

Section 3 Aiming at the sustainable and balanced economic growth

As described in Sections 1 and 2, rises in prices of energy and resources progressed and capital inflow to emerging economies increased backed by monetary easing policies in the advanced economies. This led to rapid growth in the emerging economies. Under these conditions, the global balance, which once decreased after the world economic crisis in 2009, increased again from the beginning of 2010. It may not be expected to decrease on a medium or long term¹ basis after 2011. However, the conventional form of economic growth in countries and regions dependent on consumption by the United States of America might be difficult to sustain. The people are concerned that the current global imbalance seems to be unsustainable and it might turn out to be a factor of destabilization of the world economy. Additionally, friction of policies aiming at economic recovery implemented by advanced and emerging economies results in the sudden fluctuation of exchange rates or it might even be a factor to block the free trade, and consequently destabilize the world economy. Thus, after 2010, friction between countries and regions has increased due to sharpening gaps in economic growth between advanced and emerging economies, which creates various problems regarding international monetary policy coordination efforts.

1. Reconfirmation of the importance of international policy coordination system

After the world economic crisis, countries and regions experienced that when the monetary system enters a crisis situation; it immediately spreads from one country to another and then, spreads worldwide increasing in severity. Learning an important lesson from this experience, the national governments recognized the necessity of coordinating policy decisions between them. But on the other hand, adjustment of the interests of each country became complicated and it caused friction again. The international coordination system is getting increasingly difficult to maintain.

Under these conditions, countries and regions are reminded once again that arrangements to build international consensus on correcting imbalance, achieving stability of international monetary system, taking measures against rapid fluctuation of prices of primary industrial products, preventing protectionism and promoting free trade for sustainable and balanced economic growth are to be made by the international organizations such as G20 and APEC. The G20 summit conference held in Seoul in November 2010 announced a statement and it included a phrase that said, “We continue our coordinated efforts and commit ourselves to coordinate policies to foster a strong, sustainable and balanced growth.” The commitment was reconfirmed at the meeting of finance ministers and central bank governors from 20 nations held in February and April 2011.

2. Friction of policies aiming at economic recovery

At the beginning of autumn in 2010, arguments surfaced on the so called “currency depreciation competition” which was a means to push the value of the currency of individual countries lower to increase export. This was a complicated situation that created an opposite axis not only between the “United State of America and the emerging economies” but also between both “advanced versus

¹ IMF (2011), World Economic Outlook, April 2011

advanced economies” and “emerging versus emerging economies”. That means that every country was competing with each other to gain an upper hand in promoting own exports.

The heated argument over the currency depreciation competition temporally cooled down afterward, but it did not lead to a basic resolution of the problem and has not yet succeeded in putting out the smoldering fire completely.

(1) Complicatedly tangled opposite axis of currency depreciation competition

(A) Opposition created by progress of dollar depreciation

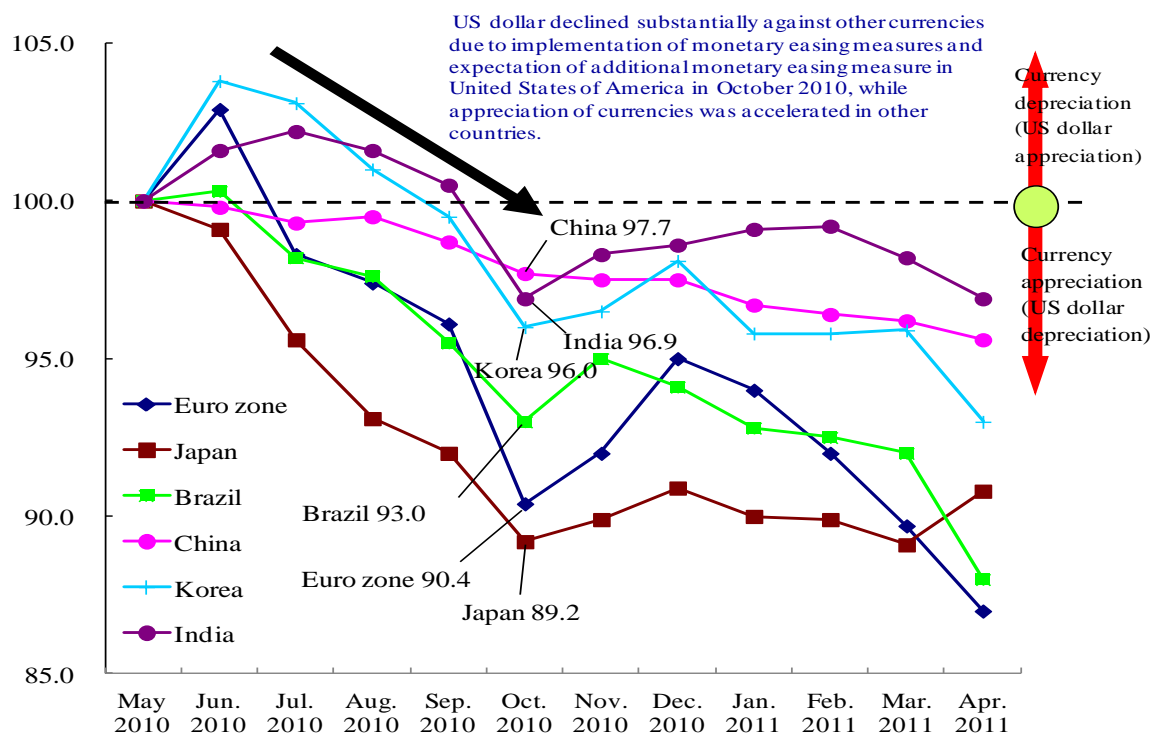
On September 27, 2010, Brazilian Finance Minister Mantega stated, “We are in the middle of an international currency war. This is a threat that takes our export competitiveness away” and later, international tension involving currency policy was raised.

One of the factors of raising the tension was progress of the dollar depreciation. In United States of America, FRB lowered the target rate of Federal Fund (FF) to 0 to 0.25% in December 2008 and this level was maintained afterward, which promoted the credit and quantitative easings². And during this period, the U.S. dollar continued to fall against most currencies mainly in emerging economies backed by a surge of expectations due to monetary easing by FRB. On the other hand, currencies in many emerging economies including Brazil increased value against the U.S. dollar. For the emerging economies, the rises in value of their own currencies were a negative factor to reduce export competitiveness while they aimed at recovery from the financial crisis and achieve further growth (Figure 1-3-2-1).

²An example of the credit easing is residential mortgage-backed securities (RMBS), i.e. purchase of assets with relatively high risk, and that of the quantitative easing is purchase of US\$600 billion medium and long term national bonds. Ben S. Bernanke, the chairman of Federal Reserve Board (FRB) clearly expressed his stance to continue the current monetary easing policy at the press meeting on April 28, 2011 after the Federal Open Market Committee (FOMC) meeting.

Figure 1-3-2-1 Transition currencies exchange rates against US dollar mainly in emerging economies

(Exchange rate in May 2010 = 100)



Sources: Principal Global Indicators

Regarding tensions between the United States of America and the emerging economies, friction with China became particularly strong. In United States of America, the House of Commons adopted the bill of “Act of currency reformation for the fair trade”³ in September 2010. The bill was to impose an additional custom duty to imported products from China based on interpretation of lower exchange rates of Chinese Yuan maintained by the government as a type of export subsidy. Against such movements by the United States of America, China stated that “an international currency framework should be built to limit irresponsible issuance of large quantity of dollar by the United States”⁴ and together with other emerging economies, the Chinese authorities criticized moves by the United States⁷ to promote depreciation of the dollar through its monetary easing policy.

In addition, critical eyes were also turned to the United States of America from advanced economies.

³This bill required countermeasures such as compensation duty and anti-dumping tax if the exchange rate is evaluated to be too low (or too high) in accordance with judgment by the United States agency in charge. The agency will also see whether or not the exporting country illegally evaluated its currency to be too low (or too high), against the U.S. dollar. The bill was finally scrapped due to delayed deliberation in the Senate.

⁴ Vice Finance Minister Zhu Guangyao criticized by saying, “United States of America seems unaware of the responsibility of a nation issuing a major reserve currency to stabilize the international capital markets”. Additionally, the state media of Beijing reported that they called on the leaders attending G20 meeting that “An international currency framework should be built to limit irresponsible issuance of large quantity of dollar by the United States”. (Sankei Shimbun, web edition, “Up-value demand for Yuan” vs. “monetary easing criticism” G20, “Remaining source of trouble from heating up conflict between the United States of America and China”, November 11, 2010)

When FRB decided to additionally purchase US\$600 billion long term national bonds as an additional monetary easing policy⁵ in November 2010, France stated⁶ that “Euro is encumbered by FRB’s movement”, and Germany criticized⁷ that “it does not make any sense that American FRB criticizes Yuan’s operation by China, while it artificially reduces the value of dollar by reprinting the greenback”.

(B) The quantitative monetary easing policy that made the problem complicated

Additionally, funds generated by the monetary easing by the advanced economies flowed into the emerging economies, which were enjoying relatively high economic growth with higher interest rates. This made the problem further complicated. Accelerated global funds inflow caused sudden rise in the domestic real estate prices in some of the emerging economies and the bubble economy concern grew and the inflationary pressure became higher. Monetary tightening was effective for a measure against the inflation, but rise in the interest rate further accelerated the funds inflow and caused concern about pushing the value of their currencies higher. Contrarily, if the monetary easing policy was adopted to avoid the high value of own currency, concern about inflation might be increased. The situation was difficult to deal with. In this situation, some countries including Brazil and Thailand, responding the monetary easing of the advance economies, implemented counter measures to control the overseas funds inflow such as strengthened taxation for monetary transaction (Table 1-3-2-2).

Table 1-3-2-2 Emerging economies’ measures to the capital inflow

[Measures to prevent prices from rise] • Establishment of upper limit of loan to value (LTV) ratio; Counter measure to real estate markets such as expansion of real estate credit (Hong Kong, Korea and Singapore)
[Tightening of fluidity management] • Making central bank short term security obligatory to hold for one month (for foreign and domestic investors) (Indonesia) • Raising reserve deposit rate (India and Brazil)
[Restriction to banking institutions over holding amount of foreign exchange] • Introduction of restriction to holding amount of foreign exchange including futures (Korea)
[Strengthening monetary supervision] • Restriction of capital, fluidity and leverage; Strict stress test; Strengthening the corporate governance (Hong Kong and Singapore)
[Capital inflow control] • Prohibition to open short term fixed deposit account by nonresidents (Taiwan and China) • Establishment of limit to external loan (India) • Raising financial transaction tax imposed on the exchange associated to investment in bonds on the home country's currency basis (Brazil)

Sources: Principal Global Indicators

⁵ This is also known as QE2 (Quantitative Easing 2).

⁶ A word from Lagarde, French Minister of Economy, Finance and Employment on November 5, 2010 (Wall Street Journal, Japanese edition (web edition) stating, “FRB’s additional monetary easing, causing rise in Euro”)

⁷ A word from German Finance Minister Schauble at an interview on November 8, 2010 with Der Spiegel (Wall Street Journal, Japanese edition (web edition) stating, “Decision by FRB affects the reliability of the U.S. monetary policy”); German Finance Minister Schauble”)

However, the monetary easing was implemented not only by United States of America but also by Japan, which was promoting the comprehensive monetary easing, and some of the emerging economies, which implemented the actual quantitative easing through the exchange intervention. The “currency depreciation competition” was not such a simple structure as being done between the “United States of America and the emerging economies”.

(2) Calming down the argument on the currency depreciation competition and importance of international coordination

The funds inflow to the market in the emerging economies became increasingly active backed by the high economic growth and high interest rate afterwards. Consequently, heightened inflationary pressure grew more serious, creating problems, and priority for measures against the inflation was higher than the measures avoiding high value of own currency. In this way, many of the emerging economies were required to implement monetary tightening policies and thus, the arguments over currency depreciation competition was temporarily calmed down.

Additionally, efforts were made to avoid the currency depreciation competition in meetings of the international community. The finance ministers and central bank governors of 20 nations held a meeting in Gyeongju in October 2010 agreeing to “avoid competitive devaluation of their currency.” And the summit communiqué adopted this language at the G20 Summit in November of the same year, and the “Seoul Action Plan” was approved to commit actions by G20 countries.

However, the factors causing the currency depreciation competition were not completely eliminated. As a fundamental problem, current monetary easing policy is expected to continue for a while under situation of slower economic recovery in the advanced economies. Eventually, global funds continue to flow into the emerging economies seeking the high economic growth and high interest rates, and the exchange rates may receive upward pressure. In this situation, if conflict occurs between the advanced economies aiming at the economic recovery with the monetary easing policy and the emerging economies implementing market intervention or funds inflow control policy to avoid their currencies becoming high in value, stability of currencies may not be maintained.

Therefore, it is considered to be necessary that the advanced economies including United States of America should conduct surveillance on the influence to the markets caused by their monetary easing, and to explain it to convince the emerging economies. With that in mind, both the advanced and emerging economies confirm to avoid the escalation of currency depreciation competition, and every country is required to make efforts to decrease the global imbalance over a medium term. In this regard, the mutual evaluation framework at the G20 Summit has important meaning. Because, “the mutual evaluation framework is, at least in its initial stage, to be a process to deepen the understanding on influence of own policy to other countries as well as understanding contents of other countries’ policies⁸”.

⁸ A lecture given by K. Nishimura, vice governor of Bank of Japan at the International Symposium sponsored by Bank of France (Bank of Japan: “International monetary system seen from the viewpoint of a banker of central bank” March 4, 2011)

<Reference> Contents of discussion on the international monetary system at Meeting of G20 Finance Ministers and Central Bank Governors held in Paris in February 2011

- International monetary system (IMS) has showed its toughness, but weakness remains. In order to ensure the systemic stability, promote orderly coordination, avoid the unruly movements of exchange rates including fluctuation of funds transfer with negative impact and checking excessive fluctuation by the advanced economies having the reserve currency and avoid continued imbalance in exchange rates, necessity to improve the IMS is increasing.
- Today, we agreed the working program to strengthen the function of IMS. The following matters will aim strengthening the IMS:
 - Management for international liquidity to strengthen capability to prevent shock and deal with it including consistent approaches and measures such as macro soundness measure including argument on roles of funds safety net and SDR relevant to dealing with capital transfer possible to cause instability, taking possibility of undesirable results into consideration.
 - For this, some points of argument on the exchange rate and argument on strengthening IMF's surveillance are needed.
- We expect to discuss the following report at the next meeting in April:
 - Report on strengthening IMF from IMF, and reports from the World Bank and RDBs on actions to strengthen local capital markets in the emerging and developing countries and the borrowing in domestic currencies based on the experiences.
- Additionally, we can have contribution from other relevant international organizations such as OECD on the capital transfer and UNCTAD.

Source: G20 Communiqué, "Meeting of Finance Ministers and Central Bank Governors, in Paris, from February 18 to 19, 2011" (Temporary translation by Ministry of Finance)

A working program to formulate international monetary system strengthening framework was agreed at the Meeting of G20 Finance Ministers and Central Bank Governors held in Paris in February 2011. The course of argument should be carefully noticed.

3. Regarding correction of international imbalance

<Arguments on ways of creating international consensus>

Two steps corresponding to dealing with the correction of imbalance were agreed upon at the Meeting of G20 Finance Ministers and Central Bank Governors held in Paris in February 2011, namely formulating a "referential guideline" to evaluate the imbalance, and selecting the countries where large imbalance such as continued large surplus (or current-account deficit) exist based on the guideline, then evaluate and analyze causes of the imbalance. In addition, the sovereign debt, budget deficit, private savings rate, private debt and foreign balance ("actual current-account balance" = "balance of trade" + "income balance" + "capital transfer" taking the exchange rate, fiscal and monetary policies, foreign reserve into consideration) were adopted⁹ as indicators for the "referential

⁹ Masaaki Shirakawa, Governor of the Bank of Japan pointed out, "the current balance provides useful

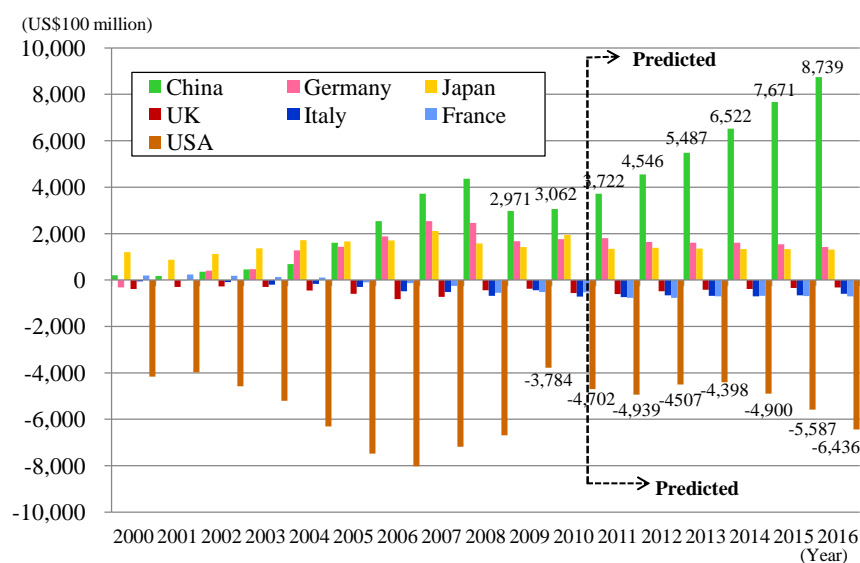
guideline”.

Successively in April 2011, said Meeting held in Washington DC agreed to adopt a series of “referential guideline” to evaluate the imbalance, and the first step of the work was completed. And it agreed that to start the second step work to evaluate further details of the nature of imbalance and causes of obstruction to adjust the imbalance.

An annex published together with the communiqué announced to select the countries where large imbalances are present to be subject for the second step based on the “referential guideline” agreed at the Meeting in February using 4 approaches to decide reference value to specify the nations subject to evaluate, taking the countries development stages into consideration. As for the selection criteria of countries with economic scales account for over 5% of the total of G20, it clearly expressed to reflect that the large economic bodies may have larger spillover effect.

An action plan including prevention and correction measures for those countries needing measures to correct foreign imbalance will be reported at the G20 Meeting to be held in Cannes in November 2011.

Figure 1-3-3-1 Prospects of current account of major G20 countries (countries with 5% or more GDP shares to the total GDP of G20)



<Reference> Contents of discussion on the correction of imbalance at G20 Meeting of Finance

information on conditions of the economy. However, at the same time, past experiences and present financial crisis show that it is a potential risk just to use the current balance for an index to determine existence of unsustainable global imbalance" in the "GLOBAL IMBALANCE AND IMBALANCE IN THE CURRENT BALANCE" (Japanese translation of lecture at an event to publicize a "Financial Stability Review" by Bank of France, Bank of Japan, on February 18, 2011 being published under a title of "Evaluation of the Global Imbalance".

Ministers and Central Bank Governors held in Washington DC in April 2011

- Having agreed the “referential guideline”, and having completed the first step work to correct the imbalance, and as the second step, starting work has been agreed to specify the subject countries receiving more detailed evaluation and to minutely analyze and evaluate the causes of imbalances.
- In the second step, reference value to specify countries to be evaluated at greater length will be set up by using the evaluation indicator agreed at the joint conference in February 2011 through the 4 approaches such as; (i) Inherent situations including large number of the first industry producers based on economic models and theory; (ii) Evaluation based on the past trends in the own country; (iii) Comparative evaluation with a country group which development is in similar stage and; (iv) Evaluation compared with all member countries of G20 based on the data.
- All the G20 countries are evaluated with the reference value and countries judged that they have large continuous imbalance in the two or more approaches become the subject countries for further evaluation.
- By the joint conference in October 2011, measures to correct the imbalance for the countries needing the measures will be confirmed and the action plan to correct the imbalance will be decided upon at the G20 Summit Meeting held in Cannes in November of the same year.

4. Development of policies for monetary control reformation and transparency enhancement for prevention of another world economic crisis

(1) Present thinking in the United States of America for reforming the monetary control policy

From the viewpoint of preventing another monetary crisis in United States of America, revision of the comprehensive monetary control policy and supervision mechanism are undertaken, and a monetary control reform act (Wall Street Reform and Consumer Protection Act: Dodd-Frank Act) was enacted in July 2010. By the establishment of the Dodd-Frank Act, measures such as establishment of a council to monitor the soundness of overall banking system, control over activities and sizes of banking institutions, control over storefront derivative markets and establishment of new control facilities to protect consumers have been implemented. The legal framework covering broad range of banking activities including the stabilization of the banking system and consumer protection has been developed.

(2) Present thinking for reforming the Basel III monetary control measures

On December 16, 2010, Basel Banking Supervisory Committee published the Basel III text which showed details of international standards on the equity capital and liquidity, and reported the results of the comprehensive and quantitative effect extent survey. This is a part of comprehensive measures implemented by the Basel Committee to deal with the lesson gained from the former financial crisis on control, supervision and international banking risk management.

○ Essential points in the Basel III monetary control measures

- (i) Revising the ratio control procedure for core equity capital;
- (ii) Revising details of the control procedure to reduce economic fluctuations by controlling the equity capital ratio and;

(iii) Introducing leverage ratio as a supplementary indicator for the equity capital ratio control procedure for preventing excessive leverage.

(3) Present thinking for enhancement of transparency in commodities markets

In November 2010, in the G20 Seoul Summit document, requirement was submitted to improve control and supervision and enhancement of transparency of commodities derivative markets including the oil market. Responding the requirement, efforts to deal with the requirement have been undertaken by International Organization of Securities Commissions (IOSCO). Specifically, the IOSCO has been preparing to implement; (1) Revision of guideline on design and surveillance of the commodity futures market, (2) Survey on impact on market function by commodities spot prices announced by the price publishing companies under coordination with International Energy Agency (IEA), International Energy Forum (IEF) and Organization of Petroleum Export Countries (OPEC), (3) Establishment of transaction information building body to supervise and improve the off-exchange derivative transaction and to enhance the transparency.

In addition, IEA, IEF and OPEC made a proposal on adequate and timely dissemination of information on spot commodities as underlying assets aiming at activating the sufficient price finding function of the commodities derivative transaction.

< Reference > Communiqué of G20 Finance Ministers and Central Bank Governors conference (held in Washington DC, United States of America, from 14 to 15 April 2011) (Tentative translation)

- 6. Primary products prices are facing increasing pressure. We welcome the proposal from IEF, IEA and OPEC, and we have committed to enhance the timeliness, completeness and reliability of the JODI oil database. We have welcomed work on report from the international organization to deal with the excessive fluctuation of prices in the food and agricultural products markets and its impact on food security. We are expecting to receive the final proposal including the risk management and mitigation methods. We emphasize the necessity that participants to the commodities derivative markets have to act under adequate control and supervision, and require enhancing transparency of both the spot commodities and derivatives markets as previously proposed by IOSCO, and have requested to IOSCO by September to finalize the proposal on the control and supervision to deal with especially the misuse and rigging of markets in this field through authority to establish ex-ante regulation on position when appropriate or through the stylized authority on position management including other intervention rights.

5. Promoting the free trade system and constructing the strategic foreign economic relation

As a result of difference in the recovery speed between the advanced and emerging economies, coordination of interests between countries/ regions has been complicated and maintenance of the international coordination system has increasingly become difficult. In this conditions, importance of the international coordination have been again recognized at meetings of WTO, G20 and APEC and the prevention of protectionism and promotion of the free trade have been declared by the leaders and

ministers. However, each country/ region has been challenged to solve the problem how to achieve the multitiered and strategic multilateral and bi-regional relations.

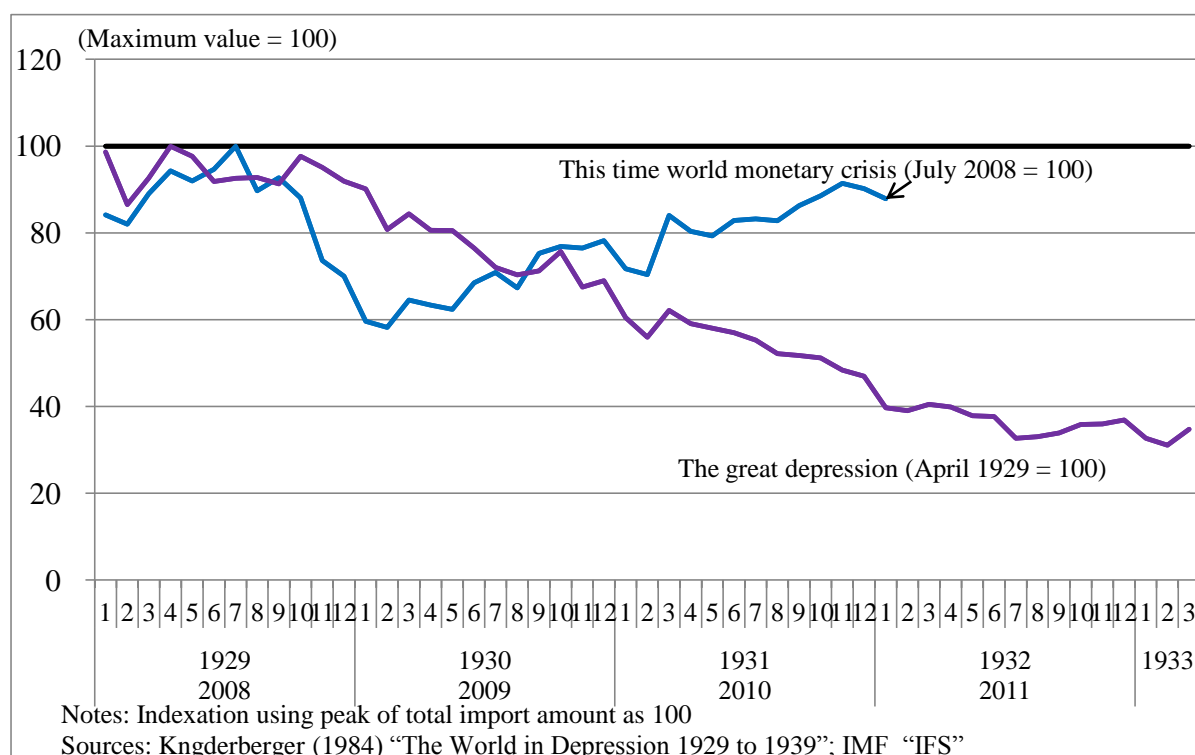
“Summit communique on the accomplishment evaluation of the 2010 Bogor Goal” announced at the APEC Summit meeting held in Yokohama in November 2010, aiming at the promotion of free trade, declared that “the multidirectional trade system continues to be the highest priority for the APEC member economies and the agreement of Doha Development Agenda (DDA) negotiation round provides the best opportunity for the comprehensive liberalization”. Addition to the recognition, it also declared that “we take the increasing effect of regional and bilateral free trade agreement into consideration when we eliminate the barriers in regions”. Movement concluding FTA/ EPA has been accelerated between countries/ regions, and ways of strategic cooperation have been sought on the traffic of people and goods between some specific countries. Under the situation constructing free trade structure involving the emerging economies, it is increasingly important to decide that when, with which countries/ regions and in which area the economic partnership agreement should be concluded. Japan is also required to address the development of economic partnership in a speedy and strategic way by reversing the way of thinking in the past.

Movement toward the promotion of free trade system and construction of strategic foreign economic relation is discussed below.

(1) Problems in the international trade system and measures to cope with

After the world economic crisis, some countries/ regions started to introduce protectionist measures and contraction of the world trade was concerned. However, examining the movement of the world trade after the economic crisis, although the size of decline was substantial immediate after the economic crisis coming to the surface, the economic trend moved to recovery within 6 months (March 2009) after the Lehman shock in September 2008, and the world trading volume continued to have a increasing tendency afterward (Figure 1-3-5-1).

Figure 1-3-5-1 Transition of global trade volume before and after the monetary crisis



The background of the recovery was a fact that there was no severe blocked economy like one found in the 1930s because each country/ region acted with a focus on the international cooperation. It could be said that the WTO system continued to fulfill the function to prevent countries/ regions from movement toward the introduction of protectionism.

In addition, it was confirmed that the member countries/ regions made significant progress in achieving the target to realize "the free and open trade and investment" and made substantial contribution to the promotion of the free trade system in Asia Pacific Region through the evaluation of accomplishment of the Bogor Goal in the 2010 APEC meeting hosted by Japan.

(2) Measures aiming at preventing the protectionism in WTO

Director General of World Trade Organization (WTO) has issued the annual report¹⁰ on the summary of trends in the international trading environment since 2009. The 2010 edition was prepared on measures from November 2009 to middle of October 2010.

According to the report 2010, new trade promotion measures were added and trade control measures were decreased to be introduced. Meanwhile, newly introduced trade control measures affected 1.2% of the worldwide exports during the period. The increase of the percentage was specially pointed out compared with 1.0% of the previous period. However, the said report appreciated the continued efforts made by the governments to resist against the protectionist pressure and prevent the implementation of new trade control measures.

¹⁰ "WTO Overview of Development in the International Trading Environment"

The report indicated the following three points¹¹ as potential risk that WTO member countries had to be cautious:

- (i) The protectionist pressure becomes stronger by the increased payments imbalance amid the rising tension to the free trading and investment due to continuous high unemployment rates in most countries. The trade control will not solve the problem and contrarily it may result to affect the employment and growth.
- (ii) Since the end of 2008, restrictive and distortionary measures have been taken as countermeasures against the world economic crisis. Currently merely 15% of these measures have been removed and there is fear to build up these measures.
- (iii) There is a task to manage the impact on the trading and investment caused by countermeasures taken against the world economic crisis. And the way out strategy to remove the measures should be transparent and accountable, and it should not be made an excuse of discrimination against foreign traders and investors.

In addition, the said report pointed out the needs to keep an eye on the measures with active involvement and further transparency of the member countries to functionalize smooth multidirectional trading systems

(Refer to activities of WTO focusing on Chapter 5, Section 2, 3. World Trade Organization as multidirectional free trade system - the 3 roles and problems in the future).

(3) Measures aiming at construction of strategic foreign economic relations in APEC

Since the inauguration in 1989, the member countries/ regions¹² have made various efforts to further strengthen the multidirectional trade systems. With declaration of “realizing free and open trade and investment before 2010 in the advanced countries/regions and before 2020 in the developing countries/ regions” in the “Bogor Goal¹³” adopted in 1994 aiming at liberalization and facilitation of trade and investment, the member countries/ regions have promoted the regional economic unification.

With these efforts, mutual dependency of economy within the Asia-Pacific Region has increasingly deepened and it has been an engine to drive the world economic growth until now. The APEC meeting presided by Japan in 2010 was a milestone for the Bogor Goal. Therefore, tasks of the 2010 APEC in Japan were to evaluate attainment of the Bogor Goal and delineate an outlook of the Asia-Pacific Region after 2011. Before the Summit Meeting, 17 meetings were held to formulate the Yokohama vision as a future vision of the Asia-Pacific Region after 2010.

In the Summit Meeting held in Yokohama on November 13 and 14 in the same year, the “Yokohama Vision”, centering on the regional economic unification, growth strategy and human security was adopted after the evaluation of Bogor Goal attainment had been done. In the Yokohama Vision, it was agreed that APEC would aim at a closer and highly developed economic unification (close

¹¹The similar concern was pointed out in a report jointly prepared by WTO, OECD and UNCTAD on trade and investment measures in the G20 member countries; “Report on G20 Trade and Investment Measures (Mid-May to Mid-October 2010).

¹² Presently 21 countries/ regions participate.

¹³ This is adopted at the Summit Meeting held in Bogor, Indonesia in 1994.

community), strong community to accomplish a high quality growth (strong community) and community environ where economic activities can be conducted under safe and untroubled conditions (safe community)

As for the Bogor Goal, it was affirmed and commonly recognized that 13 member countries/regions¹⁴, which were subject to the evaluation in 2010, made remarkable progress in this process of accomplishment. On the other hand, it was recognized that tasks that needed further work (custom duty on some products, services and investment) remained undone and APEC as a whole should further promote liberalization and facilitation of the trade and investment.

As to the regional economic unification, tactics to realize the Asia-Pacific Free-Trade Zone were discussed and it was agreed that a comprehensive free trade agreement could be sought through the expansion of broad-area economic partnership such as ASEAN + 3, ASEAN + 6 and TPP. For this purpose, it was confirmed that APEC would play a role of incubator to aim at realization of the Free Trade Area of Asia-Pacific (FTAAP) and should make a substantial contribution. Additionally, recognition was shared that promotion of sectoral initiatives such as investment, services and facilitation of international supply chain by APEC would finally produce a result of FTAAP. Furthermore, “Supply Chain Connectivity Action plan” aiming at strengthening connection of international supply chain was adopted. The said plan set forth a numeric target to improve 10% of capacity of the international supply chain by 2015 from the viewpoints of time, cost and assuredness, and it also includes actions to improve 8 problems on strengthening the connection of international supply chain such as shortage in transport infrastructure and inefficient custom clearance. In addition, against the protectionist economic policies taken by countries in 2010, it was agreed that the ‘stand still’ commitment made in 2008 was extended to the end of 2013. The commitment declared that “In the continued efforts to prevent the protectionism, we refrain from implementation of measures inconsistent to the WTO in every sector including establishment of new barriers against investment and trade of goods and services, imposing new export restriction, or export stimulus measures”.

As for the growth strategy, based on the facts that the Asia-Pacific Region has been drastically changed and serious problems as well as new opportunity have emerged, it was recognized that conventional types of growth were unable to achieve and enhancement of “quality of growth” was needed. A long term and comprehensive growth strategy aiming at accomplishment of 5 targets including “balanced growth”, “evenly distributed growth”, “sustainable growth”, “innovative growth” and “safe growth” was discussed first time in APEC and “Growth Strategy of APEC Summit” was formulated.

As for the human security, to ensure the security and safety which form the groundwork of the economic activities, the human security was discussed and importance of efforts made in the fields such as food security, countermeasures against infectious diseases, anti-terror measures, preparation for disaster, prevention from rotting, ensuring transparency was confirmed.

Since having been established, APEC has accomplished so many and has developed into a leading

¹⁴ In addition to the five advanced economies of Japan, United States of America, Canada and New Zealand, the eight developing economies of Singapore, Chile, Hong Kong China, Peru, Mexico, Korea, Malaysia and Chinese Taipei voluntarily participated in the evaluation.

economic forum in the world most dynamic and opened Asia-Pacific Region. All member countries/regions of APEC have aimed at the accomplishment of the Bogor Goal for the past 15 years through the work on liberalization and facilitation of trade and investment. History of evolution of APEC shows the long succession of individual and joint efforts for the Bogor Goal.

(4) Measures aiming at prevention of emerging protectionism in the G20

The gaps in economic growth between the advanced and emerging economies have become increasingly pronounced and coordination of interests between countries has grown more and more complicated. G20 has recognized importance of an international cooperation system to prevent protectionism and promote the free trade and it has agreed¹⁵ that “every type of protectionism should be denied”.

In this situation, the leaders of the countries/regions agreed at the G20 Summit Meeting held in Toronto in June 2010 to extend the stand still commitment until 2013. The commitment stated that we would not heighten any barrier against investment or goods and services trade or would not create any new barriers; would not impose new export restriction; or would not take any measure inconsistent to the WTO to stimulate export. Additionally, at the Seoul Summit Meeting (November 2010), the said commitment was reconfirmed and it was agreed that “any export restriction and protectionist measures inconsistent to WTO to stimulate export, which might be implemented already, would be corrected.

However, as the domestic economic recovery and job security are the first priorities for each country/region, there is uncertainty in the future whether or not the efforts aiming at the protectionism prevention make progress under the international coordination.

In the course of recovery from the financial crisis, overwhelming superiority of United States of America has declined; on the other hand, presence of the emerging economies is increasingly heightened and cooperation basis between the advanced economies centering United States of America as before has swayed. With complicated interests of each country, strengthening of the multidirectional trade based on the WTO rules is indispensable to aim at further promotion of the free trade. At the same time, the foreign policy has the repercussion effect for the domestic policy by aiming at developing the open trade system. The countries/regions face a situation to continue to deal with a high level decision making that how they coordinate the multilateral liberalization with their domestic targets such as economic recovery and job security.

(5) Movement aiming at construction of a strategic foreign economic relationship surrounding Free Trade Agreement (FTA)/ Economic Partnership Agreement (EPA)

Since the economic crisis triggered by the Lehman shock in September 2008, political pressure to demand introduction of the protectionist measures has been heightened¹⁶ in countries/ regions seemed

¹⁵ In G20 Pittsburgh Summit (September, 2009), the Summit Declaration of “G20 framework for strong, sustainable and balanced growth”, it states, “for the promotion of the world prosperity and sustainable growth, we promote further balanced current-account, support open and free trade and investment and actively deny the protectionist measures.

¹⁶ Refer to White Paper on International Economy and Trade, 2009 edition, Chapter 2, Section 3.

to support domestic industry and secure the employment. It was concerned that if some countries adopted the protectionism defeated by the domestic pressure, it caused a chain reaction of following response or reprisal move and the protectionism was distributed worldwide affecting the world trade and economy. The world trade decreased 12.2% in 2009 affected by the economic recession.

However, according to the report from WTO on April 7, 2011, the world trade increased 14.5% in 2010 and it is estimated to increase 6.5% in 2011. Additionally, several editions of WTO report on nation's trade policies (refer to Chapter 5, Section 2, 3. (1) "Surveillance on nations' traded policies") recognized that countries/ regions were standing against the protectionist pressure. This demonstrates that WTO as a multidirectional trade system represses protectionism and effectively maintains free trade system.

While these efforts have been made to maintain the multidirectional free trade system, recently, number of concluded FTA/EPA has been increasing. Examining the reported cases to WTO, merely 27 cases of the regional trade agreement (FTA/EPA, customs union, etc.) in 1990 have been rapidly increasing to 474 cases as of July 31, 2010. There may be many FTA/EPAs without being reported to WTO.

The FTA/EPA stipulate preferred trade conditions between countries/regions and it discriminates against the non-contracting countries (the third countries). It provides incentive to non-contracting countries to contract FTA/EPA with the contracted countries. Thus, the FTA/EPA have domino effect to trigger other FTA/EPA and are effective to broaden the free trade agreement networks. Under the WTO system with the principle of most-favored nation treatment, the FTA/EPA are exceptional positions as a rule of international economy, but it is expected to finally contribute the liberalization and facilitation of trade and investment worldwide.

Recently, addition to the increased number, a trend of active efforts can be found aiming at contracting high quality agreement and broad regional economic partnership. The higher quality agreement with further liberalization and facilitation of trade and investment between contracting countries, and the broad regional economic partnership with customs duty reduction merits and common investment rules in the region may provide greater merits.

In these situations, Japan's efforts for the FTA/EPA have been delayed. Japan has concluded the FTA/EPA with 10 countries and one region (additionally EPAs with two countries (India and Peru) was signed but suspended to implement) (FTA with India will be effective on August 1, 2011). But Japan's covering ratio of signed and effected FTA/EPAs merely account for 17.6% of the trade compared with 38.0% of United States of America, 35.8% of Korea and 21.5% of China. For this reason, if Japan's trade and investment environment becomes subordinate to other countries, the location-based export competitiveness are diminished, then the future employment opportunity may be lost. Overcoming these situations, and in order to maintain Japan's sustainable growth, economic relationship should be deepened with Asian countries where growth as markets are expected, and also with European and American countries and resource rich countries for acquisition of the growth. Besides, reconstruction of the economic foundation for Japan's growth and development are needed for the future. Recognizing the situation, government of Japan adopted a "Basic policy on comprehensive economic partnership" at the Cabinet meeting on November 9, 2010. In the "basic

policy”, the government declared its strong will to open the nation. It said, “taking a major step forward from the conventional concept, higher level economic partnership compared with the world trends will be promoted with major trading countries worldwide”. At the same time, the government decided to promote the drastic precedential domestic reformation to strengthen the competitiveness necessary for economic partnership such as, agriculture.

Responding to the East Japan Great Earthquake Disaster, a “Guideline to promote policy” was adopted at the Cabinet meeting on May 17. Matters on FTA/EPA were decided for discussion at the “Cabinet meeting on FTAAP/EPA” taking the state of mind of farmers and fishermen affected by the disaster, development of international negotiation and concerns on hollowing out of industry into consideration. At the same time, basic concept of the “basic policy” was confirmed for maintenance.

Under the expanding movement aiming at conclusion of the FTA/EPA, Japan is required to address the prompt and strategic promotion of the economic partnership ideals (details on Japan’s efforts including significance of EPA and formulation of the basic policy will be discussed in Chapter 5, Section 2, 1. “Active promotion of FTA/EPA, and regional economic unification”).