

## **Part II Future course of Japan's international business development**

As analyzed in Part I, Japan's productivity is of a lower standard in comparison to the United States and Europe. From now, for Japan to achieve medium and long term economic growth while dealing with a declining birth rate and growing proportion of elderly people, it must improve productivity. To make it possible to plan improvements for productivity, it is important to perform initiatives for each international expansion that was revealed after analyzing the effect of improving productivity in Part I.

Part II will describe in detail about the promotion of such things as economic partnership, assisting the overseas expansion in new developing countries, assisting the overseas expansion of medium-sized and small and medium companies, assisting the overseas expansion of such things as the non-manufacturing industry, and assisting the export of infrastructure as outbound policy to contribute towards productivity improvements for each company and the expansion of economic activities for companies that have a high productivity. There will be detailed descriptions concerning the enhancement to direct inward investment of such things as companies with foreign capital affiliation, and the attraction of high-level human resources that can provide innovation as inbound policy to contribute towards domestic productivity improvements.

### **Chapter 1 Promotion of economic partnerships**

As stated in Part I, there are many high productivity industries and companies (including those with a potential to be highly productive) in Japan. Further expanding these economic activity places of high productivity groups to penetrate foreign markets will lead to improvements in productivity for the entire economy of Japan. At the same time, it is apparent that Japan's GDP ratio for exports and direct external investment balance still remains at a lower standard in comparison to foreign countries. This leaves room to expand since the penetration of Japan's companies into the foreign market has lagged behind.

Under this condition, if tariff barriers and non-tariff measures can be handled due to the promotion of economic partnerships, and if the stability of the business environment for the foreign market improves due to the conclusion of investment treaties and tax agreements, economic activities of high productivity groups will increase through export promotion and the establishment of efficient supply chains, which will have the effect of increasing productivity for the entire economy of Japan. In fact, there is research to show that productivity improved in participating countries through economic partnership<sup>1</sup>.

Below will be discussions about such things as economic partnership, investment agreements and tax treaties that have this effect.

---

52 Lileeva and Trefler (2010) have estimated the effects of American tariff reduction in accordance with NAFTA going into effect on the Canadian manufacturing industry. According to the estimation result, (1) there was an effect that increased economic activity of high productivity groups, (2) there was an effect that caused low productivity groups to leave the market, and (3) there was an effect that improved productivity for each company. Due to this, it was confirmed that productivity of the Canadian manufacturing industry rose 13.2% at the least in comparison to before FTA went into effect.

## **Section 1 Economic partnership that strengthens ties with the global economy (EPA/FTA)**

### **1. Economic partnership (EPA/FTA) effects**

The promotion of economic partnership, for export companies located in Japan, is significant in terms of maintaining and strengthening competitiveness in export through such things as tariff reductions. At the same time, for companies that provide services or investment for such as setting up a base of operations overseas, this is significant due to the fact that it provides an environment in which business can easily expand overseas.

To be more precise, in terms of export, competitiveness for exporting goods from Japan will be increased due to tariff reductions. For example, tariff on passenger vehicles in Mexico is 20%, air conditioning in Malaysia is 30%, and bulldozers in Indonesia is 10%. However, using EPA, these tariffs become zero. Furthermore, for regional EPA of several countries or linked regions, requirements and procedures that are determined separately for each EPA are unified, so this is advantageous for companies to use EPA more easily within regions. For example, unifying the necessary requirements and procedures to obtain the benefits of tariff reductions using EPA (called rules of origin) reduces clerical expenses for companies and has the effect of allowing companies to expand countries where EPA is available. In addition, as an advantage for regional EPA, it can be easier to use EPA for products produced in several countries within the region, and cargo can be consolidated at physical distribution bases (hubs) within the region and divided and transported from there.

For companies with business overseas, commitments between governments such as protecting investment asset, maintaining freedom for transferring profits obtained through foreign business to Japan, restricting or prohibiting for regulations such as obligations to hire local workers, regulating government intervention into technology transfer agreements among private companies, have increased safety for foreign investment. Furthermore, with regards to the development of the service industry overseas, rules have been stipulated so that Japanese companies can perform business safely overseas by means such as public comment to maintain transparency for procedures, and prohibiting investment restrictions or base setup demands from foreign capital.

In addition, for the EPA in Japan, rules have been established relating to a business environment improvement subcommittee as the framework to improve the business environment of contracting states. A government representative and also private sector representatives will attend the business environment improvement subcommittee so that they can discuss directly with their peers from the other government about the various issues in business that are faced by Japanese companies penetrating foreign business. As a result of business environment improvement subcommittee meetings until now, Mexico has agreed to set up a hotline for the control of counterfeit goods and Malaysia has improved public order by increasing the number of monitor camera and strengthening patrols.

### **2. General recurring trends of economic partnerships (EPA/FTA)**

After the 1990s, the number of EPA/FTA began to increase as a result of the acceleration in

movement toward regional integration due to the changes in the international economic environment and the development strategy in each country. As a background to this, (1) the European countries and the United States have activated a movement to devise an economic partnership based on the freedom and facilitation of investment and commerce with neighboring countries with which they had a deep economic relationship (for example, the United States and the EC have accelerated initiatives toward NAFTA (brought into force in 1994) and toward the EU (established in 1993)), (2) NIEs and ASEAN by pressing forward with economic deregulation, achieved a high rate of growth while emerging countries such as Chile, Mexico and Peru transformed economic policy and introduced trade and investment liberalization, and market mechanisms. During this time strategies to use EPA/FTA were adopted. In addition, (3) from the latter half of the 2000s, while the WTO Doha Round negotiations had stalled, the major countries of the world have proactively formed EPA/FTAs to expand trade and investment. The number of regional trade agreement (RTA)<sup>2</sup> notifications based on GATT article 24, was under 27 in 1990 but had increased to 546 at the point of January 2013<sup>3</sup>.

### **3. Asia-Pacific region economic integration and world FTA trends**

In the East Asia region, in 2002 an EPA between Japan and Singapore was brought into force and this activated the conclusion of FTAs. In the latter half of the 2000s, many FTAs have been brought into force by East Asian countries such as Singapore, Malaysia, Korea and China with countries / regions of inside and outside the region.

As to ASEAN, among the six original ASEAN member countries (Indonesia, Singapore, Thailand, Philippines, Malaysia and Brunei) tariff was eliminated as a general rule in 2010, and all “ASEAN+1” FTAs had entered into force for Trade and Goods chapter. It was said that the East Asia region FTAs advanced to new levels. “ASEAN+1” FTAs are the FTA individually formed between ASEAN and the six surrounding countries (Japan, China, Korea, India, Australia and New Zealand), and they form an FTA-network in East Asia region.

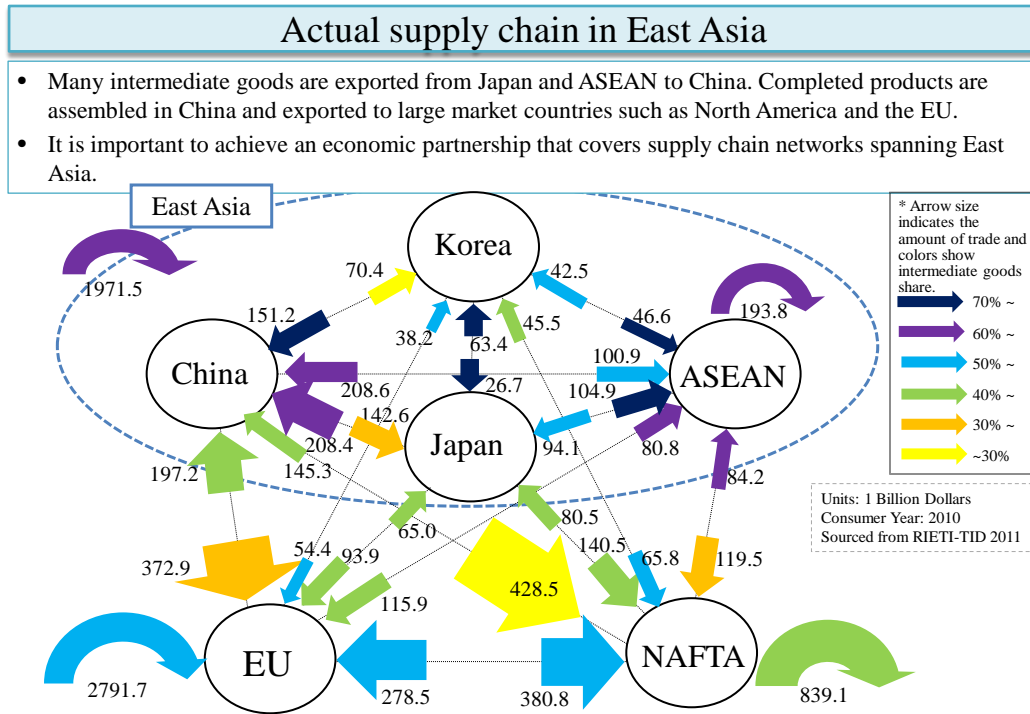
In the East Asia region, or in the Asia-Pacific region if including the final consumption market, with the help of this FTA-network, cross border production sharing, and consolidation and optimum arrangement of production bases, have been developed commensurately (Figure II-1-1-1). However, if tariffs can be reduced in a further unified schedule and the various rules relating to business activities can be standardized by concluding extensive regional economic partnership, that will be much helpful for the companies to pursue the sophistication of their supply chains throughout the entire region.

---

<sup>53</sup> Regional Trade Agreement: The collective term for the agreement that pledges freedom of commerce and such between specific countries and regions including EPA/FTA and tariff unions.

<sup>54</sup> Refer to WTO website ([http://www.wto.org/english/tratop\\_e/region\\_e/region\\_e.htm](http://www.wto.org/english/tratop_e/region_e/region_e.htm)).

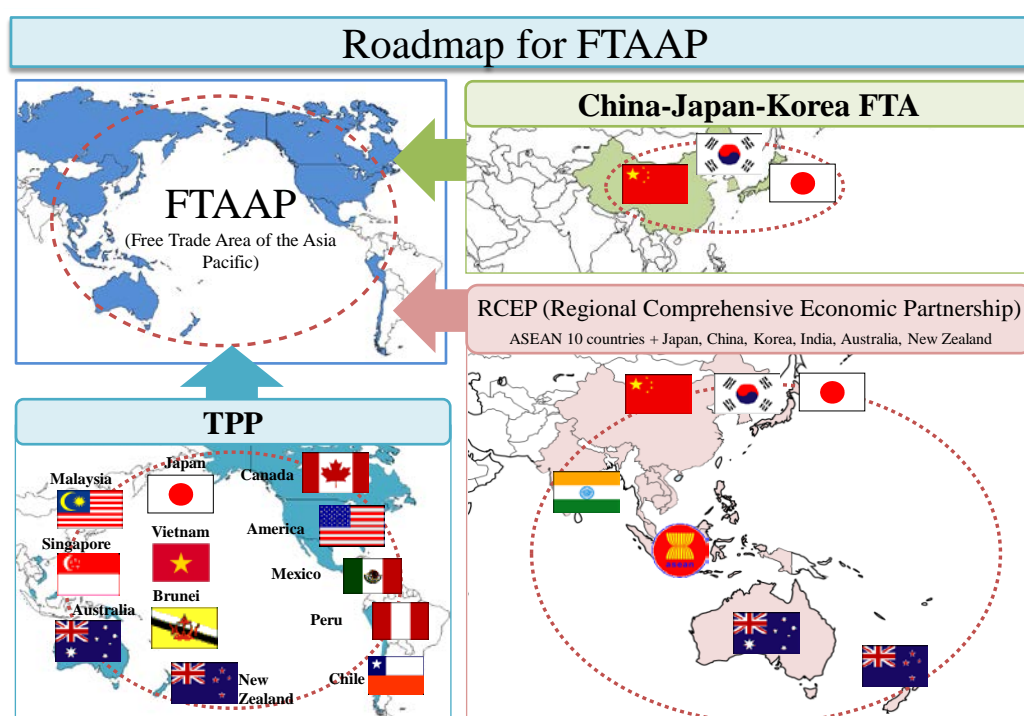
**Figure II-1-1-1 Current status of supply chain in East Asia region**



Source: Ministry of Economy, Trade and Industry.

In particular, in the Asia-Pacific region, APEC participating countries and regions are aimed to achieve Free Trade Area of the Asia-Pacific (FTAAP) and as a roadmap for this, large region economic partnership initiatives such as the TPP (Trans-Pacific Partnership), RCEP (Regional Comprehensive Economic Partnership), and the China–Japan–South Korea FTA are simultaneously making progress (Figure II-1-1-2).

**Figure II-1-1-2 Roadmap for FTAAP**



Source: Ministry of Economy, Trade and Industry.

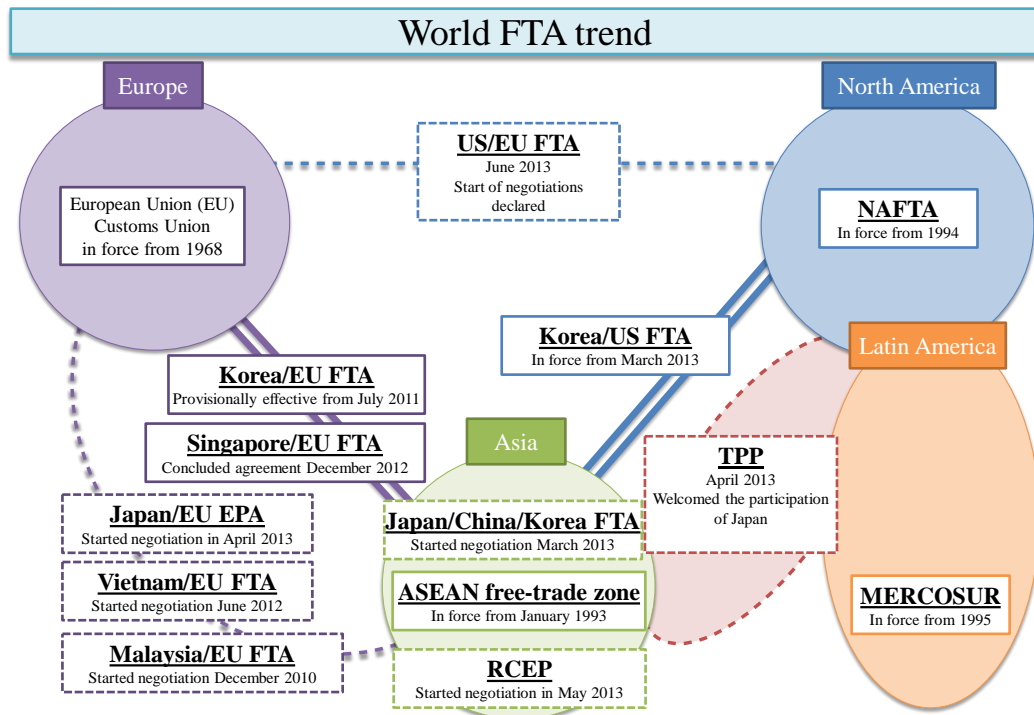
The United States and the EU declared to start internal procedures towards entering negotiations of TTIP (Transatlantic Trade and Investment Partnership) in February 2013. In June of the same year, at the US-EU summit meeting, it was declared officially to start negotiations. The United States government pointed out that, because tariff rates between the United States and the EU were already quite low, the principle focus of negotiations would be to innovatively approach the reduction of non-tariff measures (the notification letter to Congress of intent to negotiate TTIP in March 2013). TTIP is aiming to contribute to the development of global rules that strengthen the multilateral trade system, and future negotiations draw attention as initiatives to create rules for non-tariff measures, trade and investment among advanced countries.

Furthermore, even between Asia and Europe, the EU-Korea FTA was brought into force temporarily in July 2011, and negotiations for the EU-Singapore FTA were concluded in December 2012. In April 2013, Japan started EPA negotiations with the EU and is aiming to conclude negotiations in a short period of time.

At the G8 Summit in June 2013, the launches of negotiations and developments of US-EU FTA, TPP, Japan-EU EPA and such were well received on ground that trade is the driving force of global economic growth, and there was agreement to aim for a quick conclusion as much as possible (Joint Communique at 2013 G8 Lough Erne Summit).

As above, as of May 2013, initiatives for the various economic partnerships that link North America, Europe, and the Asia-Pacific regions are developing concurrently (Figure II-1-1-3). By having these initiatives stimulate each other, the creation of a strong synergy effect is to be expected.

Figure II-1-1-3 World FTA trend

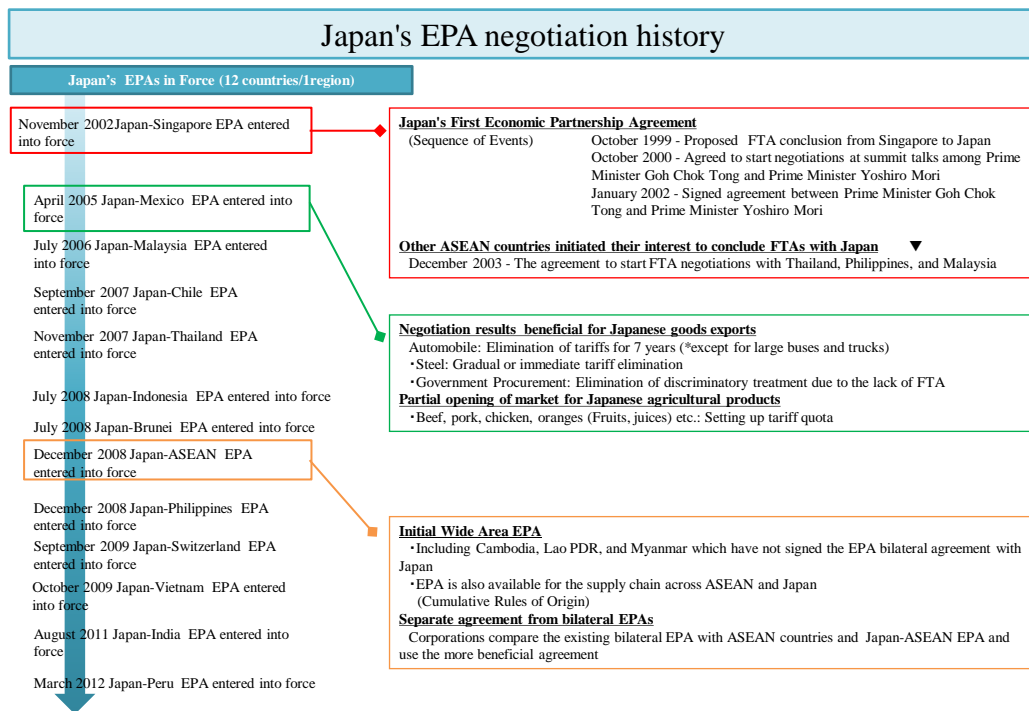


Source: Ministry of Economy, Trade and Industry.

#### 4. Japan's EPA initiative

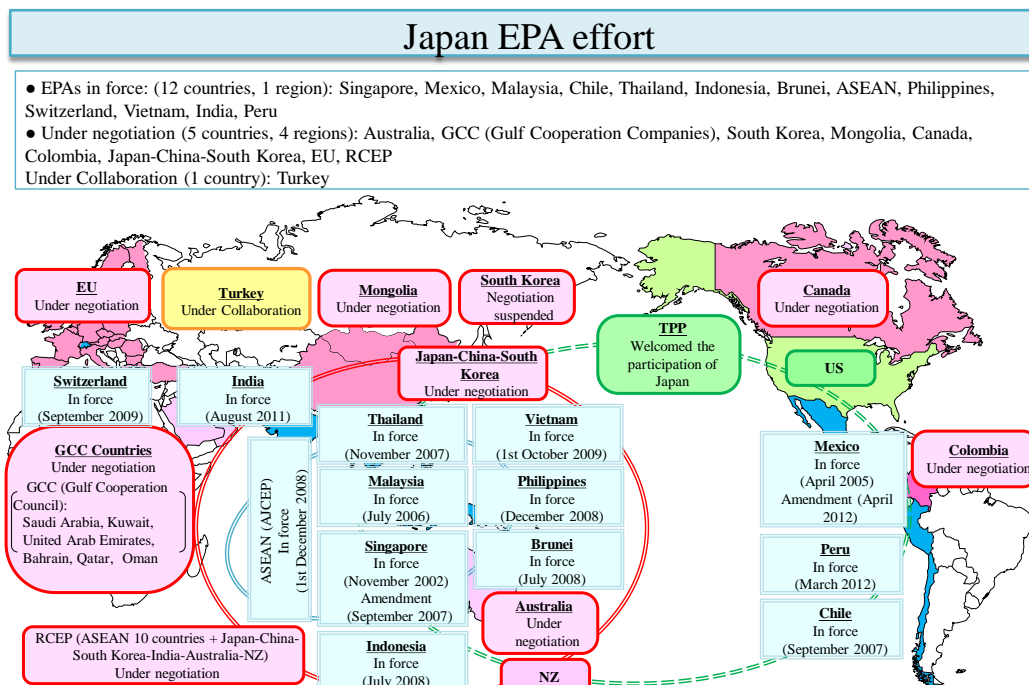
Up until now, Japan has put EPA into effect with 13 countries and region, and initiatives that are currently under negotiation are RCEP, Japan-China-Korea FTA, Japan-EU EPA, Japan-Australia EPA, Japan-Mongolia EPA, Japan-Canada EPA, Japan-Colombia EPA, Japan-GCC EPA (Figure II-1-1-4, Figure II-1-1-5). Furthermore, with regards to TPP, Japan was welcomed as a new negotiation participating country by the 11 countries that are participating in negotiations as of April 2013. In the future, after completing domestic procedures according to the requirements of the countries participating in the negotiations, Japan will be recognized as an official participant.

Figure II-1-1-4



Source: Ministry of Economy, Trade and Industry.

Figure II-1-1-5



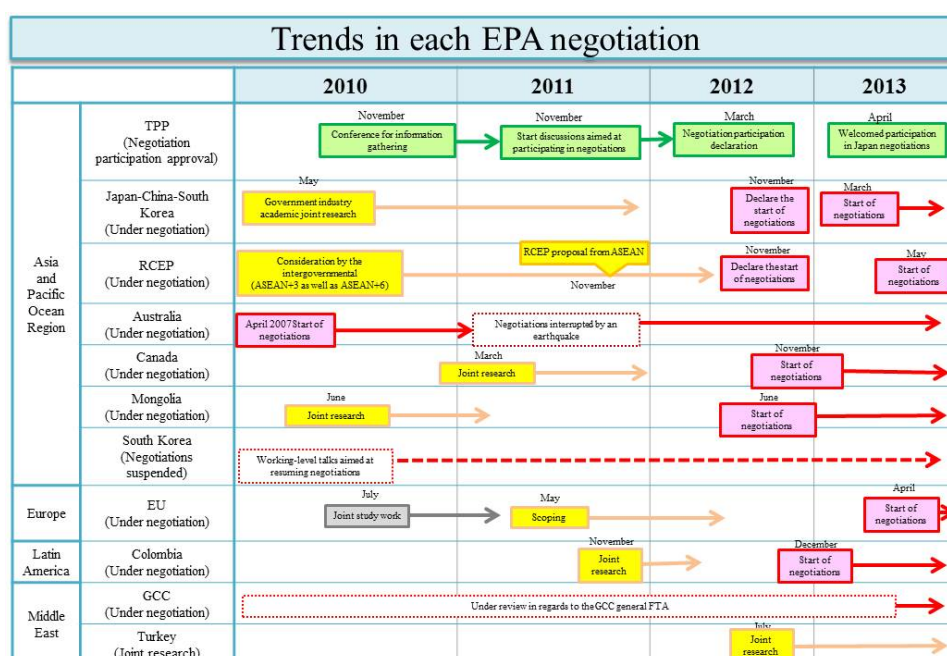
Source: Ministry of Economy, Trade and Industry.

As above, the economic partnership negotiations between the main countries and regions are developing throughout the world and Japan have been engaged in EPA negotiations with the main

trading partners, namely TPP, RCEP, Japan-China-Korea FTA and Japan-EU EPA<sup>4</sup>. To establish rules for global trade and investment in the future, Japan is at a position in which it can play a proactive role. More specifically, by having proactive initiatives for TPP negotiations, new rules can be created for the Asia-Pacific region, and, along with the regional economic partnerships such as RCEP and China-Japan-Korea FTA they can be used as springboards to create rules for the much larger framework FTAAP (Free Trade Area of the Asia Pacific). Furthermore, in addition to the initiatives above, Japan is concurrently engaged in initiatives such as the Japan-EU EPA, and is contributing as an important player to ensure that each economic partnership stimulate each other and gain momentum in order to make progress in the rulemaking for trade and investment throughout the world.

After undertaking a process to participating in TPP negotiations, these economic partnership negotiations have advanced one after another (Figure II-1-1-6). In a manner of speaking, it is believed that Japan is fulfilling the role of a game changer.

**Figure II-1-1-6**



Source: Ministry of Economy, Trade and Industry.

Furthermore, as mentioned above, since economic partnerships are the base of global economic activities, Japan will promote economic partnerships multidirectionally, and aim for the formulation of “economic partnership network” that covers a larger mass of trading partners. More specifically, it was determined that the FTA cover ratio (proportion of FTA partner countries to total trade value) would increase from the current 19% to 70% in 2018 in “Japan Revitalization Strategy” (formulated on June 14, 2013).

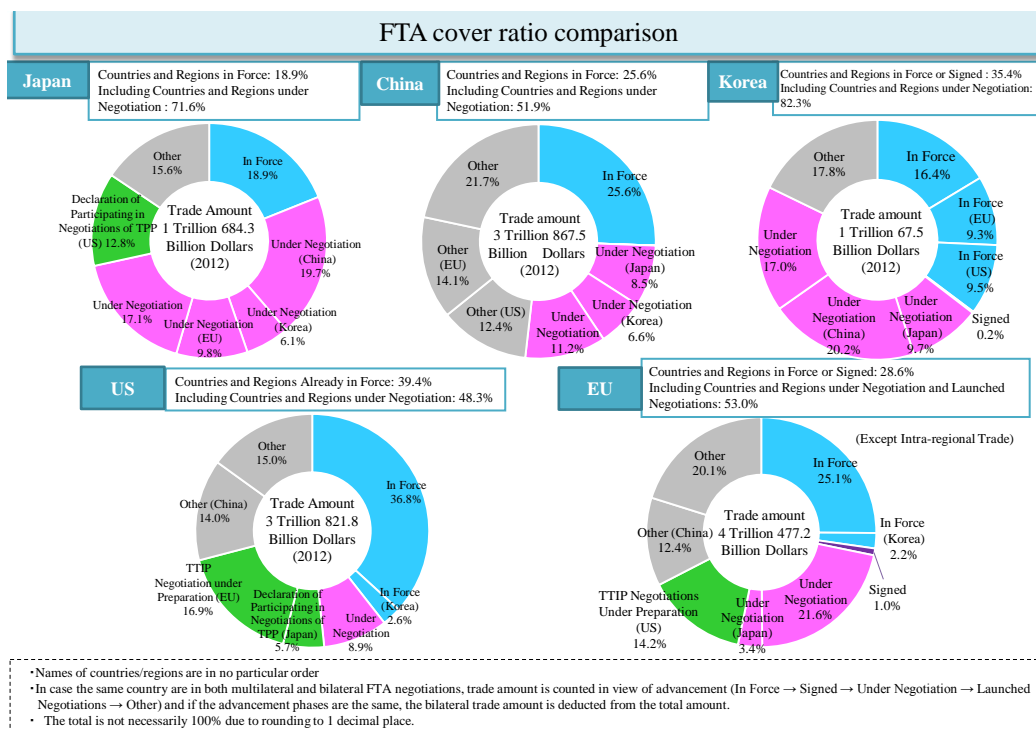
Furthermore, while keeping with the movements such as the progress of future economic partnership negotiations and referring to the discussion at the Council for Regulatory Reform, Japan

<sup>4</sup> Japan plans to participate for the first time in the latter half of the schedule of the 18<sup>th</sup> TPP negotiations meeting in July.



accelerates discussions concerning regulatory reforms.

**Figure II-1-1-7**



Source: Ministry of Economy, Trade and Industry.

Below is the current Japan's economic partnerships: (1) the economic partnerships with large market countries and regions (2) other economic partnerships.

### (1) Economic partnerships with large market countries and regions

#### [TPP (Trans-Pacific Partnership)] (Approval for Japan to participate in negotiations)

##### (A) Details of TPP agreement negotiations

The origin of TPP is the P4 agreement that was brought into force in 2006 by the four countries of Singapore, New Zealand, Chile and Brunei. In 2008, the United States, Australia and Peru announced that they would participate in and hold new negotiations. In March 2010, Vietnam also joined so that TPP negotiations began among eight countries. TPP had an open format for new negotiation participation, and by the time Japan's participation, Malaysia (October 2010), Mexico (October 2012) and Canada (October 2012) had joined in the negotiations. So that as of June 2013, a total of 11 countries are participating in the negotiations.

In November 2011, at the Hawaii Honolulu APEC, from the heads of state of each of the nine countries, a "Trans-Pacific Partnership (TPP) Outline"<sup>5</sup> was announced as a document to summarize the negotiation progress until that point.

Furthermore, in the joint statement, it was declared that "ministers committed to intensifying their own engagement over the coming months to work out solutions to outstanding sensitive issues and to achieve the TPP Leaders' objective of a high-quality, ambitious, and comprehensive agreement this

<sup>5</sup> [http://www.mofa.go.jp/mofaj/gaiko/TPP/pdfs/TPP01\\_07.pdf](http://www.mofa.go.jp/mofaj/gaiko/TPP/pdfs/TPP01_07.pdf)

year” and that “to chart a path forward on the remaining issues that will enable them to conclude the negotiations on a 2013 timeframe as instructed by TPP Leaders”.

The TPP negotiations meetings have been held 17 times at the point of June 2013 (the most recent being held in May 2013 in Peru). The 18<sup>th</sup> negotiations meeting is scheduled to be held in Malaysia on July 15 to 25.

**Figure II-1-1-8**


Source: *Current state of TPP agreement negotiations (explanatory material)* (Source: Cabinet Secretariat).

## (B) TPP negotiation details

TPP negotiations do not just aim to **for high-level elimination of tariffs** but for the achievement of high-level “21<sup>st</sup> century trade agreements” for the region that includes developed and developing countries concerning the 21 sectors<sup>6</sup> as shown in Figure II-1-1-8. Rules created at TPP are believed to be the foundation for the new trade and investment rules for the Asia-Pacific region along with other initiatives such as RCEP.

For more specific negotiation details, for example, in the domain of government procurement, there are many countries participating in TPP negotiations that have not acceded to WTO Government Procurement Agreement (GPA). So in order to ensure that companies and their products of contracting parties are treated fairly in the government procurement market of TPP countries, negotiations are held to conclude if the agreement should be on a line of Government Procurement Agreement or at higher

<sup>6</sup> In press releases such as by USTR, this is called *Chapter 29*. However, the method for counting section meetings and issues is different depending on the issues meetings, and this does not always mean that the agreement chapters are set up this way.

level. For the protection of intellectual property, discussions have been carried out with the aim to strengthen the mechanisms that prevent the proliferation of counterfeit and pirated goods, and to facilitate the distribution of regular products in each country. Furthermore, from the perspective of facilitating the global businesses of companies, discussions have been carried out to develop regional rules that cover the entire supply chain: such as rules for simplification of customs procedure and for improvement the logistics services. In the investment and services sector, in an effort to facilitate the companies' business development in overseas, the strengthening of transparency in foreign investment restrictions, and the relaxation or abolishment of restrictions on investment and services are being debated. For state owned enterprises, it is intended to give equal conditions between private businesses. For the labor and environment issues, discussions have been conducted about such topics as preventing the alleviation of labor and environment standards for the purpose of encouraging trade and investment, and complying with the obligations under the existing multilateral agreements relating to the environment and the protection of labor rights<sup>7</sup>.

### (C) Japan's participation in the negotiations

As concerns Japan's participation to TPP at the Japan-US summit meeting held in February 2013, Prime Minister Abe and President Obama issued a "Joint Statement by the United States and Japan" (Figure II-1-1-9) after explicitly confirming the three points: (1) both countries have bilateral trade sensitivities, such as certain agricultural products for Japan and certain manufactured products for the United States, (2) the final outcome will be determined during the negotiations, and (3) it is not required to make a prior commitment to unilaterally eliminate all tariffs upon joining the TPP negotiations.

---

<sup>7</sup> Refer to the Cabinet Secretariat website (<http://www.cas.go.jp/jp/tpp/>) for new information concerning the TPP agreement negotiations.

**Figure II-1-1-9**

Japan-US Summit	
February 22, 2013	
Joint Statement by the United States and Japan	
<p>The two Governments confirm that should Japan participate in the TPP negotiations, all goods would be subject to negotiation, and Japan would join others in achieving a comprehensive, high-standard agreement, as described in the Outlines of the TPP Agreement announced by TPP Leaders on November 12, 2011.</p> <p>Recognizing that both countries have bilateral trade sensitivities, such as certain agricultural products for Japan and certain manufactured products for the United States, the two Governments confirm that, as the final outcome will be determined during the negotiations, it is not required to make a prior commitment to unilaterally eliminate all tariffs upon joining the TPP negotiations.</p> <p>The two Governments will continue their bilateral consultations with respect to Japan's possible interest in joining the TPP. While progress has been made in these consultations, more work remains to be done, including addressing outstanding concerns with respect to the automotive and insurance sectors, addressing other non-tariff measures, and completing work regarding meeting the high TPP standards.</p>	

Source: Ministry of Economy, Trade and Industry.

Based on these progresses, on March 15, Prime Minister Abe held a press conference and declared to the related countries that Japan had decided to participate in the TPP negotiations.

In addition, on April 12, it was confirmed that the bilateral discussion with the United States on Japan's participation had ended successfully. (Refer to "Overview of agreements at Japan-US conference" (Figure II-1-1-10))

Figure II-1-1-10

## Overview of agreements at Japan-US conference

### 1. The letter from Ambassador Sasae to Ambassador Marantis

Prime Minister of Japan, Mr. Shinzo Abe, has formally announced his decision to seek participation in the TPP negotiations. The Government of Japan and the Government of the United States have been conducting bilateral consultations on Japan's interest in joining the TPP negotiations, and as a result of those consultations, I have the honor to confirm the following on behalf of the Government of Japan:

Through these consultations, our two Governments have confirmed that should Japan participate in the TPP negotiations, Japan would join others in achieving a comprehensive, high-standard agreement, as described in the Outlines of the TPP Agreement announced by TPP leaders on November 12, 2011. As two of the largest and most advanced economies in the region, Japan and the United States will work together to further enhance economic growth, expand bilateral trade and strengthen the rule of law.

To this end, the two Governments have decided to address in parallel to the TPP negotiations a number of key non-tariff measures (NTMs) in the areas of insurance, transparency/trade facilitation, investment, IPR, standards, government procurement, competition policy, express delivery and SPS\*. Negotiations on these NTMs will commence when Japan joins the TPP negotiations. The two Governments confirm that these NTMs will be addressed by the conclusion of the TPP negotiations between the two countries and that outcomes achieved on these NTMs will be tangible and meaningful, and implemented through legally binding agreements, exchange of letters, new or amended regulation or law, and/or other mutually-agreed upon means, at the time when the TPP agreement takes effect with respect to both countries.

The United States has continually expressed longstanding concerns regarding trade in the motor vehicle sector. After discussing such concerns and how they can be addressed, the two Governments have decided to conduct negotiations on motor vehicle trade in parallel to the TPP negotiations, commencing at the time when Japan joins the TPP negotiations, according to the attached Terms of Reference. Furthermore, based on the Joint Statement between Japan and the United States on February 22, 2013, in conducting the TPP market access negotiations, the two Governments confirm that U.S. tariffs on motor vehicles will be phased out in accordance with the longest staging period in the TPP negotiations and will be backloaded to the maximum extent, and that such treatment will substantially exceed that provided in KORUS for U.S. tariffs on motor vehicles.

Japan and the United States look forward to working together closely in the TPP negotiations on rules and market access, recognizing that both countries have bilateral trade sensitivities, such as certain agricultural products for Japan and certain manufactured products for the United States.

\*Japan and the United States will work together on the SPS issues in the parallel bilateral negotiations pursuant to the WTO SPS Agreement.

### 2. The letter from Ambassador Marantis to Ambassador Sasae

I am pleased to acknowledge the receipt of your letter of April 12, 2013, regarding our bilateral consultations on Japan's interest in joining the TPP negotiations, and I have the honor to confirm on behalf of my Government the following, as described therein:

Through these consultations, our two Governments have confirmed that should Japan participate in the TPP negotiations, Japan would join others in achieving a comprehensive, high-standard agreement, as described in the Outlines of the TPP Agreement announced by TPP leaders on November 12, 2011. As two of the largest and most advanced economies in the region, Japan and the United States will work together to further enhance economic growth, expand bilateral trade and strengthen the rule of law.

To this end, the two Governments have decided to address in parallel to the TPP negotiations a number of key non-tariff measures (NTMs) in the areas of insurance, transparency/trade facilitation, investment, IPR, standards, government procurement, competition policy, express delivery and SPS\*. Negotiations on these NTMs will commence when Japan joins the TPP negotiations. The two Governments confirm that these NTMs will be addressed by the conclusion of the TPP negotiations between the two countries and that outcomes achieved on these NTMs will be tangible and meaningful, and implemented through legally binding agreements, exchange of letters, new or amended regulation or law, and/or other mutually-agreed upon means, at the time when the TPP agreement takes effect with respect to both countries.

The United States has continually expressed longstanding concerns regarding trade in the motor vehicle sector. After discussing such concerns and how they can be addressed, the two Governments have decided to conduct negotiations on motor vehicle trade in parallel to the TPP negotiations, commencing at the time when Japan joins the TPP negotiations, according to the attached Terms of Reference. Furthermore, based on the Joint Statement between Japan and the United States on February 22, 2013, in conducting the TPP market access negotiations, the two Governments confirm that U.S. tariffs on motor vehicles will be phased out in accordance with the longest staging period in the TPP negotiations and will be backloaded to the maximum extent, and that such treatment will substantially exceed that provided in KORUS for U.S. tariffs on motor vehicles.

Japan and the United States look forward to working together closely in the TPP negotiations on rules and market access, recognizing that both countries have bilateral trade sensitivities, such as certain agricultural products for Japan and certain manufactured products for the United States.

\* Japan and the United States will work together on the SPS issues in the parallel bilateral negotiations pursuant to the WTO SPS Agreement.

In response to your letter, I am further pleased to confirm the successful conclusion of our bilateral consultations on Japan's interest in joining the TPP negotiations. My Government is now prepared to work with the current TPP participants to facilitate Japan's participation in the TPP negotiations as expeditiously and smoothly as possible.

### 3. Motor Vehicle Trade Terms of Reference

The Government of the United States and the Government of Japan (hereinafter referred to as “the Governments”) will conduct negotiations on motor vehicle trade in parallel to the TPP negotiations in accordance with the following:

- The outcomes of the negotiations will be WTO consistent.
- The outcomes of the negotiations will be within the scope of the authority of the Governments.
- The Governments will incorporate the rights and obligations to be agreed as a result of the negotiations into the U.S.-Japan bilateral market access schedules appended to the TPP agreement, which accordingly, will be subject to its dispute settlement procedure. A special accelerated dispute settlement procedure allowing for the reimposition of the current MFN tariffs in this sector (“snapback” procedure) will also be provided through the negotiation.

The parallel negotiations will address the following issues and will result in tangible and meaningful outcomes in these issue areas:

*Special Motor Vehicle Safeguard:* Substantive and procedural elements of a special safeguard on motor vehicles, including the injury test, duration, and compensation will be addressed, taking into account the outcome of the tariff negotiations in this sector.

*Transparency:* Both Governments recognize the importance of meaningful, predictable and robust transparency mechanisms for the preparation, adoption, and application of government regulatory measures that may impact the manufacture, importation, sale, or operation of motor vehicles. Issues will be addressed in the areas including: sufficient advance notice of proposed regulatory measures; transparency and non-discrimination related to the development of regulatory measures, including proposals for guidelines and similar measures; meaningful opportunities for input throughout the process of developing and implementing such measures; reasonable periods to comply with new regulations; post-implementation reviews of regulations; and other measures.

*Standards:* Issues related to standards, technical regulations, and conformity assessment procedures in the motor vehicle sector, and related issues including auto parts, will be addressed, including further facilitation and cost reduction of type approval. Both Governments further recognize the importance of bilateral cooperation to harmonize standards for motor vehicle environmental performance and safety, with particular focus on work underway in the World Forum for Harmonization of Vehicle Regulations of the United Nations Economic Commissioner for Europe (WP.29).

*PHP Certification System:* Substantial steps for further facilitation under Japan’s Preferential Handling Procedure (PHP) certification system for motor vehicles will be addressed in the parallel negotiations.

*Green/New Technology Vehicles:* Both Governments recognize the importance of facilitating trade in motor vehicles utilizing alternative fuels or energy sources, and will address emerging issues related to manufacture, importation, sale and operation of these vehicles, including the need to ensure non-discrimination.

*Financial Incentives:* Without prejudice to the sovereign right of a government to manage its own taxation system, fiscal incentives or other measures will be addressed with reference to their impact on competitive condition in the markets of both countries to ensure that such measures do not have the effect of discriminating against U.S. motor vehicles including those imported under the PHP program.

*Distribution:* Issues related to the distribution and servicing of motor vehicles will be addressed.

*Third Country Cooperation:* Various motor vehicle issues including, but not limited to, ways for facilitating market access and investment in other countries will be discussed.

*Other Issues:* Other issues, including customs issues, related to motor vehicle trade policies may be raised upon the request of either Government, and be included in the parallel negotiations upon mutual agreement.

Source: Ministry of Economy, Trade and Industry.

On April 20, at the TPP ministerial meeting held in Indonesia, Japan’s participation in the negotiations was welcomed by the 11 countries, and the “Joint Statement of TPP Ministers” was announced (Figure II-1-1-11).

In this joint statement, it was stated that Japan “can then join the TPP negotiations upon completion of current members’ respective domestic processes”, and the United States government, on the afternoon of April 24 (United States time), notified Congress of Japan’s participation in the negotiations. Japan plans to formally participate in negotiations upon the completion of all the related nations’ domestic processes, including the “90-day comment period of the U.S.”<sup>8</sup>.

<sup>8</sup> The United States must notify Congress at least 90 days before starting negotiations following the Trade Promotion Authority (TPA) legislation procedures, which expired in 2007.

**Figure II-1-1-11**

<div>M1</div> <div>Joint Statement of TPP Ministers (April 20)</div>
<p><b>Trans-Pacific Partnership Ministers Chart Path Forward on Key Issues and Confirm Next Steps on Japan's Entry</b></p> <p>Surabaya, Indonesia - The trade ministers of the 11 Trans-Pacific Partnership (TPP) countries -- which include Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, United States, and Vietnam -- met on the margins of the Asia-Pacific Economic Cooperation (APEC) meeting of Ministers Responsible for Trade to chart a path forward on the remaining issues that will enable them to conclude the negotiations on a 2013 timeframe as instructed by TPP Leaders. They also discussed the status of their discussions with Japan on its interest in joining the TPP.</p> <p>As the negotiating teams prepare for the next round in Lima, Peru, set for May 15-24, ministers agreed on next steps to advance the TPP talks in a range of areas. They directed negotiators to complete their work on some chapters and to accelerate progress on more challenging issues that remain including intellectual property, competition/State-owned enterprises, and environment, as well as on the market access packages for goods, services/investment, and government procurement. Ministers committed to intensifying their own engagement over the coming months to work out solutions to outstanding sensitive issues and to achieve the TPP Leaders' objective of a high-quality, ambitious, and comprehensive agreement this year.</p> <p>Ministers also confirmed that each TPP member has concluded bilateral consultations with Japan regarding Japan's interest in joining the TPP. Today, Ministers agreed by consensus to finalize with Japan the process for entry in a manner that allows the negotiations to continue expeditiously toward conclusion as was done with other members that joined the negotiations in progress. Japan can then join the TPP negotiations upon completion of current members' respective domestic processes.</p> <p>With Japan's entry, TPP countries would account for nearly 40 percent of global GDP and about one-third of all world trade. TPP Ministers noted that Japan's participation in the negotiation will underscore the economic significance of TPP and its promise as a pathway toward a Free Trade Area of the Asia Pacific.</p>

#### **[China-Japan-Korea FTA] (under negotiation)**

Since the supply chains across the three countries of Japan, China and Korea are closely connected, strengthening economic ties among these three countries is essential to Japan's economic growth. Realization of a FTA among China, Japan and Korea (CJK FTA) will contribute to achieving a Free Trade Area of the Asia Pacific (FTAAP) as well as making progress in the ongoing process of economic integration in East Asia.

The three countries conducted Trilateral Joint Research Project on a CJK FTA from 2003, and decided to start Joint Study for a CJK FTA among governmental officials, business and academic participants in the first half of 2010 at the 6<sup>th</sup> Trilateral Economic and Trade Ministers' Meeting in October 2009. Following this, the Joint Study was launched in May 2010, and then completed in December 2011. At the 5<sup>th</sup> Trilateral Summit Meeting in May 2012, the countries agreed to start CJK FTA negotiations within the year. In November 2012, the launch of the FTA negotiations was announced at the Trilateral Economic and Trade Ministers' Meeting held during the East Asia Summit.

In March 2013, the 1<sup>st</sup> round of negotiations was held in Korea and the scope and method of negotiations, amongst others, were discussed. The next round of negotiations is scheduled to be held in China.

#### **[Regional Comprehensive Economic Partnership : RCEP] (under negotiation)**

As previously discussed, a high level supply chains have already been established in the East Asia region. However, further liberalization of trade and investment within this region will play an important role of deepening the regional economic integration. More specifically, if a regional EPA

that covers this entire region can be achieved, it will be possible for companies to establish production networks that achieve optimal production distribution and strategic locations, and this is expected to lead to a strengthening of international competitiveness for the East Asian industries. Furthermore, this will ease the burden on companies utilizing EPAs due to unification in rules and simplification of procedures.

In the East Asia region, in parallel with bilateral EPA/FTAs with each ASEAN country and EPA/FTAs with ASEAN (such as [ASEAN-Japan Comprehensive Economic Partnership Agreement \(AJCEP\)](#), ASEAN-China Free Trade Area (ACFTA)), Studies have been conducted for the following two regional economic partnerships. The first is the framework of East Asia Free Trade Area (EAFTA) based on “ASEAN+3 (10 countries of ASEAN + Japan, China and Korea)”, and the second is the framework of Comprehensive Economic Partnership in East Asia (CEPEA) based on “ASEAN+6 (Japan, China, Korea, India, Australia, New Zealand)”.

These two frameworks have been discussed between governments and in private researches since 2005. In November 2011, at the East Asia Summit, ASEAN proposed, in light of EAFTA and CEPTA the framework of Regional Comprehensive Economic Partnership (RCEP) that integrates the existing EPAs between ASEAN and six countries. From 2012, discussions have been proceeded concerning trade in goods, trade in services and investment, then after a year of study among governments, in November 2012 at the East Asia Summit, the heads of state for the 16 countries (10 countries of ASEAN and Japan, China, Korea, India, Australia and New Zealand) approved “Guiding Principles and Objectives for Negotiating the Regional Comprehensive Economic Partnership”(hereinafter “the Guiding Principles”)and declared commencement of RCEP negotiations. The Guiding Principles listed coverage of negotiations such as intellectual property, competition, economic cooperation and dispute settlements in addition to trade in goods, trade in services and investment, and declared to pursue the goal of completing agreements by the end of 2015. The 1<sup>st</sup> RCEP negotiation meeting was held in May 2013, and in addition to the plenary meeting by senior officials, working groups were held for trade in goods, trade in services and investment.

Furthermore, there is the a necessity of deepening comparisons and researches for ASEAN+1 FTAs in terms of trade and investment liberalization, and the Economic Research Institute for ASEAN and East Asia (ERIA) (refer to column) is expected to play an important role.

## **Column 2 ERIA**

ERIA is an international institution made up of the 16 countries of the East Asia region (10 countries of ASEAN, Japan, China, Korea, India, Australia and New Zealand), which was established in Jakarta, Indonesia in June 2008. ERIA is based in Asia which would be a world growth center and works to achieve a rich economic society and resolve common regional issues. Based on these principles, it sets three pillars namely “Deepening Economic Integration”, “Narrowing Economic Gaps” and “Sustainable Development” and conducts investigations, researches, and symposiums. It



also makes policy recommendations at such events as the East Asia Summit and ASEAN Summit. The main achievements for these three pillars in the 2012 fiscal year are shown below.

### **(1) Deepening Economic Integration**

Continuing from the 2011 fiscal year, ERIA performed tasks such as analyzing the harmonization and disparity of the rules of origin and comparing the liberalized sectors in the existing ASEAN+1FTAs, and then presented agendas towards RCEP negotiations. To move forward with achieving ASEAN economic community by 2015, ERIA completed a mid-term review of the blueprint (plan of action) created by ASEAN and gave a report of it at the ASEAN Summit-economic ministers' meeting. Furthermore, ERIA also performed research regarding the expected state of the ASEAN region after 2015. It is expected that initiatives will be launched for medium and long term issues towards further economic integration for ASEAN and East Asia, which are not just the elimination of tariffs but also the reduction of domestic regulations and non-tariff measures.

### **(2) Narrowing Economic Gaps**

As an initiative for narrowing economic gaps within the region, ERIA established a "Comprehensive Asia Development Plan" in the 2010 fiscal year. Furthermore, it assisted with the ASEAN "Master Plan on ASEAN Connectivity". It proposed 695 infrastructure development projects (total sum of 390 billion dollars) that would be effective for the development of the entire region as priority projects in the "Comprehensive Asia Development Plan", and 75% or more of these projects have gone through the feasibility study stage. ERIA plans to continue giving assistance and following up to accelerate the implementation of these plans. Furthermore, to improve the connectivity of the Mekong region, it is advancing preparation towards establishing the "Myanmar Comprehensive Development Vision" in tandem with the Myanmar government. In other aspects, it is developing a small and medium company policy index in light of the effect of regional integration on small and medium companies, and is also engaged in research towards strengthening networks of small and medium companies that exceed national boundaries.

### **(3) Sustainable Development**

Since its inception, ERIA has performed researches towards achieving sustainable development, such as the analysis of potential for energy saving and the development of biofuel standards. In the 2012 fiscal year, it established an energy unit to strengthen ERIA's role for the energy sector. In addition, at the East Asia energy ministers' meeting in September 2012, it revived the existing achievements concerning the reinforcement of the East Asia energy partnership, and agreed to start five researches with itself at the core, : (1) establishment of a medium and long term energy supply and demand forecast for the East Asia region, (2) optimization of large area electric infrastructures, (3) energy saving in transport departments by using smart city transportation, (4) strategic utilization of coal in East Asia regions, and (5) safe management of nuclear power generation.

These various activities of ERIA have been evaluated highly by ASEAN and the East Asia economic ministers and heads of state, and ERIA in turn has encouraged the continuous contribution

to the ASEAN Summit and the East Asia Summit etc. In 2013, in the think tank ranking announced by the University of Pennsylvania that targeted 6,603 institutes in the world, ERIA was given the 28<sup>th</sup> position in the international economic policy sector, and this increased its international reputation.

### **[Japan-EU EPA] (under negotiation)**

For initiatives with the main countries and regions other than the Asia-Pacific region, there is the EPA negotiations with the EU. EU is the largest trade partner besides the Asia-Pacific region, and the total amount of trade between Japan and the EU is approximately 13 trillion yen as of 2012<sup>9</sup>, this is 3<sup>rd</sup> biggest trading partner in the world for Japan and 7<sup>th</sup> biggest trading partner in the world for the EU. Japan's EU investment balance is approximately 21 trillion yen as of 2012, and the EU's Japan investment balance is approximately 7 trillion yen as of 2012<sup>10</sup>. There are approximately 2,400 Japanese companies within the EU and approximately over 430,000 people are working for them. Strengthening the economic relationship between Japan and the EU through the Japan-EU Economic Partnership Agreement (EPA) is advantageous for the economic growth of both parties, and has the possibility of comprehensively strengthening their relationship, including the view of political security based on reinforcing interdependence and mutual trust. Furthermore, in July 2011, the Korea-EU FTA was temporarily put into effect so there is concern of a competitive disadvantage in the European market among Japan's industries. These are why the early realization of a Japan-EU EPA is expected.

Between Japan and the EU, there was the agreement at the periodic Japan-EU summit in May 2011 for both parties to launch the scoping procedure to stipulate the scope of the negotiations. After the completion of the scoping procedure, at the Foreign Affairs Council of the EU in November 2012, the European Commission obtained the negotiating mandate from the member states. Then the launch of Japan-EU EPA negotiations was agreed at the Japan-EU summit telephone talks held in March 2013.

At the 1<sup>st</sup> negotiation meeting held in April, the negotiation sectors and how to proceed were discussed. There were also discussions at expert meetings about sectors such as trade in goods, trade in services, investment, intellectual property rights, non-tariff measures and government procurement. The 2<sup>nd</sup> negotiation meeting is scheduled to be held in Tokyo in June.

## **(2) Other economic partnership initiatives**

### **[Japan-Australia EPA] (under negotiation)**

Negotiation with Australia initiated in April 2007. The EPA with Australia will contribute to strengthening of "comprehensive strategic relations" with Australia, which shares the fundamental values and strategic interests with Japan, and expansion of trade

<sup>9</sup> Source: Ministry of Finance, Trade Statistics of Japan

<sup>10</sup> Source: Ministry of Finance, Balance of Payments/Bank of Japan, Regional Portfolio Investment and Financial Derivatives Position

and investment is expected from removal of customs duties and other relevant measures. As Japan is largely dependent on Australia for resources such as iron ore and coal, we expect that the EPA will contribute to stable supplies of resources, energy and food.

At the 16<sup>th</sup> negotiations meeting held in June 2012, there were discussions about issues such as trade in goods, trade in services, investment, energy and mineral resources, and food supply. Also in December of that year, at the Japan-Australia summit telephone talks, both parties agreed to cooperate to aim for an early conclusion.

#### **[Japan-Mongolia EPA] (under negotiation)**

Mongolia is a nation of resources that owns abundance of mineral resources such as coal, uranium and rare metals. By improving the investment environment related to such items as energy and mineral resources through EPA conclusions with Mongolia, it is expected to strengthen the economic relationship between both countries by further increasing trade and investment. Until now, industry, government and academia representatives from both parties have attended the government-private sector joint research for Japan-Mongolia EPA for three times, in June and November of 2010, and March 2011. This resulted in the completion of a report that included a proposal to the heads of states of both countries to enter Japan-Mongolia EPA negotiations promptly. After receiving this, in March 2012 at the Japan-Mongolia summit meeting, Japan and Mongolia agreed to start EPA negotiations with the aim of establishing a mutually beneficial and complementary economic relationship.

The 1<sup>st</sup> negotiation meeting was held in June 2012 and the 2<sup>nd</sup> was held in December 2012. At the 3<sup>rd</sup> negotiation meeting held in April 2013, there were discussions about a wide range of sectors, such as trade in goods, trade in service, rules of origin, custom procedures, investment, intellectual property, competition, cooperation, and improvement of business environments.

#### **[Japan-Canada EPA] (under negotiation)**

Canada has abundance of energy and mineral resources: it has the world's 2<sup>nd</sup> largest oil reserves including oil sand after Saudi Arabia, the 2<sup>nd</sup> largest uranium producer, the 3<sup>rd</sup> largest nickel producer, the 4<sup>th</sup> largest zinc producer. From the perspective of guaranteeing stability for these resources, there is a great significance to deepen the economic relationship with Canada.

Japan has held joint research with Canada four times, in March, April and July of 2011, and January 2012. After receiving the report from this collaborative research, the summit meeting of March 2012 agreed to start bilateral EPA negotiations to open paths to substantial economic profits for both countries.

Negotiations began in November 2012, and at the 2<sup>nd</sup> negotiation meeting held in April 2013, development in a wide range of issues such as trade in goods, trade in service, rules of origin, intellectual property and competition was observed.

#### **[Japan-Colombia EPA] (under negotiation)**

Colombia is a market with a population of 46 million people that has high growth potential (average of over 4% in the next five years), and is expected to increase exports and imports due to the improvement of the trade and investment environment through EPA. At the summit meeting in September 2011, it was agreed to start joint research of EPA, and the meetings have been held three times by May 2012. In July of that year, the reports was issued showing that the possible EPA would yield large profits for both countries, and at the Japan-Colombia summit meeting in September, there was an agreement to start EPA negotiations.

The negotiations started in December 2012, and at the 2<sup>nd</sup> negotiations meeting in May 2013, there were discussions about a wide range of issues such as trade in goods, trade in service, rules of origin, custom procedures, intellectual property, competition, cooperation and improvement of business environment.

#### **[Japan-GCC FTA] (under negotiation)**

Negotiations with the GCC countries were started in September 2006, and two official meetings and four interim meetings have been held until March 2009. However, due to the GCC's request, the negotiation was suspended in July 2009, and Japan is now encouraging the GCC to resume the negotiation. The GCC region accounts for approximately 75% (in 2012) of Japan's total crude oil imports, and the total export value from Japan to this region reached 2 trillion yen in 2012. Furthermore, thanks to the demand for large infrastructure development resulting from the increasing population in this region, many countries are actively promoting marketing activities by means of joint government and private sector efforts. Not to mention the perspective of trade and investment expansion as well as energy security, it is important for Japan to create and maintain friendly relations, including economic relations, with GCC countries.

#### **[Japan-Korea EPA] (under-negotiation, suspended)**

After starting negotiations in December 2003 for the EPA with Korea, the 6<sup>th</sup> negotiation meeting in November 2004 is the latest time and the negotiations have been suspended. However, in the wake of Japan-Korea summit meeting in 2008 working level talks have been held towards resuming negotiations. At the Japan-Korea summit meeting in October 2011, there was agreement for a real implementation of practical work required to resume negotiations, and there has been advances on coordination to resume negotiations such as having talks of the level of division chief.

#### **Japan-Turkey EPA (under joint study)**

Turkey is a market with a population of 75.6 million people and a high growth potential (average of approximately 5% in the next five years), and is expected to increase exports and imports by improving the trade and investment environment through EPA. Turkey and Japan held the 1<sup>st</sup> Japan-Turkey trade and investment Ministerial meeting in July 2012, and agreed to start joint study towards the Japan-Turkey EPA. Joint study meeting has been held twice until February 2013.

In addition, at the Japan-Turkey summit meeting held in May 2013, it was agreed to enhance their economic relationship to a higher level through promoting trade and investment between both countries, and in this context, to accelerate the process for the conclusion in Japan-Turkey EPA negotiation in near future.

As stated above, This ends the introduction of EPA/FTAs that are under negotiations and joint research. However, to respond to requests from globally expanding businesses, it is also important to improve the concept of the existing EPAs (renegotiation) and promote the smooth use of EPA/FTAs in addition to the initiatives towards concluding these new agreements.

As of June 2013, Japan has 13 EPAs that have been put into effect (Singapore, Mexico, Malaysia, Chile, Thailand, Indonesia, Philippines, Brunei, ASEAN, Switzerland, Vietnam, India and Peru). It can be said that these EPAs have come to be used widely by companies and there are at an “application and operation stage”. At this stage, in order to promote international development of Japanese companies, it is important to improve the quality of EPAs throughout the “EPA life cycle”: (1) attempting to enforce the EPAs to steadily, (2) improving the business environments to make governments and private sectors able to utilize and benefit from EPAs, and (3) understanding the problems and new needs through reality checks and leading to improvements.

### **Column 3 ASEAN Economic Community**

For Japanese companies, ASEAN is becoming more important as consuming markets and production bases. It is important for Japan to develop a better business environment for companies while assisting in the initiatives for ASEAN economic integration.

ASEAN has been advancing the establishment of the ASEAN Free Trade Area (AFTA) from the 1990s, and signed the ASEAN Trade in Goods Agreement (ATIGA) in 2009. In 2010, tariffs were eliminated among the six ASEAN countries (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand), and until 2015, there is a plan to eliminate tariffs among all ASEAN countries including the CLMV countries (Cambodia, Lao PDR, Myanmar, and Vietnam). Furthermore, ASEAN is advancing economic integration not only the elimination of tariffs but also the liberalization of trade in services and investment, trade facilitation, harmonization and mutual recognition of standards, and regional cooperation to correct disparities. In 2007, it adopted the progress schedule (blueprint) that aims to achieve ASEAN Economic Community (AEC) in 2015. 2013 is the 40<sup>th</sup> year of ASEAN-Japan friendship and cooperation, and it will be beneficial to use this opportunity to further strengthen cooperation relationships between Japan and ASEAN.

At the 18<sup>th</sup> Consultations between the ASEAN Economic Ministers (AEM) and the Minister for Economy, Trade and Industry (METI) of Japan in August 2012, the “ASEAN-Japan 10-year Strategic Economic Cooperation Roadmap” was established with the goal of doubling the flow of trade and investment between Japan and ASEAN and by the year 2022 and establishing the win-win relationship for each party. Initiatives have been advancing under the three pillars of (1) Integration of Markets in ASEAN and the East Asia region in a Mutually Beneficial Manner, (2) Strengthening Industrial Cooperation towards More Advanced Industrial Structures, and (3) Improving Economic Growth and

Standard of Living. To be more precise, Japan and ASEAN are engaged in such tasks as the promotion of RCEP as an institution to deepen and develop the production networks among Japan and ASEAN, the consolidation of hard and soft infrastructure with the aim of developing more efficient production networks, and the prevalence of environmental technologies and goods that enable sustainable economic growth.

In particular, for the consolidation of a hard and soft infrastructure, they specified the priority projects “Master Plan on ASEAN Connectivity” adopted by ASEAN 2010 and the “Comprehensive Asia Development Plan” elaborated by ERIA. In 2011, Japan also indicated as “Flagship Projects” to promote 33 priority projects such as the development of harbors and railways that link each country. It is intended to perform these projects steadily through cooperation with ministers in charge of development and foreign ministers of each country and international bodies such as ERIA and ADB.

Furthermore, after accomplishing the free trade region due to the achievement of ASEAN Economic Community in 2015, there must be an advance in initiatives towards further integration and economic development of ASEAN and the East Asia region. In the future, it will be important to discuss among the entire East Asia region including Japan about the middle and long term issues: addressing the domestic measures including the reduction of non-tariff measures and domestic regulations, and promoting the new industries such as distribution and medical services.

## **Section 2 Promoting the conclusion of investment and tax agreements towards cultivating an emerging nation market**

### **1. Investment agreements**

From the 1980s, the world’s foreign direct investment has expanded rapidly, and it has greatly fulfilled the crucial role of being the driving force for the growth of the world economy. Foreign direct investment stock relative to GDP has been increasing: in 1980 the outward FDI stock was 5.8% and the inward FDI stock was 5.3%, but in 2011 these values came to be 30.4% and 29.3% respectively<sup>11</sup>. As to looking at Japan’s balance of payments, reflecting the increase in securities investment income and direct investment income, the 2012 balance of income was in the black at approximately 14.3 trillion yen, while balance of trade was in the red at approximately 5.8 trillion yen, so the balance of income has been in excess of the balance of trade<sup>12</sup> for eight years.

As shown by the expansion of foreign direct investment, the overseas expansions of Japan’s companies have been advancing, and it is crucial for Japan’s future economic growth to develop businesses strategically in emerging countries. To promote the expansion of Japanese companies in emerging countries, it is important to reduce the investment risk by removing barriers to reflow of funds and entering into the nation. As a means to this, Japan has a policy to upgrade and expand investment agreements.

Investment agreements are treaties between countries that promise the protection of investors and

---

<sup>11</sup> Source: *World Investment Report 2012* (UNCTAD).

<sup>12</sup> Source: Ministry of Finance, International Balance of Payments

their investments in the host countries and the liberalization of investment among the contracting parties. They also stipulate the content for the promotion of investment such as the protective measures for investors and their investments and the obligations to improve the transparency of regulation.

### (1) Policy for investment agreements

Japan has signed 32 investment agreements and Economic Partnership Agreements including investment chapters, and of which 25 have been entered into effect (as of June 2013) (Figure II-1-2-1). Most of the partners are Asian countries. For the purposes of promoting the overseas expansion of companies and ensuring the stable supplies of minerals and energy resources, and with due consideration of the needs of Japanese industries and the progresses in negotiations of Economic Partnership Agreements including investment chapters, Japan will accelerate the conclusions of investment agreements. For this purpose, Japan will establish and promote the policy towards effective utilization and furthering the conclusion of investment agreements. Furthermore, Japan will strengthen the capacity of competent authorities to achieve these objectives. In particular, it is necessary to accelerate the conclusions of agreements with African countries that Japan has few agreements (only with one country - Egypt).

The following factors will be considered comprehensively to determine a more definite order of priority<sup>13</sup>.

- (1) Japan's investment achievements and forecast of investment expansion
- (2) Necessity of improving the investment environment and the demands of Japanese industries including the liberalization level for foreign capital)
- (3) Importance as a supply source of origin for energy and mineral resources
- (4) Governance capacity and political stability
- (5) Political and diplomatic significance

**Figure II-1-2-1 Investment-related agreements of Japan**

Concluded partner country (includes region)	Signed	Brought in force
Egypt	January 28, 1977	January 14, 1978
Sri Lanka	March 1, 1982	August 7, 1982
China	August 2, 1988	May 14, 1989
Turkey	February 12, 1992	March 12, 1993
Hong Kong	May 15, 1997	June 18, 1997
Pakistan	March 10, 1998	May 29, 2002
Bangladesh	November 10, 1998	August 25, 1999

<sup>13</sup> (Source) *Concerning the strategic use of the Bilateral Investment Treaty (BIT)* (announced by Ministry of Foreign Affairs on June 10, 2008).

Russia	November 13, 1998	May 27, 2000
Mongolia	February 15, 2001	March 24, 2002
Singapore (Economic Partnership Agreement)	January 13, 2002	November 30, 2002
South Korea	March 22, 2002	January 1, 2003
Vietnam	November 14, 2003	December 19, 2004
Mexico (Economic Partnership Agreement)	September 14, 2004	September 17, 2005
Malaysia (Economic Partnership Agreement)	December 13, 2005	July 13, 2006
Philippines (Economic Partnership Agreement)	September 9, 2006	December 11, 2008
Chile (Economic Partnership Agreement)	March 27, 2007	September 3, 2007
Thailand (Economic Partnership Agreement)	April 3, 2007	November 1, 2007
Cambodia	June 14, 2007	July 31, 2008
Brunei (Economic Partnership Agreement)	June 18, 2007	July 31, 2008
Indonesia (Economic Partnership Agreement)	August 20, 2007	July 1, 2008
Lao PDR	January 16, 2008	August 3, 2008
Uzbekistan	August 15, 2008	September 24, 2009
Peru	November 21, 2008	December 10, 2009
Vietnam (Economic Partnership Agreement) *1	December 25, 2008	October 1, 2009
Switzerland(Economic Partnership Agreement)	February 19, 2009	September 1, 2009
India (Economic Partnership Agreement)	February 16, 2011	August 1, 2011
Peru (Economic Partnership Agreement) *2	May 31, 2011	March 1, 2012
Papua New Guinea	April 26, 2011	-
Colombia	September 12, 2011	-
Kuwait	March 22, 2012	-
China and South Korea	May 13, 2012	-
Iraq	June 7, 2012	-
Saudi Arabia	April 30, 2013	-
Mozambique	June 1, 2013	-

Notes 1: Incorporated the Japan-Vietnam investment agreement brought into force on December 19, 2004.

Notes 2: Incorporated the Japan-Peru investment agreement brought into force on December 10, 2009.

Notes 3: In addition, There is also an agreement with Taiwan that was signed among a private institutions on September 22, 2011 and the procedures for this were concluded on January 20, 2012.

Note 4: Data is at the end of April, 2013.

Source: Ministry of Economy, Trade and Industry.

## (2) Investment agreements around the world

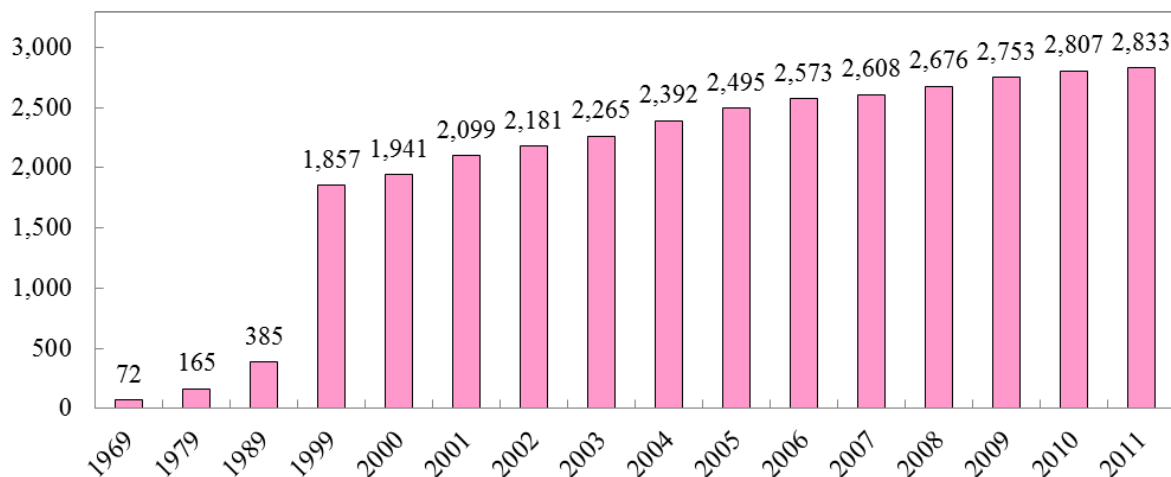
Based on the expansion of foreign direct investment as above, each country has concluded investment agreements to protect their own investors and their investments from risks such as



discriminatory treatment and expropriation (including nationalization) in the host country. Investment rules have been established as bilateral or regional agreements because of the lack of no multilateral agreement such as the WTO agreement for trade.

The number of investment agreements has increased greatly and reached 2,833 as of 2011 (Figure II-1-2-2). Germany, China, United Kingdom and France have concluded around 100 investment agreements each.

**Figure II-1-2-2 Development investment agreements around the world**



Source: *Recent developments in international investment agreements (2008-June.2009)*,  
*World Investment Report 2012 (UNCTAD)*.

### **(3) Key elements of investment agreements**

In the past, investment agreements have been concluded with the main purpose of protecting investors from country risks such as arbitrary operation of laws and expropriation of investment by the host countries.. This type of agreement is called “investment protection agreements” and contains national treatment and most-favored-nation treatment after the establishment of investment, the requirements for expropriation and the calculation method for the compensation, freedom of transfers, state-state dispute settlement procedures and investor-state dispute settlement procedures. From the 1990s onward, the other type of investment agreements (investment protection, and liberalization agreements) have emerged that contain not only the investment protection elements but also national treatment and most-favored-nation treatment at the pre-establishment stage, prohibition of performance requirements<sup>14</sup>, prohibition of foreign investment restrictions, obligation to make effort for progressive liberalization, and securement of transparency (such as publication of laws and prompt responses to questions from the partner country) (Figure II-1-2-3)<sup>15</sup>.

<sup>14</sup> For example, a specific imposed requirement as an investment condition such as to satisfy a given percentage of local contents or export a given percentage of manufactured goods.

<sup>15</sup> NAFTA investment chapter is typical example. In the case of Japan, bilateral EPA investment chapters, and Japan-South Korea, Japan-Vietnam, Japan-Cambodia, Japan-Laos DR, Japan-Uzbekistan, Japan-Peru investment agreements are of this type.

Disputes regarding the provisions of investment agreements are, under certain conditions, settled on the rules of state-state dispute settlements procedures (SSDS) or investor-state dispute settlement procedures (ISDS). SSDS procedures in Japan's investment agreements provide the mechanism to settle the disputes among the contracting parties regarding such as interpretation and application of the agreement.

ISDS procedures enable investors incurring damages due to the breaches of the investment agreements by the host country to submit the matters to international arbitration based on ICSID<sup>6</sup> Arbitration Rules and UNCITRAL<sup>7</sup> Attribution Rules.

According to UNCTAD, the first ISDS case based on international investment agreement was submitted in 1987, and the number of ISDS cases (number of submissions of claim to the arbitration body) was only 14<sup>16</sup> in 1998<sup>17</sup>. Then after the latter half of the 1990s, it has increased<sup>18</sup> rapidly to be at 450 cases in total as of the end of 2011. Meanwhile, there has only been one case, in which an overseas subsidiary of a Japanese company submitted a claim based on an agreement among foreign countries<sup>19</sup>.

---

<sup>16</sup> Asian Agricultural Products Limited v.s. Sri Lanka (ICSID Case No. ARB/87/3).

<sup>17</sup> UNCTAD (2005) "Investor-State Disputes Arising from Investment Treaties: A Review".

<sup>18</sup> In 1996, the NAFTA-*Ethyl Corporation* case (a United States company, Ethyl Corporation, submitted to arbitration by claiming that the environmental regulation by Canada constituted expropriation under NAFTA. The Canadian government then reached a settlement and paid money to Ethyl Corporation) increased the awareness to investment arbitration.

<sup>19</sup> In 1998, a subsidiary of Japanese securities company based in London submitted a claim to arbitration under the UN Commission on International Trade Law (UNCITRAL) by claiming that the measures taken by Czech Republic towards a Czech bank, which had been acquired by the subsidiary via a Dutch company, constituted a violation of Czech-Netherlands investment agreement.

**Figure II-1-2-3 Significance of concluding investment agreements**

Significance of concluding investment agreements	
1. Fair treatment for investors and protection for investment property	
(1) Business permission received cannot be retracted later	
(2) Business assets cannot be expropriated or nationalized	
(3) Prevents conditions in which business cannot continue due to enhanced regulations (indirect expropriation)	
(4) Concession contracts and investment contracts concluded with governments of partnering countries are observed (umbrella clause)	
(5) Freedom to transfer money to Japan is guaranteed	
2. Prohibits discriminatory treatment between companies other than the local capital (foreign companies) (Most Favored Nation (MFN))	
3. Prohibits discriminatory treatment between local capital companies (National Treatment (NT))	
4. Commits to provide fair and equitable treatment for investment property and investors (FET)	
5. Prohibits the following investment authorization requirements through agreements (prohibits performance requests (PR))	
(1) Requests to export a fixed rate and standard of goods and services	
(2) Requests to achieve a fixed rate and standard of local procurement	
(3) Requests to prioritize the use or purchase of local goods and services	
(4) Requests to relate import amount and value with export amount and value or amount of acquired foreign currency	
(5) Requests to relate domestic sales amount and value for produced goods and services with export amount and value or amount of acquired foreign currency	
(6) Requests to limit exports or export sales	
(7) Requests for directors and managers to be a certain nationality	
(8) Requests to transfer technology to local capital partners	
(9) Requests to set up a management base locally in a certain region	
(10) Requests to employ a fixed rate or number of local people	
(11) Requests to invest a fixed amount of R&D budget locally	
(12) Requests to supply products exclusively to a certain region (not establish a supply base in a different country)	

\*If a partnering country violates any of these obligations, the investor can submit to an international arbitration commission against the state.

Source: Ministry of Economy, Trade and Industry

Source: Ministry of Economy, Trade and Industry.

## 2. Tax conventions

### (1) The role of tax conventions and overview of the current state

Tax conventions adjust international double taxation by establishing a scope of taxable income relates to the investment and economic activity between both countries. Furthermore, convention conclusion makes legal frameworks. The frameworks are for exchanging tax payer information and mutual agreement procedure between tax authorities for both countries. The conclusion contributes to prevent tax avoidance, tax evasion and dispute settlements in taxation field. This maintains legal stability of taxation for companies starting operations overseas while it is expected to further promote investment and economic exchange, such as Japanese companies contributing to facilitate flow back earnings from foreign investment.

Japan has concluded 54 tax conventions as of the end of April 2013, and has applied them to 65 countries and regions (Figure II-1-2-4).

**Figure II-1-2-4 List of countries and regions that have concluded tax conventions with Japan**

Japan tax convention parties –Listed by region(54conventions,65 countries and regions/as April 2013)			
<East/South East Asia>	<Middle and Near East>	<East Europe/Central Asia>	<Europe>
Indonesia	Israel	Azerbaijan	Ireland
South Korea	Egypt	Moldova	UK
Malaysia	Saudi Arabia	Ukraine	Italy
Singapore	Turkey	Kyrgyzstan	Austria
Thailand	<Africa>	Georgia	Finland
China	Zambia	Tajikistan	Holland
Philippines	South Africa	Turkmenistan	Switzerland
Vietnam		Belarus	Sweden
Brunei	<North America>	Uzbekistan	Luxembourg
Hong Kong	US	Kazakhstan	Spain
<South Asia>	Canada	Russia	Denmark
India		Armenia	Germany
Sri Lanka	<Central America/Caribbean>	Slovakia	Norway
Pakistan	Brazil	Czech Republic	France
Bangladesh	Mexico	Hungary	Belgium
<Oceania>	Bermuda*	Bulgaria	Isle of Man*
Australia	Bahama*	Poland	Liechtenstein*
New Zealand	Cayman Islands*	Romania	
Fuji			

\*Based on information exchange regulation in relation to tax

Source: Ministry of Economy, Trade and Industry.

## (2) Conclusion and revision status of latest tax conventions

In recent years, the conclusion of tax conventions has advanced mainly in terms of information exchange that contributes to prevent international tax evasion and tax avoidance, and revisions with developed countries, and new convention conclusions with resource-rich countries such as the Middle East. In particular, for revisions with developed countries such as the United States and New Zealand, an arbitrary system is introduced to prompt for a resolution which a third party that is not the tax authority is involved, if the case is not settled after a fixed period of time from the start of the mutual agreement procedure while tax at the source principle for investment income (such as dividends or interest) is further reduced or exempted.

It is important to comprehensively consider the perspectives such as Japan's industrial sector needs and the appropriate maintenance of Japan's tax rights, and accelerate initiatives for upgrading and expanding tax convention networks that contribute to assisting the expansion of companies overseas. More specifically, it is necessary to advance new convention conclusions with countries that have not concluded on conventions while revising existing conventions, for reinforcing the content such as by clarifying the scope of taxable income from business activities overseas, lowering the tax rate limit for the source principle of investment income, and introducing an arbitrary system (Figure II-1-2-5).

**Figure II-1-2-5 Latest details and status**

(As of April 2013)		
- Signature		
January 2010	Japan-Luxembourg tax treaty (Part)	(Effective in 2011)
January 2010	Japan-Belgium tax treaty (Part)	(Revision still pending)
February 2010	*Japan-Bermuda tax treaty (New)	(Effective in 2010)
February 2010	Japan-Singapore tax treaty (Part)	(Effective in 2010)
February 2010	Japan-Malaysia tax treaty (Part)	(Effective in 2010)
February 2010	Japan-Kuwait tax treaty (New)	(Still pending)
May 2010	Japan-Switzerland tax treaty (Part)	(Effective in 2011)
August 2010	Japan-Holland tax treaty (Full)	(Effective in 2011)
November 2010	Japan-Saudi Arabia tax treaty (New)	(Effective in 2011)
November 2010	Japan-Hong Kong tax convention (New)	(Effective in 2011)
January 2011	*Japan-Bahama tax convention (New)	(Effective in 2011)
February 2011	*Japan-Cayman Islands tax convention (New)	(Effective in 2011)
June 2011	*Japan-Isle of Man tax convention (New)	(Effective in 2011)
December 2011	*Japan-Jersey tax convention (New)	(Still pending)
December 2011	*Japan-Guernsey tax convention (New)	(Still pending)
December 2011	Japan-Portugal tax treaty (New)	(Still pending)
July 2012	*Japan-Liechtenstein tax convention (New)	(Effective in 2012)
December 2012	Japan-New Zealand tax treaty (Full)	(Revision still pending)
January 2013	Japan-America tax treaty (Part)	(Revision still pending)
- Basic agreement		
December 2011	Japan-Oman tax convention (New)	
September 2012	*Japan-Samoa tax convention (New)	
October 2012	Japan-United Arab Emirates tax treaty (New)	
March 2013	Japan-United Kingdom tax treaty (New)	
April 2013	*Japan-Macao tax convention (New)	
April 2013	*Japan-British Virgin Islands tax convention (New)	
- Current formally negotiating countries		
Federal Republic of Germany		
1) *Based on information exchange regulation in relation to tax		
2) (Full): Full revision, (Part): Partial revision, (New): New treaty		

Source: Ministry of Economy, Trade and Industry.

### Section 3 Initiatives towards the formation of world and regional scale rules

In addition to concluding bilateral and regional economic partnership agreements, establishing world and regional scale rules through frameworks such as WTO and APEC is an important initiative to improve the overall productivity of the Japanese economy by developing Japan's trade and investment environment

#### 1. World Trade Organization (WTO) as a system for multilateral free trade

At the 8<sup>th</sup> WTO Ministerial Conference (MC8) held in December 2011, after acknowledging that a simultaneous conclusion of all elements of the Doha Development Round is unlikely in the near future, Ministers recognized that WTO Members need to more fully explore different negotiating approaches, and agreed to commit to advance negotiations where progress can be achieved. In 2012, Members identified trade facilitation, some elements of agriculture and development as areas with the potential for nearer term outcomes. Negotiations focusing on the three areas are being held with the aim of delivering a concrete outcome at the 9<sup>th</sup> WTO Ministerial Conference (MC9) in Bali, Indonesia, in December 2013. This section will provide an overview of WTO initiatives to deter protectionism, the Doha Round negotiation status, and initiatives outside the Doha Round such as Information Technology Agreements (ITA) expansion negotiations and Trade in Services Agreement (TiSA).

## **(1) Resisting protectionism**

Following the world economic crisis that stemmed from the Lehman Shock in September 2008, political pressure in each country increased to seek the introduction of protective measures with the purpose of supporting domestic industries and providing job security<sup>20</sup>. There was strong concern that the submission to this political pressure by one country would lead to other countries following suit or seeking retribution, causing protectionism to spread around the globe. Despite this difficult situation, the multilateral trading system, with WTO at its center, deterred protectionism and played an important role in promoting free trade.

As initiatives to resist protectionism at the multilateral level, (1) international political agreements in fora such as APEC and G20, (2) a WTO monitoring mechanism for trade policies in each country, and (3) the enforcement of rules under dispute settlement procedures, deserve mention. (3) will be explained in Section 3, and an overview for (1) and (2) is shown below.

### **(A) International political agreements**

International high level political statements to resist protectionism have been adopted at the G20 and APEC Summits. Member countries have the obligation to follow WTO rules, but political statements are significant in that they prompt Members to adhere to higher levels of commitment.

To effectively counter protectionism, the G20 and APEC political statements include two important concepts. The first is “standstill” commitment, a political agreement that prohibits the introduction of new protectionist measures. The second is “rollback” commitment, which promises to rectify protectionist measures that are already in place<sup>21</sup>. At the Vladivostok APEC Summit, in addition to the above two commitments, Leaders agreed to exert maximum restraint in implementing measures with a significant protectionist effect, even if such measures are WTO-consistent<sup>22</sup>.

### **(B) Monitoring of trade policy for each country**

After receiving a request from Leaders at the G20 London Summit on April 2, 2009, WTO has continued its practice (which began at the end of 2008) to monitor and provide quarterly reports on trade measures in each country<sup>23</sup>. More specifically, reports<sup>24</sup> on trade measures of G20 Members and reports<sup>25</sup> on WTO Members have been issued, and the results of the former have been reported at G20 Summits. These reports strengthen the monitoring of trade measures around the world, and are

---

<sup>20</sup> Refer to Chapter 2 Section 3 for *White Paper on International Trade and Economy 2009*.

<sup>21</sup> The standstill and rollback commitments of the Cannes Summit were reconfirmed at the 2012 G20 Los Cabos Summit. (Declared by heads of state during the G20 Cannes Summit in June 2012).

<sup>22</sup> 20<sup>th</sup> APEC ECONOMIC LEADERS’ MEETING DECLARATION *Integrate to Grow, Innovate to Prosper* (September 2012, Vladivostok APEC)

<sup>23</sup> To monitor and report on trade policy for each country for consistent support for economic crisis, on October 14, 2008, the WTO established a task force to investigate the effects of financial crisis within the different areas of the Secretariat.

<sup>24</sup> For the G20, the three organizations of WTO, OECD and UNCTAD report on the trade and investment measures of each G20 country.

<sup>25</sup> The WTO Director-General declared all affiliate countries’ trade related measures to be under the responsibility of the Director-General.

expected to prevent the spread of protectionist measures during phases of global recessions.

The 8th edition of “Reports on G20 Trade and Investment Measures” indicates that while protectionist measures newly introduced by G20 countries during the investigation period<sup>26</sup> decreased compared to the previous period, protectionist measures in place continued to increase. The report calls on G-20 governments to show leadership in preserving market openness.

Furthermore, based on the Ministerial agreement at the 8<sup>th</sup> WTO Ministerial Conference<sup>27</sup> in December 2011, the WTO Director-General periodically collects information on trade restrictions in each country and gives an account of the reports to Members. The report announced at the end of June 2012 pointed out that trade policies of some countries are turning inward-looking, and that recent protectionist measures “seem no longer to be aimed at combatting the temporary effects of the global crisis, but rather at trying to stimulate recovery through national industry planning, which is an altogether longer-term affair”.

The monitoring feature, which developed after the world economic crisis, is now an important feature of the WTO and is vital in deterring protectionism.

## **(2) Doha Round negotiations (promoting multilateral negotiations)**

### **(A) Development of GATT/WTO until now**

Under GATT (General Agreement on Tariffs and Trade), which was signed in 1948, countries taking part held eight rounds of multilateral negotiations aimed at establishing free and fair trade rules. Negotiations through a number of Rounds<sup>28</sup> brought about a gradual decrease in tariffs as well as a series of agreements on non-tariff barriers, and after the conclusion of the Uruguay Round in 1993, GATT was expansively reorganized to form the WTO (World Trade Organization).

The WTO inherited GATT’s mission of eliminating tariff and non-tariff barriers and strengthening multilateral trade rules through Rounds, and also expanded the area of jurisdiction to include intellectual property rights and trade in services. In addition, the dispute settlement mechanism was drastically strengthened. Compared to GATT, the WTO became a broader and more effective organization.

### **(B) Doha Round negotiations features and details<sup>29</sup>**

The Doha Development Agenda (hereon referred to as Doha Round) launched at the 4<sup>th</sup> WTO Ministerial Conference (2001) in Doha, Qatar, not only deals with liberalization of trade in goods, but also addresses areas that reflect globalization and IT advancements of the 21<sup>st</sup> century, such as trade in services, anti-dumping, subsidies, environmental issues and LDC issues. The promotion of the Doha

---

<sup>26</sup> Over six months from May to October 2012.

<sup>27</sup> “TRADE POLICY REVIEW MECHANISM”(WT/L/848)(WTO,2011)

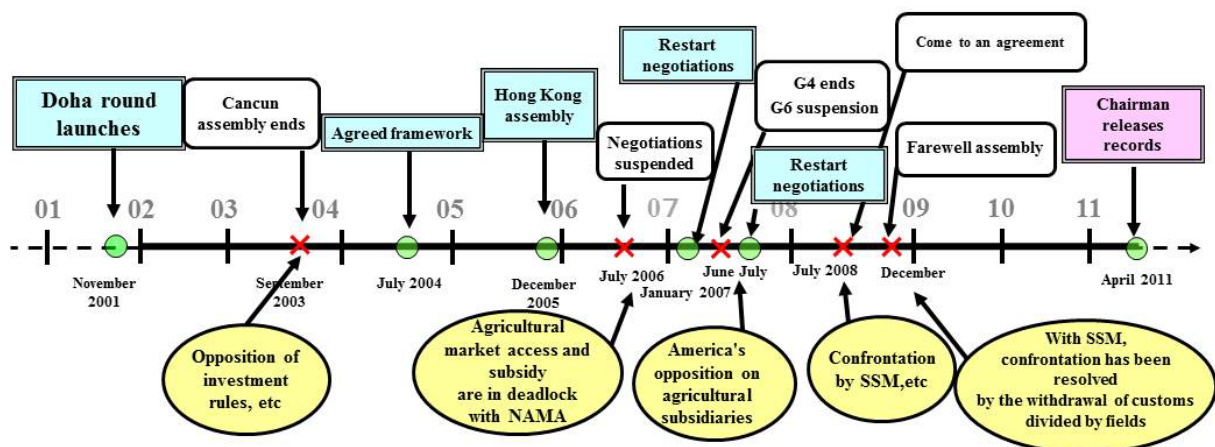
<sup>28</sup> Since the 5<sup>th</sup> negotiation round launched in 1960 (Dillon Round), multilateral negotiations have been referred to as Rounds.

<sup>29</sup> Compiled by Ministry of Economy, Trade and Industry, International Trade Policy Bureau, 2011 *NENDO BAN FUKOU HEI BOUEKI HOUKOKUSHO* (2011) detailed in document Chapter 1 Doha Development Agenda Trends.

Round for Japan is of high importance since it results, inter alia, in (1) the lowering of tariffs in other advanced countries and major developing countries, (2) a greater and easier access of Japan's service sector to foreign markets, (3) improved predictability through stronger trade rules, which help prevent trade disputes, and (4) movements towards structural reforms in member countries and regions.

Concluding the Doha Round is a complex and challenging task, given that the Round aims for an agreement between member countries and regions which greatly differ in interests or in levels of development. The afore-mentioned Uruguay Round went on for eight years, and its conclusion was only possible thanks to persistent efforts by all negotiators. After the breakdown in negotiations at the Informal Ministerial Meeting in July 2008, the Doha Round negotiations stagnated due to conflicting interests between developed, emerging and developing economies. However, the negotiations gained momentum in autumn 2010 with the view that year 2011 will be a critically important "window of opportunity"<sup>30</sup>. On April 21, 2011, negotiating chairs circulated documents representing the product of the work in their negotiating groups (Figure II-1-3-1).

**Figure II-1-3-1 Doha Round negotiations details**



Note 1: G4 is the US, EU, India and Brazil. G6 is G4 + Japan and Australia.

Note 2: SSM are special safeguard measures for the agriculture industry of developing countries.

Source: Ministry of Economy, Trade and Industry.

It was the first time that documents on all negotiation areas of the Doha package have been issued together, and this was no doubt a necessary first step towards reaching an agreement, but the content of the documents reflected the stark reality of negotiations. The cover note<sup>31</sup> by WTO Director-General Pascal Lamy (issued with the documents) likewise pointed out that, as regards market access for industrial products, there exists a clear political gap that is "not bridgeable", and added that this is a "grave situation" for the Round. Further negotiations were held to seek landing zones in each area, but after Members concluded that reaching a package-based partial agreement would be difficult, the focus of discussions shifted to the post-2011 action plan of the Doha Round.

On a political level, at the Cannes G20 Summit and Honolulu APEC Economic Leaders' Meeting and Ministers' Meeting in November 2011, leaders and ministers committed to approach the 8<sup>th</sup> WTO

<sup>30</sup> Refer to such as 2010 Yokohama APEC ministerial declaration, G20 Seoul Summit results document.

<sup>31</sup> Cover note by TNC chair (TN/C/13)



Ministerial Conference “with a view to fresh thinking and a determination to begin exploring fresh and credible approaches”. At the 8<sup>th</sup> Ministerial in December 2011, in the Elements of Political Guidance under the Chairman’s Concluding Statement, it was acknowledged that a simultaneous conclusion of all elements of the Doha Development Round is unlikely in the near future. Ministers recognized that WTO Members need to more fully explore different negotiating approaches, and agreed to commit to advance negotiations where progress can be achieved (Figure II-1-3-2).

**Figure II-1-3-2 Doha Round items negotiated in a single undertaking and main points**

<b>Agriculture industry</b>	Reduce domestic subsidiary aid, reduce tariff, consider developing countries
<b>NAMA (non-agriculture industry product market access)</b>	Reduce tariff, (Swiss formula, abolish tariff by sector), abolish non-tariff barriers
<b>Service</b>	Liberalization such as reduction of foreign investment restrictions, strengthen disciplinary rules such as transparency for domestic restrictions
<b>Rules</b>	Strengthen disciplinary rules for anti-dumping and subsidiary aid
<b>Trade facilitation</b>	Simplify and speed up trade procedures, assist developing countries as part of this
<b>Development</b>	Special handling of developing countries (S&D)
<b>TRIPs (intellectual property rights)</b>	Geographical indicators for wine and spirits, multilateral report registration system
<b>Trade and environment</b>	Trade facilitation and liberalization affected by physical goods related to the environment and services.

Source: Ministry of Economy, Trade and Industry.

### (C) Trends after April 2012

At the G20 Trade Ministerial Meeting held in Puerto Vallarta, Mexico on April 19-20, OECD and WTO reported on research regarding global value chains. Participating countries agreed that trade facilitation is an important and promising area, and a consensus was reached that talks on trade facilitation should be advanced without linking it to other negotiation areas. Via discussions at the Informal Ministerial Meeting held in Paris, France on May 23, the Meeting of APEC Ministers Responsible for Trade held in Kazan, Russia on June 4-5, and the APEC Ministerial Meeting held in Vladivostok, Russia on September 5-6, major economies further agreed to discuss technical issues on trade facilitation. Some developing countries, however, stressed that outcomes must be delivered in the area of agriculture before progress on trade facilitation can be made.

As regards trade facilitation, specific, technical discussions have taken place repeatedly and gradual progress has been made on the consolidated draft text (essentially the trade facilitation agreement proposal). On agriculture, the Group of 20 developing countries in September made a proposal seeking agreement on improvements in tariff-rate quota (TRQ) administration, with Brazil playing a central role. In November, in a movement led by India, the Group of 33 developing countries proposed adopting provisions that would loosen domestic support disciplines in order to enhance food security by supporting poor farmers.

On January 26, 2013, Toshimitsu Motegi, the Minister of Economy, Trade and Industry and Taku Eto, the Minister of Agriculture, Forestry and Fisheries attended the WTO Ministerial Meeting in Davos, Switzerland, and the means to achieving concrete outcomes at MC9 were discussed. Trade facilitation, and some elements of agriculture and development were raised as deliverables, and ministers agreed to evaluate progress on these three areas in spring.

On April 11, an informal trade negotiation committee was held to evaluate the situation. Progress on the three areas was deemed insufficient and Members decided to accelerate works with a strong sense of urgency.

Likewise, at the 2013 Meeting of APEC Ministers Responsible for Trade held in Surabaya, Indonesia from the 20<sup>th</sup> to 21<sup>st</sup> of April, strong concern was shown for the delay in negotiations and many ministers stated that WTO Members should show the political will and flexibility necessary to show convergence by MC9.

With the differences between developed and developing countries becoming apparent — as characterized by the conflict between the United States and India over trade facilitation and the G33 food security proposal — a SOM (Senior Officials Meeting) was held in Geneva by a joint host of Australia and China on April 30 with the hope that some countries would show flexibility, but unfortunately no significant progress was made. At the Informal WTO Ministerial Meeting in Paris, France on May 30, Ministers agreed that negotiations on trade facilitation, some elements of agriculture and development are not on a path that provides confidence of success, and called on all WTO Members to work with flexibility and realism in order to achieve significant and substantive outcomes at MC9.

After the world economic crisis, a time in which countries could easily become inward-focused, it is important for each country to share the merits of free trade and to work towards maintaining and strengthening a multilateral trading system with WTO at its core. Japan will follow this notion and will continuously work towards advancing negotiations.

### **(3) Russia's accession to the WTO**

The number of WTO Members has increased since the establishment of the organization. The original membership was 128 countries and regions, but as of June 2013, there are 159 Members. From 2012 until the end of June 2013, six countries became new Members; namely Vanuatu, Samoa, Montenegro, Laos DR, Tajikistan and Russia. A further increase in membership is expected in the future, and this trend will help sustain the foundations of the free trade system.

In June 1993, Russia applied for accession to GATT, body that preceded WTO, and in the same year a Working Party on Russia's accession was established.

Russia completed bilateral negotiations regarding accession with 58 Members including Japan. The negotiation with Japan was concluded in November 2005, and in terms of other countries, Georgia was the last to conclude in November 2011. The military conflict between Russia and Georgia in August 2008 and Russia's announcement in June 2009 that it would join the WTO as a custom union comprised of Russia, Kazakhstan and Belarus (the custom union came into effect in January 2010) led

to suspensions of the Working Party; but in May 2010, following the official statements from the three countries above that they will each seek WTO membership separately, accession talks resumed. In December 2011, at the 8<sup>th</sup> WTO Ministerial Conference, accession was approved and Russia officially became a WTO Member on August 22, 2012.

Russia's membership is expected to yield the following benefits for Japan.

Regarding tariffs, the current average effective tariff rate for industrial goods is 9.5%, but this will be reduced finally to 7.3%. Likewise, for all goods (including agricultural goods), the average will be reduced from 10% to 7.8%.

As for the service sector, foreign capital restrictions in the telecommunication sector will be abolished within four years of WTO accession, while Russia has also made commitments in logistics services such as the immediate liberalization regarding the establishment of local subsidiaries with 100% foreign capital involved in wholesale, retail and franchise.

At the same time, the Russian government reduced vehicle import tariff in accordance with WTO affiliation in September 2012, but also introduced a car scrapping tax (or recycle tax) for vehicles. This system has a different way of treating imported cars and those that are manufactured domestically, which probably violates the WTO agreement. Therefore, Japan has continued to express its concern from the time this recycle tax was implemented, and has repeatedly requested the Russian government to observe the WTO agreement and use a system and operation that does not discriminate between foreign or domestic cars. The Russian government, with regards to the demands of Japan and the EU, in April 2013, submitted an amendment bill to the State Duma that had a recycle tax system that did not discriminate between foreign or domestic cars. While discussions are taking place towards putting this bill into effect on July 1, it will be necessary to observe the future trend of this action.

#### **(4) Agreement on government procurement revision negotiations**

The agreement on Government Procurement that came into effect in 1996 provided for the conduct a new negotiation within three years after the agreement came into effect. Therefore in 1997, the Commission on Government Procurement started negotiating for revisions of the Agreement on Government Procurement with the following three points as the major areas to be reviewed, (i) improvement of the Agreement and the simplification of procedures, (ii) abolition of discriminatory measures and procedures that inhibit open procurement, and (iii) expansion of the scope of covered procurement (such as procurement agencies).

For (i) and (ii), a provisional agreement on proposed revision of the Agreement's article was reached in December 2006. For (iii), bilateral negotiations conducted based on requests for the expansion of coverage and offers regarding expansion submitted between contracting countries based on the modality (negotiation framework) agreed July 2004. Since it was not easy to bridge the differences in perceptions between the contracting countries, agreement was not reached for many years. However, negotiations were substantially concluded on December 15, 2011, during the WTO Ministerial Meeting on Agreement on Government Procurement, which was held prior to the 8<sup>th</sup> regular WTO Ministerial Conference and then on March 30, 2012, the revised agreement was

officially adopted by the Committee on Government Procurement. The revised Agreement expands the scope of covered procurement – such as by expanding the entities that each country includes as subject to the Agreement – creating more government procurement markets. For example, Japan decreased thresholds of procurement of goods and services to be opened internationally, the United States added coverage of ten federal government organizations, and South Korea added coverage such as subways and ten central government organizations. According to the WTO General Council, it is estimated that an expanded government procurement market ranging in size from 80 billion to 100 billion dollars is to be created. Furthermore, the Agreement articles were revised, introducing clauses to promote the accession of developing countries such as provision of S&D (special and different treatment) of developing countries. In the background of this revision, most of the contracting countries of the Agreement on Government Procurement are developed countries. Therefore, promoting the accession of developing countries, which possess potentially large government procurement markets, is one of the major tasks for the future. Furthermore, it is anticipated that participation by foreign suppliers in government procurement procedures will be easier implementing provisions for conducting more effective procurements, such as promoting the use of electronic procedures.

## **(5) ITA expansion negotiations**

### **(A) Expansion negotiations details**

ITA (Information Technology Agreement) is an agreement for zero concessional tariff in affiliate countries concerning 144 items of IT goods (only goods listed in Appendix A<sup>32</sup> at HS 6-digit level). In December 1996, during the Singapore WTO Ministerial Conference, the 29 countries and regions such as Japan, The United States, EU and South Korea came to this agreement and enforced it in 1997. After this, the number of participating countries increased such as the inclusion of China, India and Thailand so that as of June 2013, 76 countries and regions were participating in the agreement (however, main Central and South American countries such as Mexico and Brazil, and also South Africa have not yet participated). The ITA goods from these countries account for 97% or more for the overall value of world trade, and ITA contributes to the abolition of tariff for approximately 15% (4.8 trillion dollars in 2011) of the overall value of world trade. Main targeted goods are semi-conductors, computers, communication devices, and semi-conductor manufacturing machines.

It has been 16 years since this agreement came into force, and because technology has progressed during this time, the industry in each country of the world has high expectations for this agreement goods list to expand and for more clarification on the range of targeted goods for the list.

More specifically, this agreement aims to expand the list of goods to target new ITA for goods with advanced features due to the progress of technology, digitized equipment such as medical devices and video cameras, and new integrated circuits that now have many features and are very advanced, and

---

<sup>32</sup> The list of ITA targeted goods is comprised of Appendix A (targeted goods are goods specified by HS) and Appendix B (goods list targeted regardless of classification).

return to the range of goods and refer to WTO dispute settlement procedures from the past, and it also aims to clarify such things as ITA goods (including the transfer of Appendix B of the current agreement to Appendix A).

#### **(B) Details until expansion negotiations started**

In March 2011, the 39 industrial groups from 17 countries and regions such as Japan, the United States, South Korea and Taiwan (later in May of the same year this was 41 groups from 18 countries and regions) expressed a joint declaration to demand the expansion of ITA. In response to this declaration, almost all of the main ITA participating countries (such as Japan, The United States, China, South Korea and Taiwan) attended APEC, where Japan and the United States coordinated to start working towards ITA expansion negotiations through WTO. More specifically, at the Honolulu APEC Summit in November 2011, there was agreement to “demonstrate leadership by starting negotiations towards the APEC economy expanding goods and membership.

In response to this APEC Summit declaration, the Japan-US partnership coordinated opinions from the agreement participating countries and aimed to start negotiations in the first half of 2012. At this time, during the last stages of launching the negotiations, the EU insisted that ITA expansion negotiations take place after linking them with the tariff negotiations and non-tariff barrier negotiations, and while the Doha Round was stagnating, to answer the expectations of the industrial sector, consultations were continued between each country such as Japan and the United States, who expressed that they should focus on tariff negotiations to produce quick results for the ITA expansion through WTO. Japan and the United States partnered with each country and urged the EU, so that finally the EU agreed to drop the negotiations for tariff and non-tariff barriers.

In May 2012, countries such as Japan and the United States cooperated and submitted what was called a concept paper to the WTO to start expansion negotiations, then on May 14, at the ITA official commission meeting held the day after the ITA15 anniversary symposium held by the WTO Director-General in Geneva, there was strong affirmation from each country to start work for ITA expansion, and real negotiation began on this subject.

#### **(C) Current state of expansion negotiations**

After the end of May 2012, about once every month, negotiation meetings among interested countries such as Japan, the United States, EU, South Korea, Taiwan and Malaysia are held in Geneva, and proceed to create a carefully organized “candidate goods list” built up from goods requested by the interested countries.

During the negotiation talks from the autumn of 2012, the Philippines, Singapore, and the largest IT product trading country, China, participated in the negotiations, which returned to individual goods and began to more specifically adjust them. As of June 2013, current ITA targeted goods cover 90% or more of the world trade value, and 51 countries and regions (EU is 27 countries) are participating in the negotiations. From now, negotiations will be further accelerated to aim for completion by the latter half of 2013.

## **(6) Investigation of Trade in Services Agreement (TiSA)**

A long period of time passed following the implementation of GATS in 1995, during this time, starting with the spread of the internet, technical innovation has had an impact, and there have been vast changes in the actual conditions of supply and consumption of services. With a backdrop of these changes, there has been demand to establish new rules and revise commitments that support these changes of situation to the WTO. However, the negotiations of the Doha Development Agenda has been at an impasse with little prospect for rapid progress, member countries have been promoting liberalization of service trade through conclusion of FTAs/EPAs.

In this situation, at the 8<sup>th</sup> WTO Ministerial Conference in December 2011, Ministers agreed that (1) they remain committed to work actively toward a successful multilateral conclusion of the Doha Development Agenda that developing countries strongly support, and (2) total completion of Doha Development Agenda single undertaking was not possible to fulfill at the moment, and Members need to more fully explore different negotiation approaches that built on possible results from such as partial agreements and prior agreements.

Following the 8<sup>th</sup> WTO Ministerial Conference, from the beginning of 2012, as part of the “different negotiation approaches”, discussions have started regarding the establishment of new agreement for progressing the liberalization of trade in services among interested Members. On July 5, 2012, with the aim of encouraging participation in discussions from and guaranteeing transparency to countries other than the coalition countries and regions, and to maintain and increase momentum for the negotiations, a media release “Advancing Negotiations on Trade in Services” was officially announced that summarized agreements on the direction of discussions for approximately half a year until that time<sup>33</sup>. The coalition countries and regions including Japan, advanced discussions towards appropriate and new service trade agreements for the 21<sup>st</sup> century such as commitment methods for liberalization, new rules and methods to increase participating countries. In December 2012, it was agreed to aim to start negotiations early in 2013. There are 22 countries and regions that are members as of the end of June 2013, these are Japan, Australia, Canada, Chile, Colombia, Costa Rica, the European union, Hong Kong China, Iceland, Israel, Mexico, New Zealand, Norway, Pakistan, Panama, Paraguay, Peru, Republic of Korea, Switzerland, The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, Turkey and the United States of America,.

## **(7) Enforcing current WTO agreements (rules)**

WTO agreements establish free and fair trade rules, and at the same time, provide disciplinary rules that affect dispute settlement procedures, which make settlements by interpreting and applying the rules when trade conflicts or disputes occur between WTO members. WTO dispute settlement procedures not only provide remedial recommendations for problem measures, but also procedures to invoke countermeasures in cases when recommendations are not implemented, and therefore have a

---

<sup>33</sup> Refer to Foreign Ministry website at [http://www.mofa.go.jp/mofaj/gaiko/wto/service/pdfs/mrelease1205\\_j.pdf](http://www.mofa.go.jp/mofaj/gaiko/wto/service/pdfs/mrelease1205_j.pdf).

high level of effectiveness in comparison to other international dispute settlement procedures. Seeking a revision to statutes and measures of foreign countries and regions that violate WTO agreements naturally leads to elimination of Japan's disadvantages, and is important for guaranteeing the effectiveness of WTO agreements. Furthermore, it is necessary to make arguments in and deal with trade conflicts based on the rights and obligations stipulated in the WTO agreements so that they do not turn into political problems.

Under this policy, in addition to through bilateral negotiations, Japan is requesting improvements to policies and measures of other countries that violate the WTO agreements by applying WTO dispute settlement procedures. The WTO has considerably increased number of requests for consultation under the dispute settlement procedures in comparison to the GATT era due to the results of vastly strengthening the dispute settlement procedures, and affiliate countries are actively using the trade rules for dispute settlement. Since the establishment of WTO in 1995, there have been 459 cases that used WTO dispute settlement procedures (Figure is as of June 5, 2013). Out of this number, Japan has 17 cases in which requested consultation as a complainant, and has participated in many cases as a third-party.

#### **Column 4 Cases that are working to be resolved by referring to dispute settlement procedures**

Japan is working towards improvements through various opportunities such as bilateral negotiations and WTO dispute settlement procedures concerning policies and measures of foreign governments that violate WTO agreements. Recent examples are shown below for Japan's attempt to settle disputes by referring to the WTO dispute settlement procedures as an involved nation.

##### **(1) Unwarranted dumping calculation based on the zeroing methodology (United States)**

The United States calculated dumping margins using an unwarranted methodology called zeroing. The Japanese bearing industry sector has been charged with an unwarranted anti-dumping duties based on zeroing since 1989.

In November 2004, Japan requested consultations pursuant to WTO dispute settlement procedures, and submitted that the United States zeroing practice was inconsistent with the WTO agreement. In January 2007, the Appellate Body found that zeroing was inconsistent with the WTO agreement, and recommended the United States to bring the measures into conformity with the WTO Agreement. Nonetheless, the United States in February 2007, only abolished some of the zeroing measures and did not adequately take implementation measures.

Therefore, in August 2009, the Appellate Body determined that the United States had failed to comply with the recommendations and rulings after expiry of a reasonable period of time. However, because the United States had not complied, from April 2010, Japan proceeded with an arbitration procedure to determine the level of countermeasures. In response to this, in December of the same year, the United States announced a domestic regulation reform bill to abolish zeroing. Japan, after this announcement, had informal discussions with the United States, which resulted in an agreement on a memorandum of understanding towards resolving this dispute between Japan and the United States. On the 14<sup>th</sup> of the same month, the United States announced the Department of Commerce regulation

reform, based on the memorandum of understanding, by publishing it in Federal Register (the revised regulation would apply to preliminary determinations issued after April 16 of the same year). Furthermore, in June of the same year, the United States recalculated the deposit rate in accordance with the revised regulation according to the memorandum of understanding, which changed the deposit rate for Japanese goods (stainless steel sheets) from 0.54% to 0.00%.

In response to the above United States measures, Japan, in August of the same year, withdrew its request for authorization of countermeasures in accordance with the memorandum of understanding (Japan, with the United States, notified the arbitrator that it was not necessary for the arbitrator to issue an award).

In the zeroing dispute, the United States was forced by the repeated recommendations and rulings by the WTO dispute settlement body to bring its measures into conformity with the WTO Agreement. This case showed that the WTO dispute settlement procedure is an effective means to resolve trade disputes. In order to eliminate unwarranted trade measures by the WTO dispute settlement procedure, it is important to continue to put focus on WTO disputes, not to avoid resorting to countermeasures in cases of failure for a responding party to comply with recommendations of the WTO, and to cooperate with other countries having the same concerns to intensify the pressure to resolve disputes.

## (2) Responses to China's raw material export restrictions

The Chinese government, concerning many raw material goods, created export restrictions in the form of (1) imposing export duties, (2) quantitative export restriction, and (3) setting a minimum export price. Every country then frequently call for improvements at the WTO committee and during bilateral consultations since the Chinese export restriction measures were inconsistent with GATT (General Agreements on Tariffs and Trade) or China's Accession Protocol. In response to this, Chinese government replied that the measures were consistent with Article 20 of GATT because the aim of the export restriction measures was consideration for environment and concervation of exhaustible natural resources. However, they did not give a detailed explanation about a reason that justifies the measures based on its Accession Protocol.

In June 2009, the United States and EU requested China to have a consultation as the export restriction measures for nine raw materials such as bauxite, coke and fluorspar are inconsistent with WTO agreement. And since the consultation did not reach a resolution, a panel was established in December of the same year (Japan participated as a third-party country). In July 2011, the panel report was publicly announced that Chinese export restriction measures were not consistent with the WTO agreement. In August of the same year, China appealed in January 2012, however, the Appellate Body publicly announced a report that largely supported the decision of the panel. It was then necessary for China to correct the export restriction measures that were determined to be inconsistent with the WTO agreement. In response to this, the Chinese government was given until the end of 2012 to implement the recommendation. At the end of 2012, export duties were abolished for seven items: bauxite, coke, fluorspar, magnesium, manganese, silicon carbide, and zinc. The duty rate of yellow phosphorus was



changed to be within the range stipulated in the China's Accession Protocol. In addition, China implemented the recommendation of panel, with removing bauxite, coke, fluorspar, silicon carbide and zinc from the export quota list

In March 2012, Japan, along with the United States and EU, requested consultation with China based on WTO dispute settlement procedures, concerning export restriction measures of rare earths, tungsten and molybdenum, and had the consultation in April 2012. However, since the consultation did not reach a resolution, they requested to establish a panel in June of the same year. Finally the panel was established in July of the same year, and is still in litigation (as of June 15, 2013).

### (3) Local content requirement concerning the Feed-in-Tariff System for Electricity in Ontario, Canada

The Province of Ontario in Canada established a feed-in tariff (FIT) system for electricity derived from renewable energy sources in order to promote renewable energy sources in May 2009. The Ontario provincial government obliged electricity producers, etc. to use photovoltaic or wind power generation equipment in which at least a certain percentage (including assembling and procurement of raw materials) was value added within the province, as a condition for entering the FIT system ("local content requirement"). This type of measures may be in violation of national treatment obligation of Article 3 of GATT and Article 2 of the Trade Related Investment Measures (TRIMs) as well as Article 3 of the Agreement on Subsidies and Countervailing Measures that stipulates prohibited subsidies (subsidies prioritizing domestic products).

Japan has expressed concerns to the Ontario provincial government through the local Consulate-General and other relevant bodies, and sought a settlement through bilateral discussions such as a high level approach on the Canadian federal government. However, because Canada did not respond positively, in September 2010, Japan requested a bilateral consultation under the WTO dispute settlement procedures with Canada. Following this, in June 2011, Japan requested a WTO panel to be established, and in July the panel was established. Then, the panel meetings were held in March and May of 2012. In December 2012, the panel publicly announced in its final report that it had concluded that Canada had violated Article 3 of GATT and Article 2 of TRIMs, and had shown that Canada had took unfair and favorable treatment to products from its own province, which largely approved Japan's claims that Canada should abolish the local content requirement under the FIT system based on the WTO agreement. Based on the above findings, the panel recommended Canada to bring the measures that violated GATT and TRIMs into conformity with its obligations under the WTO agreements. After this, in February 2013, Canada appealed the unsatisfactory decision to the Appellate Body, and after an oral hearing with the Appellate Body in March of the same year, the Appellate Body publicly announced a final report in May of the same year that, in conclusion, held panel's conclusions. The report was adopted by the dispute settlement body, and Japan's victory was formalized.

### (4) Implementation and expansion of Argentinian non-automatic import license system

The Argentinian government, in November 2008, introduced a non-automatic import license

system that requires applications accompanied with information such as the import company, export company, value of import goods, and the amount for metal products (such as elevators). Following this, the number of goods targeted with this system increased and reached around 600 goods. In addition, import companies had to balance their imports and exports (for example, as a condition to importing one dollar worth of goods, they were requested to export one dollar worth of goods). Furthermore, in February 2012, a system to give a statement under oath in advance was introduced as an addition to the import licensing system. This meant that importers had to apply to the Revenue Service in advance for the many items they wished to import. In January 2013, the non-automatic import license system was abolished but other measures such as the statement under oath in advance and the balancing of imports and exports continued to be used as before.

These import restricting measures including the statement under oath in advance and balance of imports and exports from Argentina possibly infringed Article 11 of GATT “general abolishment of limitations on quantity”.

Japan along with the United States and Mexico requested bilateral consultation based on WTO dispute settlements in August 2012 in light of their desire to improve the industry sector, and in September of the same year, the consultation began. However, a satisfactory settlement could not be obtained, so in December of the same year, Japan, the United States and EU requested a panel to be set up, and in January 2013 the panel was established. The panel is expected to begin the inquiry from now.

#### (5) Chinese anti-dumping measures for Japanese manufactured stainless steel seamless tubes

In September 2011, the Chinese government initiated an anti-dumping investigation on Japanese high-performance stainless steel seamless tube on a request from Chinese domestic companies. In November 2012, the Chinese government made a final determination to impose anti-dumping duties on this type of goods finding dumping, injury to the domestic industry and a causal relationship between them.

It was believed that there were many flaws in the investigation procedure such as there being insufficient explanation in the final determination notice. It was also believed that the finding of injury by dumping to the domestic industry was flawed, and the Chinese anti-dumping measures possibly was inconsistent with the Anti-dumping agreement.

At the WTO Anti-dumping committee meeting in the autumn of 2011, spring and autumn of 2012, Japan pointed out that almost all high-performance stainless steel seamless tubes exported from Japan were high-value added products used in ultra supercritical boilers at Chinese coal thermal power plants, and they did not compete with Chinese products and therefore did not cause injury to China's domestic industry. Japan also stated that it strongly desired China to make an appropriate decision considering the opinions of the Chinese domestic users of this Japanese product. After this, effort was made to resolve the issue through dialogue with the Chinese government such as a push to seek the removal of the Japanese product from the investigation, but the matter was not settled. In December 2012, Japan requested consultations with China pursuant to the DSU and on January 31 and February

1, 2013, consultations were held. However, these consultations did not lead to a resolution of the dispute, so on April 11 in the same year Japan requested the establishment of a panel. On May 24 of the same year, a panel was established by the Dispute Settlement Body (DSB) meeting.

## **2. Promoting economic growth and regional economic drive through APEC**

APEC was initiated by Japan and Australia and established in 1989, it is the framework for regional agreements in the Asia-Pacific region, and there are currently 21 countries and regions participating. At the summit held in Bogor, Indonesia in 1994, there was a decision to aim to achieve free and open trade and investment (Bogor goals) for advanced members by the year 2010 (2020 for developing members). In 1996, at the WTO Ministerial Conference, the agreement on the Information Technology Agreement (ITA) had a large effect on the establishment of world trade and investment rules, and not just the liberalization and facilitation of trade and investment in the Asia-Pacific region through such things as substantial contributions from APEC. In 2006, at the APEC Summit, it was agreed to further research methods and measures to promote regional economic integration, including the Free Trade Agreement Asia Pacific (FTAAP) as a long-term ideal. Further to this, discussions were quickly promoted regarding regional economic integration for APEC.

### **(1) History**

#### **(A) 2010 (Chairman Economy: Japan)**

In 2010, Japan, as an APEC chairman economy, sponsored a series of meetings designed to meet a specialist level of talks from a gathering of the heads of state and ministers. This resulted in the “Yokohama Vision”, a collection of goals to form a close, strong and safe community. From this, it was reported in 2010 that the vision had achieved significant progress towards achieving the Bogor goals, and it was confirmed that initiatives for regional economy integration towards achieving the 2020 Bogor goals would be promoted from now. Furthermore, tangible measures towards achieving FTAAP would be taken, and it was agreed to pursue a comprehensive free trade agreement by further developing current progressing regional initiatives such as ASEAN+3, ASEAN+6, and the Trans Pacific Partnership (TPP) agreement as the foundations. For the process of achieving FTAAP, APEC must contribute as the incubator for FTAAP, by fulfilling the important role of regulating, adjusting and handling “next generation” trade and investment issues that should be included in FTAAP. Also, to further support the growth of the Asia Pacific region as a world growth center, APEC has the goal of achieving five growths, which are balanced growth, universally broad growth, sustainable growth, innovative growth and safe growth, and the long-term comprehensive “APEC Leaders’ Growth Strategy” was established.

#### **(B) 2011 (Chairman Economy: United States), 2012 (Chairman Economy: Russia)**

At APEC in 2011 and 2012, specific discussions were held towards achieving the “Yokohama Vision” and “Growth Strategy” such as by implementing regional economic integration, promoting green growth and using innovation.

It was confirmed that to implement regional economic integration, there needed to be efforts made towards achieving FTAAP, and towards resolving next generation trade and investment issues, and regional economic integration and liberalization of trade and investment within the region.

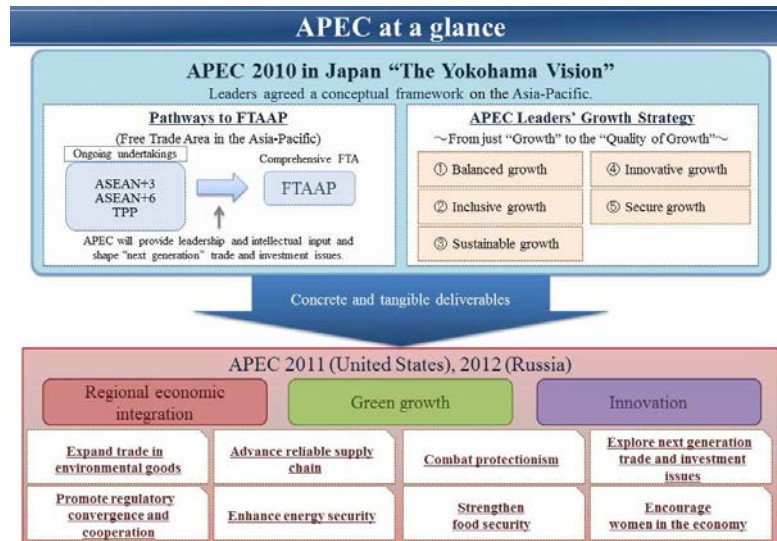
For the next generation trade and investment issues that include FTAAP, common principles were established for “implementing effective, non-discriminatory, and market driven innovation policies (innovation and trade)” and “strengthening participation of small and medium companies to the global production network”. In particular, Japan partnered with the United States and proactively became involved with the issue of “innovation and trade” and successfully incorporated the elements of “no interference from governments into technical license contracts between companies (Ensure that the terms and conditions of transfer of technology, production processes, and other proprietary information are left to the agreement between individual enterprises, consistent with WTO rules)” and “deter participation requirement settings such as the profitability of domestic companies to bid for government procurement (Refrain from adopting or maintaining measures that make the location of the development or ownership of intellectual property a condition for eligibility for government procurement preferences, without prejudice to economies' positions in the WTO)”.

In April 2012, a conference was held for “innovation and trade discussion” (cooperating countries were the United States, China, Russia, Malaysia and Taiwan) and there was agreement on discussions concerning the importance of (1) improving the foundations for trust in a free open regional economy, and building a transparent high trade and investment system in the APEC region, (2) strengthening initiatives for a regional economy integration towards FTAAP formation, (3) building an environment so that private business and other original and ingenious innovators are free from the constraints of national boundaries and organization frameworks, such as business environments with no domestic and foreign discrimination and that protect intellectual property rights, and (4) effectively introducing and promoting public and private resources and the construction of ICT networks and integrated foundations (such as logistics and energy infrastructure) that increase interconnectedness between leaders of innovation within the APEC region.

In addition, for green growth, at the 2012 Summit, there was agreement on the “APEC environmental goods list” (the list is made up of 54 items such as solar panels and wind power generator equipment) that directly and proactively contributes towards green growth and sustainable development, and in accordance with this agreement (Honolulu declaration) at the 2011 APEC Summit, the members resolved to reduce the applied tariff rates to 5% or less by the end of 2015 for each economy. Reducing the tariff on environmental goods was discussed as part of the “trade and environment” investigation following the launch of the 2001 Doha Round by the WTO but this is a difficult issue, which has not received a specific agreement to this day.

It is said that the goods and reduction targets subject to discussion at APEC and WTO were different, and that the remarkable results demonstrated by the role of APEC in promoting liberalization of trade and investment in the region was the reason that there was agreement at APEC. Furthermore, the agreement at APEC is expected to provide a new impetus for initiatives to liberalizing the environmental goods trade with WTO. (Figure II-1-3-3)

Figure II-1-3-3 Discussion trends for APEC



Source: Ministry of Economy, Trade and Industry.

## (2) Future prospects

In 2013, Indonesia took the position of chairman and held discussions based on the three priority issues of (1) achieving the Bogor goals (regional economic integration, trade and investment liberalization and facilitation), (2) sustainable growth and balance, and (3) strengthening connectivity. The results of this will be summarized at the APEC head of state and ministers’ summit held in Paris in October. Japan will steadily take over the flow of discussion based on the “Yokohama Vision” from 2010, and work on implementing and further developing regional economic integration for the Asia-Pacific region by pressing for liberalization and facilitation of trade and investment in this region. Furthermore, by incorporating enormous middle-class purchasing power and demands for such as infrastructure and a strong growth potential for this region, Japan should be able to bring about affluence and drive, and achieve a non-zero sum type trade policy.

More specifically, Japan will aim for tangible results by focusing on the three points below.

### (A) Regional economic integration, and liberalization and facilitation of trade and investment

For regional economic integration, by promoting multi-layered existing frameworks such as TPP and RCEP, Japan will lead discussions for the creation of new rules towards establishing FTAAP.

Furthermore, for the liberalization of trade for environmental goods, Japan will shift to a more specific behavior by assisting in the promotion of domestic procedures and building the capability of developing economies towards steady implementation of tariff decreases by the end of 2015 based on the APEC environmental goods list that was agreed upon at the 2012 Summit. Japan will expand the popularity of environmental goods in the Asia-Pacific region, and accelerate green growth for the entire Asia-Pacific region, while Japanese companies boost overseas expansion with their superior sectors.

### (B) Sustainable growth

Japan will implement the following three points from both perspectives of achieving sustainable growth in the region and assisting overseas expansion of Japanese companies.

(a) Spread superior low carbon technology in the region

By promoting understanding for “a bilateral offset and credit system (JCM/BOCM)” of which Japan has taken the lead on in the Asia-Pacific region, the aim is to both promote climate control for developing nations, and develop and expand overseas for such as superior low carbon technology and products from Japanese companies.

(b) Innovation

The importance of building a free, open and transparent high trade and investment system that causes innovation was confirmed constantly in discussions until 2012 concerning innovation. Japan will strengthen relationships between policy makers, scholars and the private sector who are leaders of innovation.

(c) Strengthen international competitiveness for small and medium companies

Japan will share the knowledge that small and medium companies as well as young and female entrepreneurs are the driving force that supports the economic growth in the Asia-Pacific region. Japan will strengthen international competitiveness of small and medium companies, and continue to work hard to urge them to participate in the global production network.

**(C) Strengthen connectivity**

(a) Promote infrastructure development and investment

At the 2013 APEC, initiatives were implemented towards promoting connectivity within the APEC region as one of the priority items to investigate. More specifically, promotion of infrastructure development and investment as physical connectivity, promotion of balance for all systems as systematic connectivity, and promotion of education exchange for human connectivity were investigated.

Infrastructure development is also important from the perspective of contributing to strengthen regional economic integration that targets the core of APED, and is critical to achieve economic growth within the APEC region, and awaken private investment. Japan will take advantage of the technology and knowhow it has accumulated up to this point, and respond to the huge infrastructure demand within the APEC region, as it is important to connect these to Japan's strong economic growth. Therefore, Japan will promote the development of “well-designed, sustainable, and durable” infrastructure based on comprehensive views such as lifestyle assessments, and not only the bidding price. Furthermore, while promoting infrastructure development and investment by partnering private and public, Japan will build on the capacity of local and central government leaders.

(b) Improve the toughness of the value chain

As a consequence of deepening the mutual dependent relationship in the Asia-Pacific region, the risk of a single country can increase the “systemic risk” that affects the activity of neighboring countries. It is difficult to manage the risk from a single business or single country, and Japan will use the APEC framework to promote cooperation on policy towards improving the

toughness of the value chain.