World War and was conceived as a bulwark of protectionism<sup>142</sup>. So, one of the important roles the WTO now plays is the monitoring of national trade policies.

The WTO, during the April 2<sup>nd</sup>, 2009, G20 London Summit, as requested by leaders, has continued to monitor and report quarterly trade measures that started around the end of 2008<sup>143</sup>. Dated January 26<sup>th</sup>, 2009, there was a report (a working document only shared with members). Another, dated April 20<sup>th</sup> was a document that was shared with members on March 26<sup>th</sup> and disclosed to the general public upon the approval of the WTO member states after the London Summit. The 3rd report followed on July 15<sup>th</sup>. Also, on September 14<sup>th</sup>, the WTO, OECD, UNCTAD jointly reported the G20 international trade and investment measures.

Held on April 24<sup>th</sup> and 25<sup>th</sup>, G20 was the Pittsburgh Summit. There, G20 leaders reaffirmed the promise of not falling into protectionism and that was also committed in Washington, DC and London. They welcomed the report published on September 14 by the three agencies and requested continued efforts to report quarterly.

Then, the WTO Secretariat, on November 18<sup>th</sup>, published an annual report summarizing the trends of the international trade environment for the year from October 2008 to October 2009. The annual report, in addition to the restrictive trade measures and trade promotion measures introduced by the WTO, member countries and observer countries such as tariff cuts, elimination of such trade remedies,

<sup>142</sup> Refer to METI White Paper 2009, Chapter 2, Section 3

<sup>143</sup> WTO established the Working Group (Task Force) within the Cabinet office in October 14, 2008 to examine the impact of financial crisis, by monitoring and reporting each country's trade policy as part of response to the economic crisis.

the stimulus package and a financial bailout were summarized. The following shows the summary of the conclusions.

(Limited spread of protectionism)

- The impact of trade restrictive measures introduced by countries in the period is estimated at up to 1% of world trade.
- The remarkable conclusion - protectionist measures were not taken. As background, G20 and APEC as seen in a statement, recognized the danger of protectionism, pointing out that it took practical measures (an important exiting strategy).
- A risk in the future is the accumulation of measures that restrict trade as the effects will be amplified and vested interests of economic benefits from support measures will be difficult to undo
- Member states should shows an exit strategy for trade restriction measures and a subsidy policy, certainly as soon as economic recovery demands its implementation

(The challenge of preventing protectionism)

- Challenges to the current rule on preventing protectionism are noted as:

1. government procurement 2. subsidies 3. room to raise tariff

(Round agreement reduced the scope for measures of protectionism)

- Stressed the fact that the above 3. be reduced immediately by the conclusion of the Doha Round.

At the 7<sup>th</sup> WTO Ministerial Conference held immediately after the annual report was issued, the WTO surveillance of national trade measures received generally high marks from the attending cabinet. In the Chair's summary "There was a lively discussion of WTO enhancements, and it was pointed out that monitoring and analysis were important for preventing protectionism".

On March 8<sup>th</sup>, 2010, the WTO, OECD, and UNCTAD jointly published the report on G20 members on trade and investment measures from September, 2009 to mid-February, 2010. In the report, during that period, G20 countries' measures introducing restricted trade policies have decreased in number compared to the period covered by the report last time. The amount of trade covered by these measures, even at maximum is up to G20's 0.7% of world imports and is estimated at 0.4 percent of the entire world trading. It is estimated that each of the previous 1.3%, 0.8% have decreased significantly since.

## **(B) Doha Round negotiations (the promotion of multilateral negotiations.)**

### **(a) GATT / WTO progress so far:**

Established in 1948, GATT Contracting Parties suppressed protectionism on eight occasions in the past in order to establish free and fair trade rules and had multilateral negotiations<sup>144</sup>. After negotiating several rounds<sup>145</sup>, gradual tariff reductions were realized and trade related rules other than tariffs were implemented. After the conclusion of the Uruguay Round in 1995, GATT evolved into the WTO (World Trade Organization).

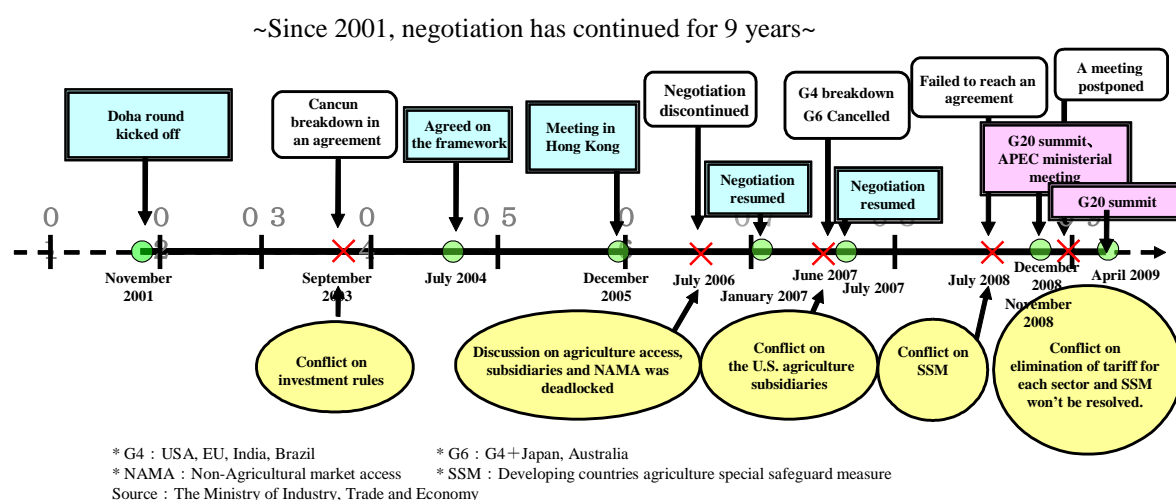
<sup>144</sup> Refer to METI White Paper 2009, Chapter 2, Section 3

<sup>145</sup> After the 5<sup>th</sup> (Dillon Round) negotiation started in 1960, the multilateral negotiation is referred to "xx Round"

So far, the WTO, in place of GATT has substantially strengthened trade rules to increase predictability and to reduce tariff and non-tariff barriers relating to the trade of goods through rounds of negotiations to expand the range of disciplines, new trade in services, and aspects of intellectual property trade. Moreover, compared to GATT, the ability to radically strengthen dispute resolution and its scope was expanded to improve effectiveness.

In addition, after the formation of the WTO, the number of member states and regions increased. In the year 1995, WTO member states started at 76 countries and regions. Now, the current number of member states has reached 153 countries and regions as of April 2010 (China joined in 2001, Taiwan in 2002, Cambodia in 2004, Saudi Arabia in 2005, Vietnam in 2007, and Ukraine and Cabo Verde in 2008,). In addition, about 30 countries including Russia have applied to become a member for member states are expected to increase more in the future and the support of the foundation of a global free trade system will continue.

**Figure 3-2-3-26 Doha round sequence of negotiations**



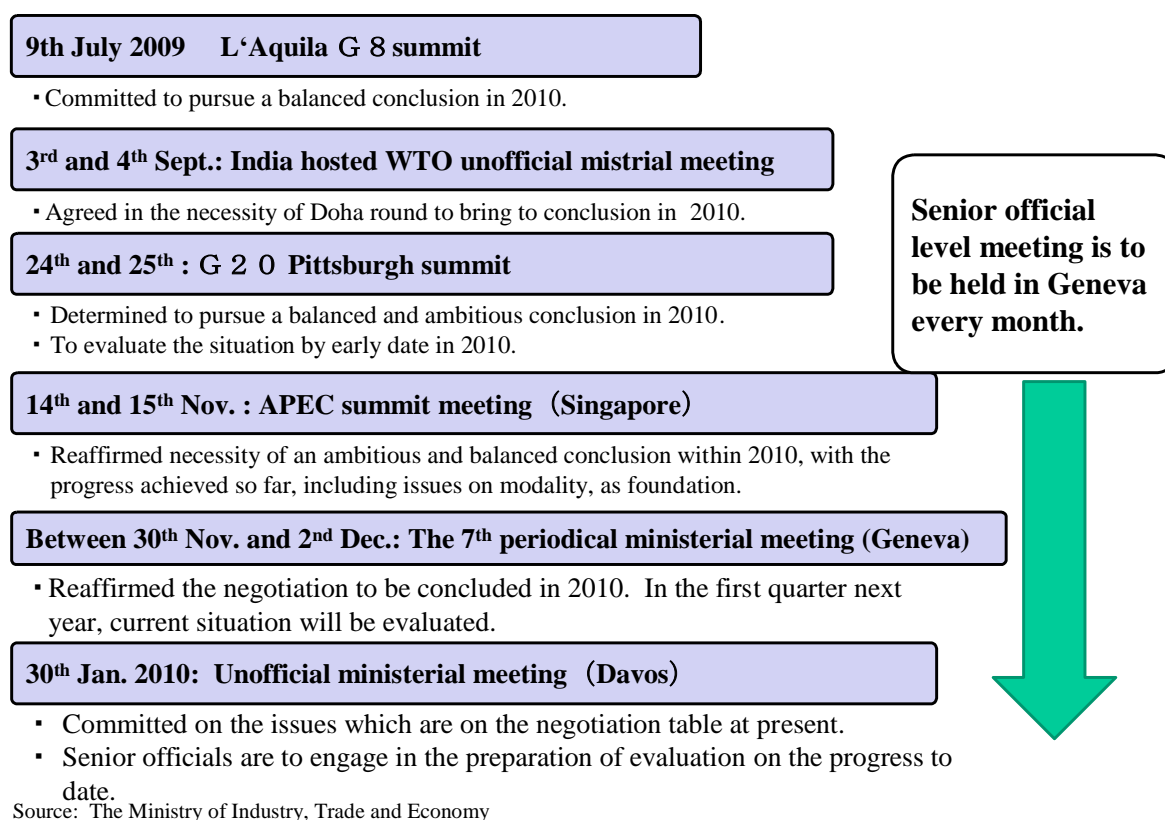
### (b) Characteristics and Progress of Doha Round Negotiations<sup>146</sup>

At the 4<sup>th</sup> WTO Ministerial Conference in Doha, Qatar, the Doha Development Agenda (the "Doha Round") was launched. Liberalization of trade in goods, trade in services, anti-dumping and trade rules, environmental issues including those in developing countries can be characterized by a wide range of fields such as globalization and IT for the demands of a progressive new era. For this round, promotions by Japan were; 1. major developing nations cutting tariffs on other developed countries. 2. making it easier to market our service industry abroad 3. increasing predictability by strengthening trade rules<sup>147</sup>. 4. preventing disputes over trade and domestic structural reforms led by regional member countries.

<sup>146</sup> For the detailed progress of negotiation, refer to, "Report paper of unfair trading 2010 edition: major countries' trade policies from the viewpoint of WTO agreement and Economic Partnership Association, and Investment Agreement", Chapter 1 of the article part, "Trends in the Doha development agenda".

<sup>147</sup> If the Round fails, there may be increased trade frictions.

**Figure 3-2-3-27 Doha round progress of negotiations**



The Doha Round negotiations as an agreement that aims to be one benefiting all the 153 member countries with different economic development stages, profits and interests, was complex and difficult. In the previous Uruguay Round, eight years of the time was spent going back and forth repeatedly but a consensus has been achieved through persistent negotiation with the members involved. As the Doha Round enters into its ninth year from the start, it is, in fact, in the final stage (see Figure 3-2-3-26, 3-2-3-27). In the second half of 2010, the U.S., Brazil and other major countries have a busy schedule with political agenda, and have entered a difficult phase of continued negotiations. The success of Japan and the world from this round is convincingly great so Japan will be persistent toward the early conclusion as much as possible.

Currently, the Doha Round is negotiating NAMA, rules and topics in various fields (see Figure 3-2-3-28).

#### **(i) Non-agricultural market access (NAMA) · environmental goods negotiations**

NAMA is for non-agricultural products (industrial products and marine forests) and for negotiation on tariff elimination or reduction of non-tariff barriers. One of the main issues for NAMA negotiation is on a uniform tariff reduction formula (Swiss formula) for the all items and exemptions for developing countries for which the formula will be applied (relief or exemption from tariff reductions). It has long been debated between developed countries whose tariff is generally low and who are interested in reduced tariff for the developing countries and emerging countries whose tariff is relatively high and who seek flexibility in protecting their own industries and maintaining room for the

reduction policy.

For the Swiss formula, coefficient and flexibility is sought, based on discussions at the Ministerial Meeting in July 2008. Although the final agreement has not been reached, in the fourth revised text issued by the Chairman in December 2008, concrete numbers were indicated (see Figure 3-2-3-29).

NAMA negotiations, planned to improved market access through the exchanged tariff reduction with the formula, become the theme of sectional tariff elimination. Although participation is on a voluntary basis by each country, the aim is for full participation by a number of major trading nations. It has been studied by countries who originally proposed it. Japan proposed the elimination of tariffs in the field of electrical, electronic, automobiles and automobile parts, and is aggressively working with member countries.

For the elimination of non-tariff barriers, such themes as technical standards, mandatory labeling, import restrictions, countries with interests have been making suggestions since 2009 and each suggestion has been promoted by practitioners for a detailed discussion.

Environmental goods have been discussed at the WTO and a trade and environment committee's special meeting and each country has submitted proposals to promote and encourage renewable energy use. Japan, in November 2009, in terms of solving the problem of climate change, proposed a tariff reduction on environmental goods with a focus on hybrid vehicles and energy-saving appliances.

#### **(ii) Rules (to prevent abuse of anti-dumping measures)**

One of the key areas of the Doha Round negotiations were the rules of Anti-Dumping (AD)) in the field. AD , the numbers of issues and the numbers of issuing countries are increasing (see Figure 3-2-3-30, 3-2-3-31), This has caused large differences in the interpretation of existing rules and how to apply them resulting in placing careless measures. Abuse of AD measures ruin the effectiveness of tariff reductions and market improvements and, in order to promote maintaining the free trade system and global economic development and in order to promote the world economy's development, it is essential to strengthen regulation and clarification of AD.

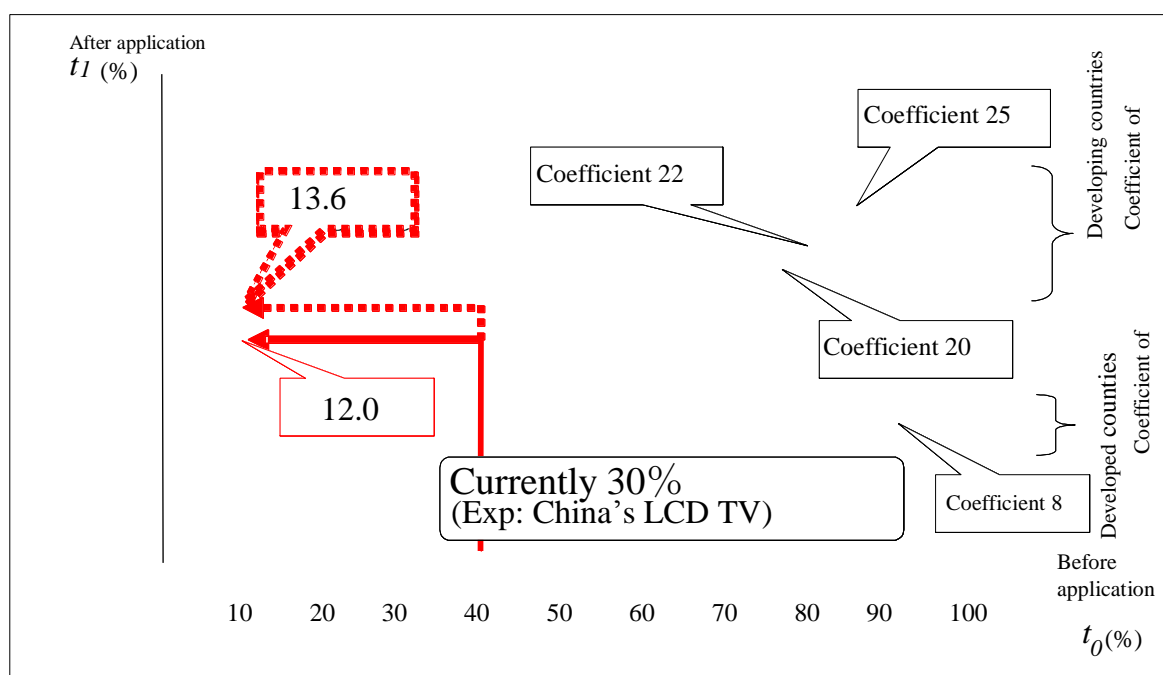
**Table 3-2-3-28 Major points of negotiations**

<b>Agriculture</b>	Reduction of US domestic subsidiaries, market access by major countries (reduction of tariff), consideration to developing countries
<b>NAMA Non-agricultural market access</b>	Reduction of tariff of developed and developing countries (elimination of tariff categorized by coefficient and sector), flexibility to developing countries
<b>Service</b>	Control of foreign investment by each country, and transparency of human's movement, domestic regulation and procedures
<b>Rules</b>	To reinforce discipline to comply with regulations on anti-dumping as well as subsidiaries.
<b>Facilitation of trades</b>	To simplify and more speedy trade procedures, and to support developing countries to implement thereof.

Note : In addition to the above, TRIPS (Intellectual property right), development, trade and environment issues have been discussed.

Source: The Ministry of Industry, Trade and Economy

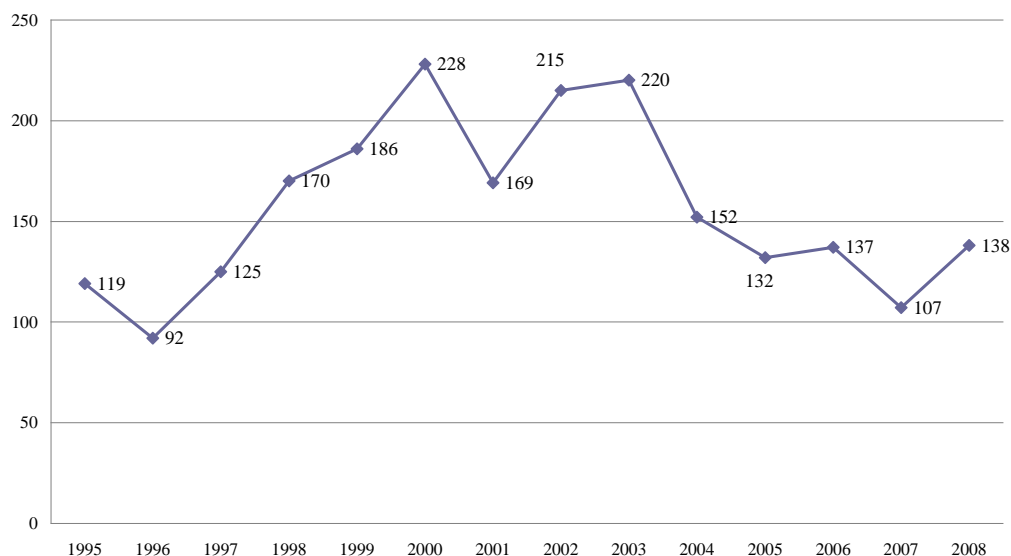
**Figure 3-2-3-29 Changes in reduction of tariffs by Swiss formula coefficient**



Source: The Ministry of Industry, Trade and Economy



**Figure 3-2-3-30 Changes in the number of anti-dumping measures invoked in WTO member countries and regions**



**Table 3-2-3-31 Top 10 countries and regions which invoked AD measures and top 10 countries and regions on which AD measures were invoked (1995 - 2008)**

Country invoked			Country being invoked		
1	India	386	1	China	479
2	USA	268	2	South Korea	150
3	EC	258	3	Taiwan	120
4	Argentina	167	4	USA	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 Web

Japan, in negotiation with Rules, has submitted many proposals in the negotiations of strengthening AD regulation and seeking clarification with other countries and has lead the negotiation aggressively. On the other hand, the United States from increasing imposition of AD measures from developing countries, is positively towards enhancing the transparency of proceedings, but is reluctant to strengthen discipline of the AD due to strong opposition internally in Congress and industry in order to maximize the restriction of the issuing authority.

After the discussion in previous negotiations, the text was published by Chairman Rules in late November 2007. AD measures expire (sunset), as some direction is agreeable, but a ban of "zeroing"<sup>148</sup> that most countries have now insisted upon is now acceptable but missing the overall balance. Japan submitted alternative directions regarding the main subjects with many countries and

<sup>148</sup> In calculating dumping margins, the method that artificially raising the dumping margin by extracting only the export trading at a discount price than domestic transactions, and ignoring to trade in the high price.

has sought the issuance of a revised Chairman text regaining the balance to be re-issued. In May 2008, a new working paper was issued, but the balance was still not recovered. Japan continues to work with other members of participating countries for the early realization of the revised text. The revised rule text was published in December 2008 but the legalization of "zeroing" was not incorporated. That does not probe the ban but many critical issues have been left unsolved so, Japan is committed to negotiations on getting a good final enhanced product,.

#### **Column 46 "Development" round as the Doha Round - One Village One Product**

##### **1. Introduction**

Movement OVOP International Version<sup>149</sup>, the least developed countries and developing countries ("developing countries" hereafter) can benefit from free trade that will be strengthened by an agreement in the Doha Development Round and through the development of products and sales support, they are encouraged to increase exports.

##### **2. FY2009 performance at One Village One Product Movement spread throughout the world**

At the Ministry of Economy, Trade and Industry, panels of One Village One Product Movement were displayed in the main lobby from May to September for visiting African and other foreign dignitaries to explain the aim and detailed past results. In June to August, sales in the convenience store at the ministry building, One Village One Product Movement goods were sold. The purpose was for people inside and outside of ministry to closely examine the products and to feel the products presented as an example of the support provided to emerging countries.

JETRO's activities; "Pacific Islands Week" in May and "Mongolia Week" in July were exhibited at Narita Airport. In November, in the Tokyo metropolitan area, Mekong countries' (Thailand, Burma, Cambodia, Laos and Vietnam) One Village One Product products panels were displayed at the airport at an exhibition and the purpose and outcomes were explained to leaders. "Mekong Week" was also displayed at Narita Airport.

The WTO, in July, in Geneva, held the 2<sup>nd</sup> "aid for trade" Global Review (a ministerial meeting) at which the Japanese government introduced an International performance version of the One Village One Product Movement.

In addition, there were training programs for participants from developing countries. African, Asian, and South American trainees visited Japan as part of JICA training and One Village One Product conducted lectures to participants (in November and February, 2010). Iraqi officials, in training for WTO accession, also visited Japan, contributing to the future nation-building plan. An OVOP lecture was given in October.

---

<sup>149</sup> One Village One Product movement began in Ōita Prefecture in 1979 when the then-governor Morihiro Hiramatsu advocated the program, which began by adding an extra value to the chosen product of each city, township and village, increasing competitiveness and raising the products which are acceptable to the international market, the disparity of urban and rural areas and escaping from the poverty scale in order to promote region's self-reliance and development. The international version of One Village One Product movement was launched in the so-called least developed countries (LDC) and developing countries by modeling the Ōita prefecture's One Village One Product movement.

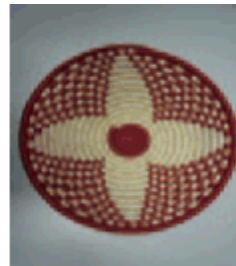
### 3. The One Village One Product exhibit and selling products in a related market current "One Village One Product"

Both Narita and Kansai International Airports, have established the "One Village One Product Market" with 42 countries participating and about 300 products. Foreign dignitaries have also visited. In March 2010, East Timor's President Ramos Horta visited the exhibition in both airports.

### 4. Product development and export promotion results and support case - Spice Mix Tanzania, Rwanda Agaseke Basket

JETRO has helped Japanese companies develop a Japan-based, certified organic Tanzanian spice basket. Packaging products sold in Japan, the local tradition of painting "Tingatinga" designed by artists and recipes have been packaged.

JETRO helped Japanese companies help local women establish a living after the domestic war in Rwanda. A Japanese company is working to improve crafts such as Agaseke (a basket with a lid). Quality improvement and training have been implemented locally. Sales have started in Japan and locals have voiced that they have contributed to the stability of life (center: Agaseke, right: Basket). Their standard of living has increased as evaluated of locally and has led to stabilization (in photos Agaseke the right basket.)



### 5. Summary

In December 2005, the Japan WTO announced an initiative for developing countries at the Hong Kong Ministerial Conference. The OVOP movement international version was launched in 2006 and developing countries have been very interested in the project and will aim for further success in the future.

### (C) The current WTO agreements (rules), executive

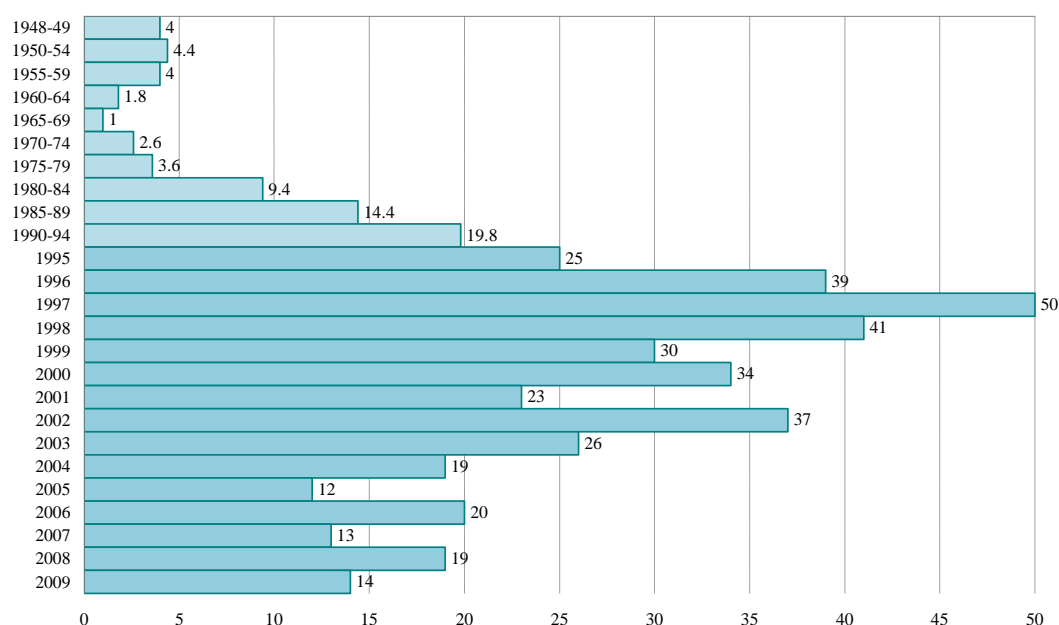
The WTO agreements develop free and fair trade rules in order to resolve economic friction and dispute through the interpretation and application of rules and prepared regulations for the dispute settlement process. The procedure of the WTO is not only to recommend corrective action for the problem, but it also has procedures to invoke countermeasures if payment is not made according to the recommendations. Compared to other international dispute settlement procedures, effectiveness is much higher. Measures to seek redress of foreign law agreements for violation of WTO agreements and to eliminate the Japan's disadvantage is, of course, also important to ensure the effectiveness of the agreement. In addition, in order not to unnecessarily politicize a trade dispute, the WTO should

base claims on a processing agreement set forth by rights and duties.

Under such policies, Japan is also negotiating bilaterally, through the WTO dispute settlement procedures and each country violating the WTO agreement is required to improve policy measures. As a result, the dispute settlement process has largely improved. In comparison to GATT days the number of requested dispute settlement has increased greatly and it can be observed that member states have been utilizing the trade rules in order to settle disputes (see Figure 3-2-3-32). Since the WTO's inception in 1995, WTO's dispute settlement cases were up to 405 cases (as of late April 2010). During this period, Japan has requested consultations for 12 cases and also participated in many projects as a third country.

To proceed with future trade policy, 14 individual projects<sup>150</sup> are considered a high priority now (priority action items) (see Figure 3-2-3-33).

**Figure 3-2-3-32 Number of negotiations requested based on the GATT / WTO dispute settlement procedures**



<sup>150</sup> By Ministry of Economy, Trade and Industry, "Policy initiatives under the Ministry of Economy, Trade and Industry's reports of unfair trade" (published on April 1, 2010).

**Table 3-2-3-33 Priority of measures to be attended to with regard to WTO dispute settlement procedure**

1) Issues to be sought an early implementation of WTO recommendation
<p>○China</p> <ul style="list-style-type: none"> <li>• Early implementation of WTP recommendations on intellectual property right protection and execution</li> </ul> <p>○USA</p> <ul style="list-style-type: none"> <li>• Discontinuation of distribution of anti-dumping taxes and countervailing duty revenue on goods that have completed custom clearance to US companies, based on the Byrd amendment</li> <li>• Early implementation of WHO recommendations associated with zeroing</li> <li>• Early implementation of WTO recommendations associated with anti-dumping measure on Japanese made hot-rolled steel</li> </ul>
2) Issues which have been referred to for WTO dispute settlement procedure
<p>○EU</p> <ul style="list-style-type: none"> <li>• Elimination of tariffs on commodities applicable to the Information Technology Agreement (ITA), which should be tax-free</li> </ul>
3) Issues which shall be continued to be solved although they are not referred to the WTO dispute settlement procedures
<p>○China</p> <ul style="list-style-type: none"> <li>• To rectify discriminations in the "voluntary created innovation product certification system", or to improve government procurement regulations and implementation.</li> <li>• To respond to the export restrictions on mineral resources</li> <li>• To rectify improper operation at the time of an anti-dumping investigation</li> <li>• To respond to issues of commercial frauds such as counterfeiting and piracy</li> </ul> <p>○Asia (ASEAN, South Korea, Taiwan, Hong Kong, India)</p> <ul style="list-style-type: none"> <li>• Respond to the issues of commercial frauds such as counterfeiting and piracy</li> </ul> <p>○USA</p> <ul style="list-style-type: none"> <li>• To ensure consistent operation of WTO agreements with "Buy American clause" which is included in the American Recovery and Reinvestment Act</li> </ul> <p>○Canada</p> <ul style="list-style-type: none"> <li>• Obligation of local content associated with the electric power fixed price purchase system</li> </ul> <p>○Russia</p> <ul style="list-style-type: none"> <li>• Elimination of measures to raise automobile tariff</li> </ul> <p>○Argentina</p> <ul style="list-style-type: none"> <li>• To improve the operation of the non-automatic import licensing system on elevators, etc.</li> </ul>

Source: *Policy on initiatives of the Ministry of Industry, Trade and Economy in response to reports on unfair trades*

(The Minister of Industry, Trade and Economy)

**Column 47 Example that utilizing bilateral negotiations and the WTO dispute resolution is bringing good results**

Japan is in negotiations for dispute settlement procedures and is striving to improve at every opportunity against foreign government policy measures in violation of the WTO agreement, bilateral and WTO.

**1. Abolition of special additional duty on imports (India)**

In India, for all imported goods, in addition to the usual tariff, the government added an "additional special duty". It was taken before the VAT for the state and once the tax was paid, the system refunded. However, there were often complex refund procedures and the actual refund cases were very few with Japanese companies' businesses experiencing a heavy burden.

Japan, through India and the Japan EPA proposed to improve the system on numerous occasions in negotiations held by both senior officials and working-level talks repeatedly. Concerns have been expressed that there is violation of the WTO agreement. In December 2009, the Japan-India Joint Economic Committee filed a written request to the Minister of Finance of India along with public-private sector lobbying to solve the problems. As a result, on February 27<sup>th</sup>, 2010, the Indian ministry of Finance sent out a notice advising the public about the abolition of a special additional duty for the majority of exported goods and the problem was resolved. Currently, automobiles and general products have been excluded from the additional special tax elimination so Japan is still lobbying the Indian government.

**2. Deregulation of Lithium-ion battery certification (South Korea)**

In April 2009, the South Korean government, when they are selling or importing lithium-ion to South Korea, announced that testing and inspection will be required for obtaining certification procedures regarding safety regulation batteries to South Korea. From July, for certification procedures relating to safety regulation, there had not been any trial period planned and it was limited to only a few domestic labs in South Korea, resulting in the possible interference of import products from Japan.

In June 2009, Japan relayed its concerns to the Korean Institute for Technology and Standards that the trial test imposed and, with almost no preparation time, organizations were limited to a few domestic testing and inspection agencies so it had the potential to prevent exports from Japan.

Japan worked with South Korea's chief negotiator during the OECD Trade and Industry Council. The WTO · TBT committee also expressed concerns in continued talks with the South Korean government. Consequently, Japan can export lithium-ion batteries tested in Japan and the problem was solved.

**3. Repeal of tariff increases (Ukraine)**

The Ukrainian government, in March 2009, raised tariffs on a wide range of products. Japan in June, conducted Demarche (joint diplomatic overtures) in cooperation with the EU and the U.S. Immediately after, the WTO Committee on Balance of Payments adopted a corrective measures resolution raising inconsistencies with WTO agreements. As a result, Ukraine terminated the measure

in September.

#### 4. Authorized unfair dumping zeroing (USA)

The United States in the AD process, zeroing (refer to note: 2. (2) 2. Rules (Prevention of Anti-Dumping measures)) references acknowledges dumping in an unfair manner. The bearing industry in Japan has been taxed unfairly since 1989, as the AD based on this zeroing is subject to tax. In Japan, in November 2004, the WTO under the dispute settlement procedures, a consultation request was made. The application claimed the U.S. zeroing system violated WTO agreements. The Appellate Body report issued, in January 2007, and approved a violation of the WTO Agreement on zeroing. The United States proposed repeal. In February 2007, in the United States, some measures of zeroing (applying the weighted average for zeroing in the first survey) were abolished.

But then the United States had maintained zeroing procedures by utilizing another system and other comparative methods and did not take adequate measures to implement them. In January 2008, Japan submitted an application for approval on measures against 2,485 billion dollars. In April of the same year, it requested the establishment of a performance review panel seeking to confirm that the U.S. had not implemented adequate measures to fulfill the United States' obligations. In August 2009, the Appellate Body has not implemented the WTO recommendations after the policy implementation deadline recommendations and so currently there are arbitration proceedings to determine the size of countermeasures to be made.

#### (4) Japan's efforts towards hosting APEC2010

APEC (Asia Pacific Economic Cooperation) is an economic cooperation framework for the participation of 21 countries and regions in Asia Pacific. This region accounts for about 50% of global GDP and 40 percent of the total world trade in volume (see Figure 3-2-3-34) For the expansion of economic stabilization and further growth, 1. trade and investment liberalization and facilitation and business facilitation 2. economic and technical cooperation 3. the basic philosophy of "free and open trade and investment" are engaged in activities to achieve the purpose.

Founded in 1989, 22 years since its establishment, Japan as chairman<sup>151</sup> of APEC for the first time in 15 years, leading APEC to the Asia Pacific region's economic stability and continuous growth. In 2010, APEC year in Japan, (a) achievement assessment of "Bogor Goals", (b) deepening of regional economic integration, (c) APEC regional growth strategy (d) "promotion of human security", as a focus on four main issues (see Figure 3-2-3-35, Figure 3-2-3-36).

##### (A) "Bogor Goals" achievement rating

Chaired by Japan in 2010, APEC was regarded as an important milestone. Adopted by the leaders in Bogor, Indonesia in 1994, the "Bogor Goals" (developed countries and regions by 2010, developing countries in the region by 2020 to achieve each goal of free and open trade investment) are to be

---

<sup>151</sup> Chairman has been provided by the country or region who expressed hosting (hosted by U.S. in 2011, Russia in 2012, and Indonesia in 2013). In the past Japan hosted in 1995: the Ministerial Summit in Osaka (November), Senior Directors and Officials level Meetings in Fukuoka (February), Sapporo (July), and Tokyo (October).

achieved. With APEC in the past there were voluntary reductions of tariffs, a trade facilitation action plan (TFAP<sup>1, 2</sup>) with an investment facilitation action plan (IFAP) development and implementation, including guidelines for the protection of intellectual property rights. In the APEC region, various initiatives have been promoted for trade and investment liberalization and facilitation and have been performed by the member economies. In particular, each economy and each individual action plan for state initiatives in trade and investment liberalization and facilitation (IAP) are to create, by member economies to review "IAP peer review" the efforts of each economy to deepen mutual understanding. The achievement for "Bogor Goals" has promoted efforts and by expanding the area of trade and investment through such efforts, it has been successfully grown.

**Figure 3-2-3-34 Outline of APEC**

	APEC	Reference	
		ASEAN+ 3 (EAFTA)	ASEAN+ 6 (CEPEA)
Member countries and regions	<u>21 countries and regions</u> Japan ASEAN 7 countries Indonesia, Malaysia Philippines, Singapore Thailand, Brunei, Vietnam  China, Hong Kong, Taiwan, Korea, Australia, New Zealand Papua New Guinea USA, Canada, Mexico Peru, Chile, Russia	<u>13 countries</u> Japan ASEAN 10 countries Indonesia, Malaysia Philippines, Singapore Thailand, Brunei, Vietnam Laos, Myanmar Cambodia  China, Korea	<u>16 countries</u> Japan ASEAN 10 countries Indonesia, Malaysia Philippines, Singapore Thailand, Brunei, Vietnam Laos, Myanmar Cambodia  China, Korea Australia, New Zealand, India
Economic scale *1	31.6 trillion dollars (About 50 % of the world economic scale)	12.1 trillion dollars	14.3 trillion dollars
Trade amounts *2	11.5 trillion dollars (About 60% of the world trade amounts)	5.4 trillion dollars	6.2 trillion dollars
Ratio of trades within the zone *3	65.2%	38.5%	43.5%
Population *4	2.72 billion people (About 40% of the world population)	2.1 billion people	3.33 billion people

\*1 World Economic Outlook April 2010 (IMF). Nominal GDP as in 2009 (Estimates including partly forecasts)

\*2 Direction of Trade Statistics (IMF) Trade amounts as in 2009 (Estimates including partly forecasts)

\*3 Jetro whitepaper on external trade 2009. Ratio of trades within the zone as in 2008

\*4 World Economic Outlook April 2010 (IMF) Population as in 2009 (Estimates including partly forecasts)

Source: Created by the Ministry of Industry, Trade and Economy based on IMF, Jetro whitepaper on external trade investment 2009



Figure 3-2-3-35 Historical significance of Japan APEC 2010

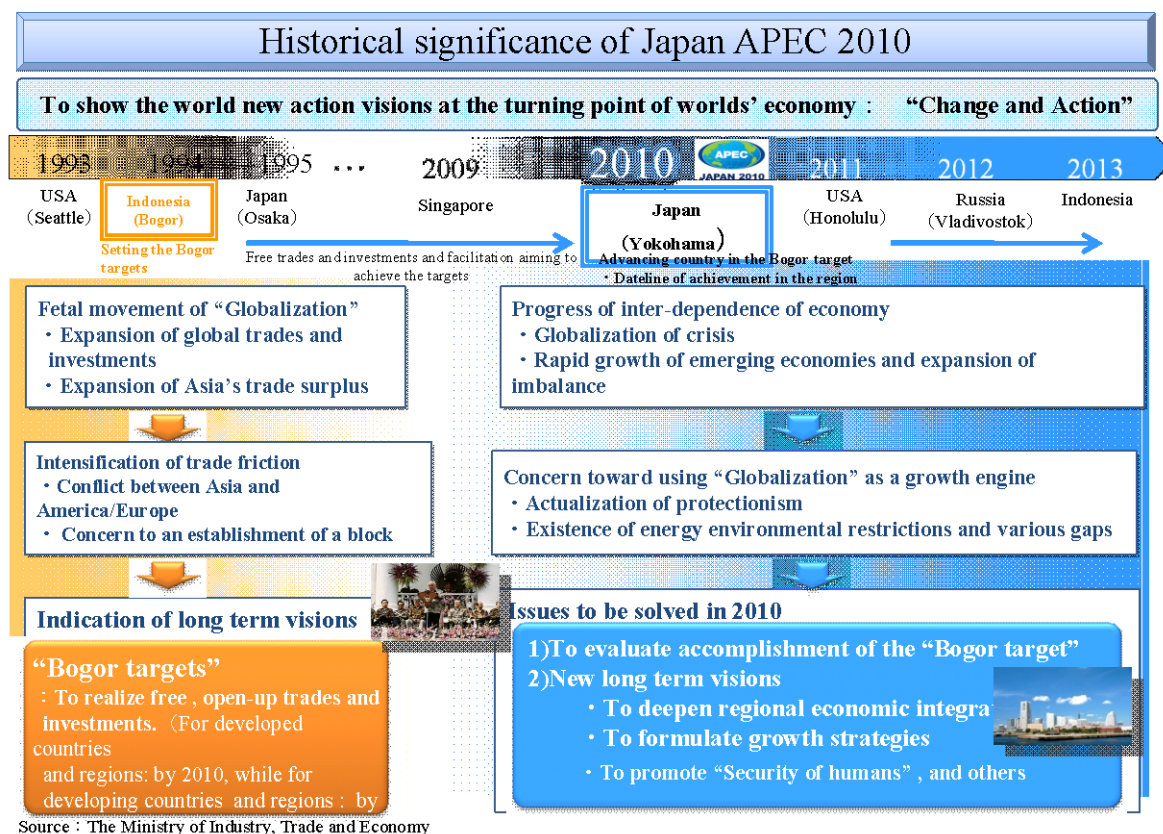
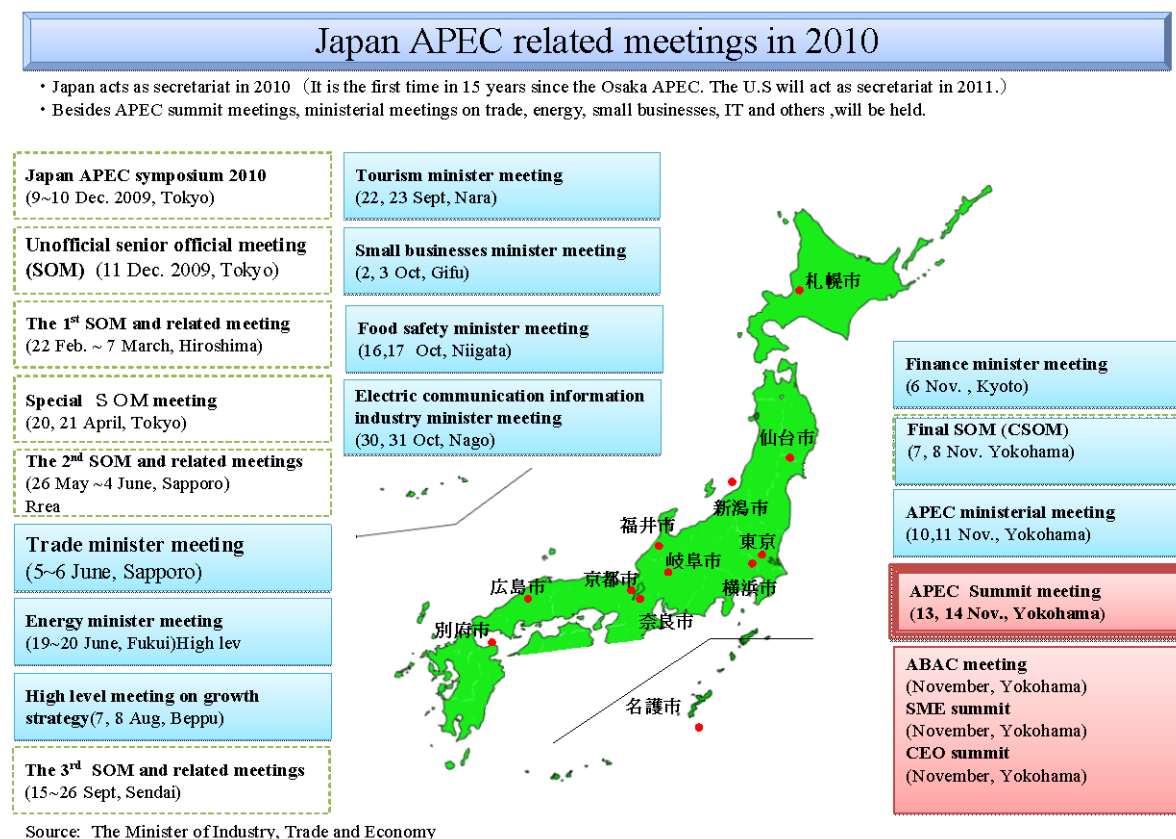


Figure 3-2-3-36 Japan APEC related meetings in 2010



In 2010, the "Bogor Goals" and regional policy goals for developed countries, the developed countries and regions achieved the goal for APEC vision to be the next development stage. This year, "Bogor Goals" is to achieve the target of evaluations in developed nations. Japan, USA, Canada, Australia, New Zealand are the five countries. In addition, Singapore, Chinese Hong Kong, Chile, Peru, Mexico, Korea, Malaysia, Chinese Taipei are spontaneously expressed to be the subject of evaluation. The "Bogor Goals" of achieving the target has evaluated a total of 13 countries and territories.

At the senior officials meeting held in February in Hiroshima, Japan, as chair of the APEC, Japan suggested areas for assessment of Bogor goals. In meetings of trade ministers held in Sapporo in June, ministerial discussions were held with the participating countries and regional member countries regarding the evaluation method of Bogor goals. The following process is to discuss the direction, as well as prepare for the evaluation report in November in Yokohama, acquiring approvals from the ministerial member's summit leaders.

## **(B) Deepening of regional economic integration**

Regional Economic Integration (REI) is an important issue in APEC with the 21 countries and regions ranging from Asia to the Americas and the Pacific. Since 2007, the Free Trade Area of the Asia-Pacific (FTAAP) as a long-term perspective plan has been considered and as the possibility of its realization is near, Japan is actively participating. APEC is for trade and investment liberalization and facilitation in the Asia Pacific region is expected to have an important role as a framework to promote regional economic cooperation in quality<sup>152</sup>.

As regional economic cooperation in Asia-Pacific region, the ASEAN + 3 (EAFTA) Initiative and ASEAN + 6 (CEPEA) plans<sup>153</sup> are prepared. In addition, this region could be considered as a core of future regional integration in Asia Pacific. The "Pacific Partnership Agreement (Trans-Pacific Partnership Agreement, TPP)", discussion has started to promote the agreement. The four countries in the FTA had already been enacted to P4 (Singapore, New Zealand, Chile and Brunei), and, in September 2008, a high level and comprehensive, "Century 21 FTA" was to be formed in the Asia-Pacific region and participation was requested so the discussion regarding TTP began. In addition to these four countries currently; the U.S., Australia, Peru, and Vietnam expressed interest in participation and in March this year, the 1<sup>st</sup> first negotiation meeting by these eight countries was held. APEC currently, in long-term perspective, has been considering the feasibility of the concept FTAAP, the year 2004 APEC Business Advisory Council (ABAC)<sup>154</sup> proposed to the summit leaders. In 2009, the APEC process in Singapore realized the way to possible FTAAP in 2010 (possible pathways to FTAAP), it was directed to be explored by the leaders, TPP, AFTA, EAFTA, CEPEA and such regional economic networks to be integrated with the accelerated examination to continue the construction of

---

<sup>152</sup> Ministry of Economy, Trade and Industry: "New Economic Growth Strategy 2008 Edition (Cabinet decision on September 19<sup>th</sup>, 2008 (Heisei 20<sup>th</sup>)", Part 2-II in Section 1.

<sup>153</sup> Refer to Chapter 3, Section 2-3 for CEPEA

<sup>154</sup> Japan's committee, as of June 2010 (Heisei 22<sup>nd</sup>), are Advisor Yoshihiro Watanabe from Mitsubishi UFJ Financial Group, Advisor Genpachiro Aihara from Mitsui and Co., and Senior Advisor Yasuo Morimoto from Toshiba.

an FTAAP economic partnership, investment, services, and other efforts made in areas such as the promotion of environmental goods and services.

The FTAAP plan, now with a new growth strategy, compiled by Prime Minister Hatoyama's Cabinet, has been positioned as one of the important pillars of economic strategy in Asia. Taking the APEC initiative as chairman this year, the Asia for 2020 Pacific Free Trade Area (FTAAP) as a way to establish Japan (Roadmap) was included<sup>155</sup> in the development. Japan APEC has an opportunity to promote FTAAP forward. (see Figure 3-2-3-37).

Towards regional economic integration, APEC has been actively promoting initiatives in several key areas. One of them is trade facilitation. This year, following last year's consolidated supply chain (connectivity) to strengthen the supply chain, a connectivity plan was established in the trade ministers meeting in June. Based on this action plan, the future supply chain's visibility, through the use of RFID tags was developed. Each member country's web page was created for the approved business users system (AEO System) used for collecting customs and Certification of Origin regulations to improve Trade facilitation. In addition, aiming to promote trade and investment liberalization and the facilitation of environmental goods and services, starting with the introduction of promotion criteria, it will continue to focus efforts on removing non-tariff barriers, etc.

### **(C) APEC regional growth strategy**

At the APEC Summit in November 2007 (Singapore), in order to ensure recovery after the financial crisis this year, "a comprehensive and long-term growth strategy" was agreed to be developed.

Also, a new domestic growth strategy which is to be compiled now, promotes the Asian economy and has become a strategic pillar. In order to achieve sustainable economic growth, the Asia-Pacific region must come together and APEC must be the problem solving place for the region, It is expected to make even more efforts.

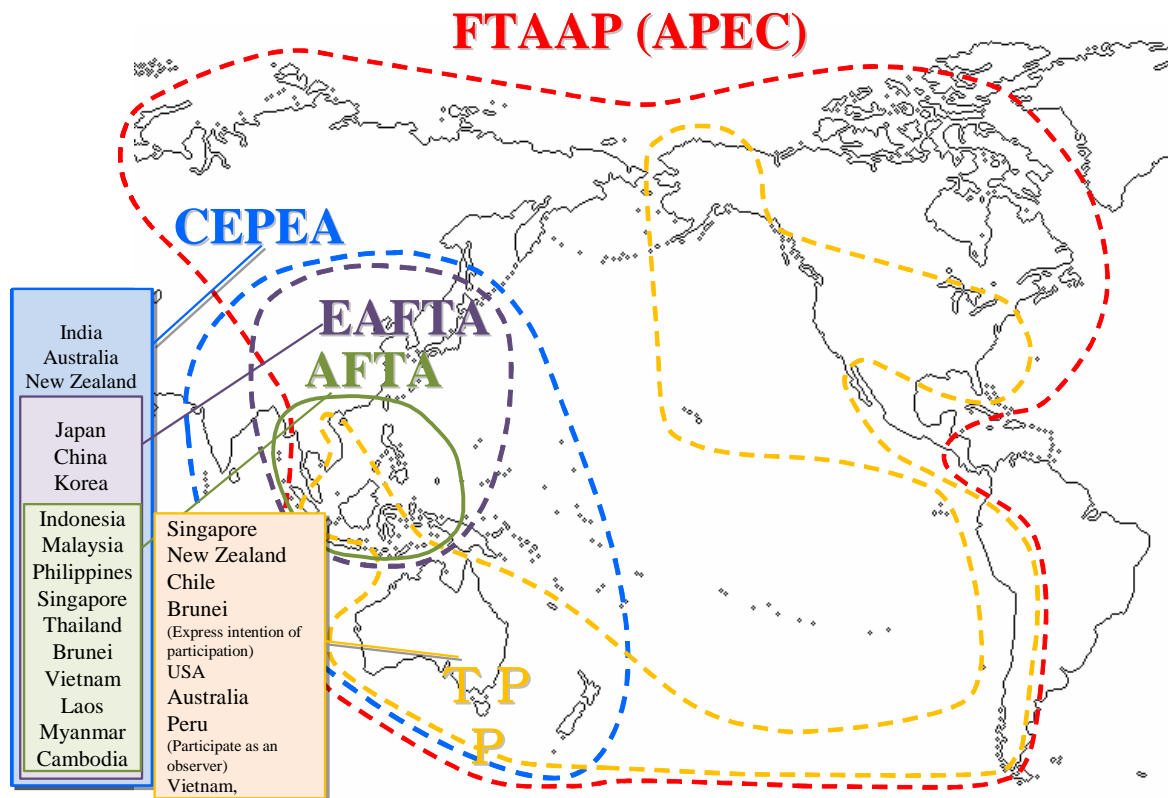
Japan APEC will establish the five different growth strategies toward the Summit Meeting in November. First is "Inclusive Growth". Through the support of small companies and promoting job training, organizing the safety nets the aim is to grow by all levels of society contributing and participating. Second is "Sustainable Growth (Green Growth)". Introduction of a peer review system for non-fossil energy policy to promote low carbon technologies (Low Carbon City Initiative) and through the advancement of energy and environmental policies, environmental goods through trade and investment promotion services, environmentally sound policies and energy to grow. In addition, through the creation of green industries, achieve growth while promoting the dissemination of new energy saving technologies. The third "Innovative Growth" in terms of the collaboration infrastructure and intellectual property patent prosecution, IT realization of socio-economic activities through the utilization of a smart, sophisticated and facilitating exchange of personnel, knowledge and innovation based economy to grow. Fourth, balance while eliminating macroeconomic imbalances among countries and regions participating. "Balanced Growth" is cooperation with G20 and aims to balance

---

<sup>155</sup> New Growth Strategy (Basic Policy) (Cabinet decision on December 30<sup>th</sup>, 2009 (Heisei 21<sup>st</sup>)), in Chapter 2 (3).

economic growth, structural reforms to tackle the country. Also, grow from an idea to provide safe and essential economic activities. "Secure Growth" is as a point of discussion to proceed to the fifth.

**Figure 3-2-3-37 Layered frameworks in Asia Pacific regions**



Source: The Ministry of Industry, Trade and Economy

At the high-level meeting to be held in Beppu, in August, a growth strategy gained input from experts, industry and academia to discuss, share and understand about the direction of its growth . In addition, energy ministers held a meeting in June in Fukui, a human resources ministerial meeting in Beijing in September, a small businesses meeting in Gifu, and a ministers of telecommunications and information meeting in Nago in October. In light of the discussions at the finance ministers meeting held in Kyoto in November, there is a highly effective growth strategy aimed at the November summit agreement.

#### **(D) Safety and Security for People**

Also at this year's APEC, safety and security of people has also become one of the major challenges. The Asia-Pacific region aims to enact measures to solve problems of natural disaster such as earthquakes and tsunami, the avian flu and its measures, or food issues. In particular, the food security ministers meeting held in October in Niigata, will discuss the way of food security in the Asia Pacific region. APEC provides for economic stability and sustained growth in the Asia-Pacific region to further advance the efforts of social issues from the perspective, not only in terms of economic issues, but also of social issues.

Focusing on the efforts of these four major challenges, for the further development of the Asia Pacific region, Japan will lead APEC. There will be future cooperation with the U.S. which will be the chairman next year and Russia which will be the chairman the following next year, to ensure the world economy's recovery after the economic crisis, then to lead Asia-Pacific economic development.