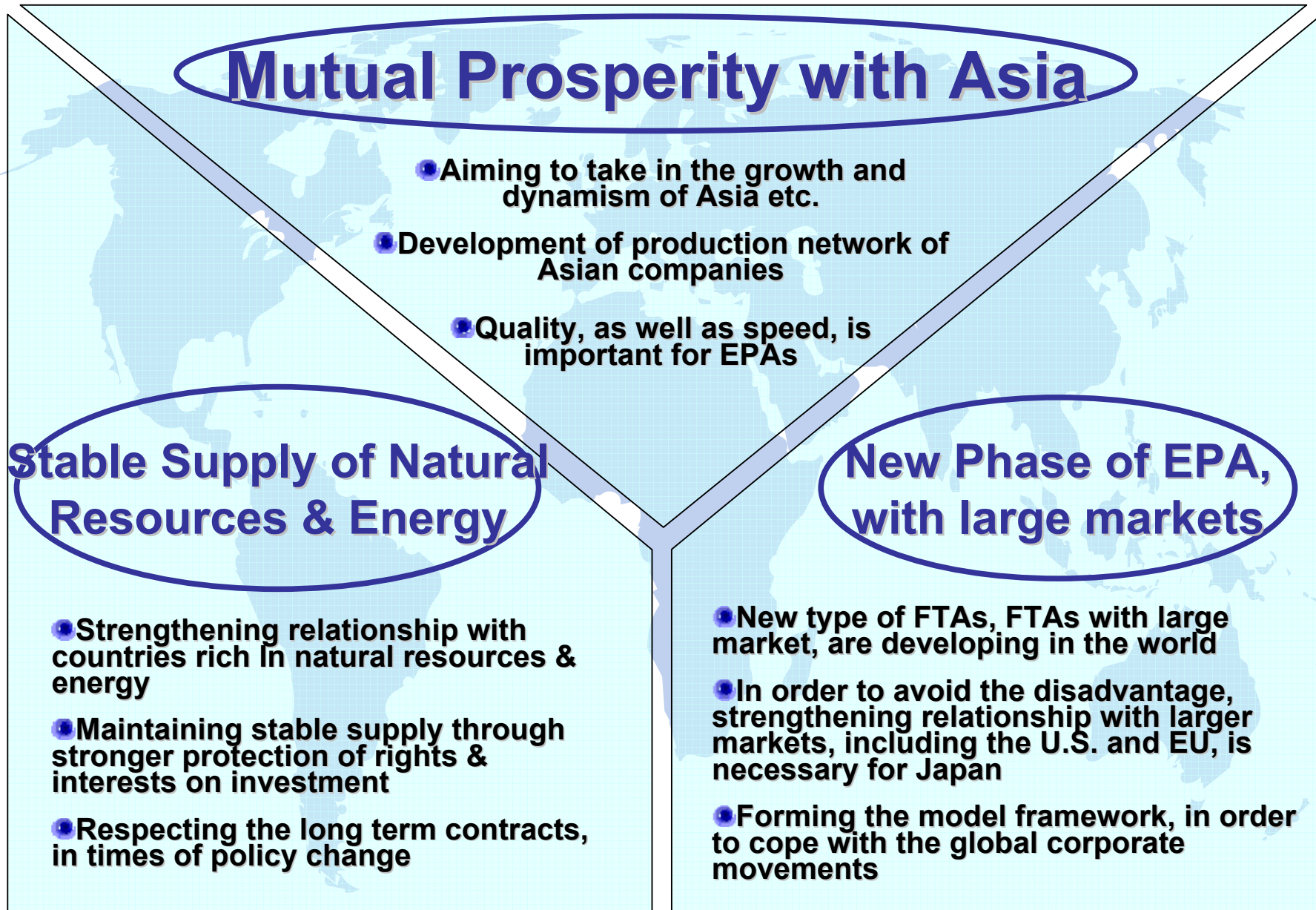


Japan's EPA/FTA Policy

August, 2007



1. Overall Picture





1-2. Current Status of Japan's EPA/FTA Negotiations

OEPA/FTA is the important key for Japan to activate her economy, and strengthen her international competitiveness

OMainly with East Asia, Japan has currently concluded EPA/FTA with **7 countries**, agreed in principle with **1 countries** under negotiations/preparing for negotiations with **5 countries and 2 regions**, and under consideration for EPAs etc. with **1 country and 2 region**

Through EPA/FTA etc.

- reduce customs cost
- optimize producing locations
- expand market and investment etc.

activate economy

strengthen International competitiveness

(Japan-China-Korea: negotiating for trilateral investment treaty)

Japan-China-Korea Investment Treaty

- negotiating from Mar. '07
- (c.f.) experts' study on trilateral FTA is also under progress

India (population: 1,029 million, GDP per capita: \$700)

- Negotiating from Jan. '07
- Market with huge potential, one of the BRICs nations

South Korea (population: 48 million, GDP per capita: \$14,000)

- Negotiation stopped in Nov. '04

Mexico (population: 105 million, GDP per capita: \$6,500)

- took effect in Apr. '05

Singapore (population: 4 million, GDP per capita: \$26,000)

- Took effect in Nov. '02
- Review treaty signed in Mar. '07

ASEAN (population: 550 million, GDP per capita: \$1,200)

- Negotiating from Apr. '05. In May '07, agreed in principle on modality for trade in goods.
- Aiming to build seamless business area, consistent with developing industrial network between ASEAN and Japan.

Chile (population: 16 million, GDP per capita: \$5,839)

- signed in Mar. '07.
- important in terms of securing natural resource supply

Malaysia (population: 260 million, GDP per capita: \$5,000)

- Took effect in Jul. '06 (eliminated tariffs on essentially all industrial products)

Viet Nam (population: 82 million, GDP per capita: \$600)

- Negotiating from Jan. '07.
- Investment from Japan is rapidly increasing.

Switzerland (population: 7 million, GDP per capita: \$33,678)

- Negotiating from May, '07

Philippines (population: 83 million, GDP per capita: \$1,200)

- Signed in Sep. '06. Including the agreement on the movement of natural persons

Brunei (population: 350,000, GDP per capita: \$17,000)

- Signed on 18 June, '07. Important as the supplier of oil and natural gas.

Thailand (population: 62 million, GDP per capita: \$2,700)

- Signed in Apr. '07.

Indonesia (population: 217 million, GDP per capita: \$1,200)

- agreed in principle in Nov. '06

East Asia as a whole

- agreed to start Track-Two study, at the East Asia Summit in Jan. '07

GCC (population: 35 million)

- Started negotiations in Sep. '06
- Exporting market with size of more than one trillion yen.
- Important in terms of security of natural resources.

(GCC: Saudi Arabia, Kuwait, United Arab Emirates, Bahrain, Qatar, Oman)

Australia (population: 21 million, GDP per capita: \$30,682)

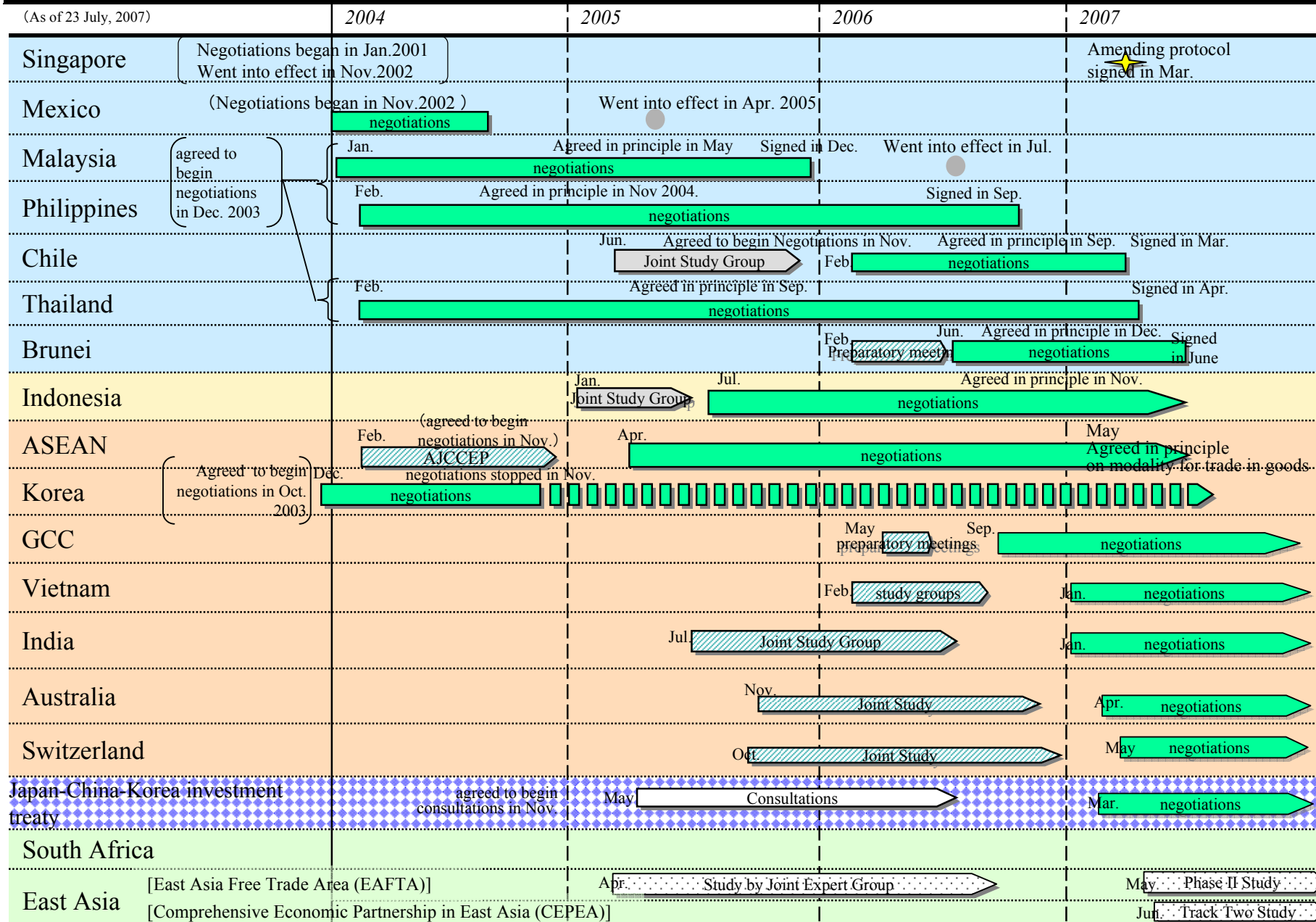
- Negotiation started in Apr. '07
- Important in terms of securing natural resources supply, economic integration in East Asia, etc.

South Africa

- considering for ways to strengthen economic relationship



1-3. Current schedule of Japan's EPA/FTA negotiations





1-4. From Bilateral EPAs to Region-wide Economic Integration

-the deepening shift from bilateral economic partnerships to region-wide economic integration is taking place in East Asia
 -multi-layered style of integration; ASEAN, ASEAN+1, ASEAN+3, ASEAN+6, APEC

ASEAN 10

- AFTA took effect in 1992
- Original member countries will complete trade liberalization by 2010 (Thailand, Philippines, Malaysia, Indonesia, Singapore, Brunei)
- New member countries will complete trade liberalization by 2015 (Cambodia, Laos, Myanmar, Vietnam)



ASEAN

China-ASEAN

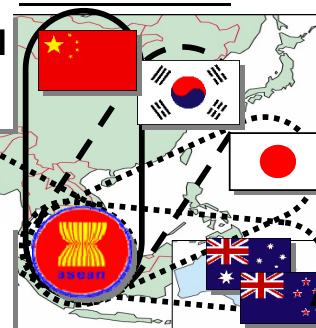
trade in goods took effect in 2005



India-ASEAN

aiming to reach Agreement in 2007

ASEAN+1



Korea-ASEAN

trade in goods takes effect in 2007

Japan-ASEAN

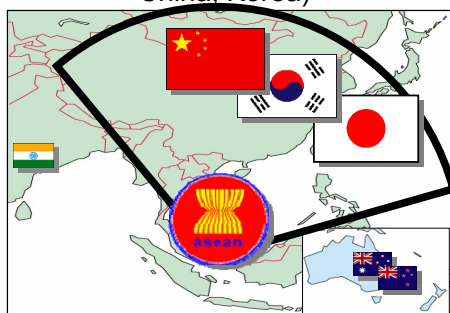
aiming to reach agreement in Nov. 2007

Australia, NZ-ASEAN

aiming to reach agreement in 2007

ASEAN+3

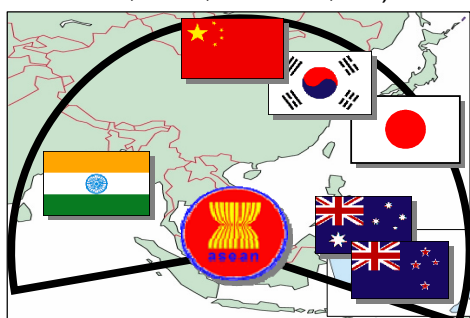
(ASEAN, Japan, China, Korea)



- summer '06: feasibility study on EAFTA finished. Commencement of governmental study was recommended.
- Jan. '07: continuation of expert study was decided at the summit meeting (the phase II study has started in May '07)

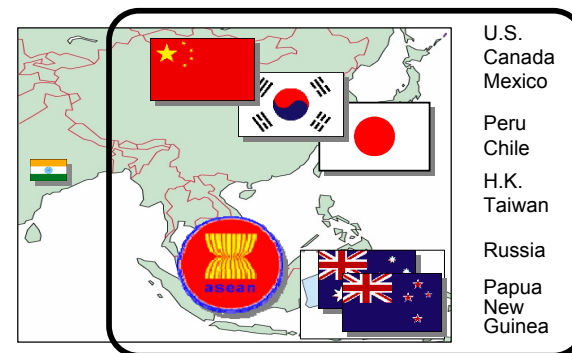
ASEAN+6

(ASEAN, Japan, China, Korea, India, Australia, NZ)



- Jan. '07: commencement of Track Two study on CEPEA was agreed at the summit meeting
- Jun. '07: the Track Two study on CEPEA was commenced

APEC



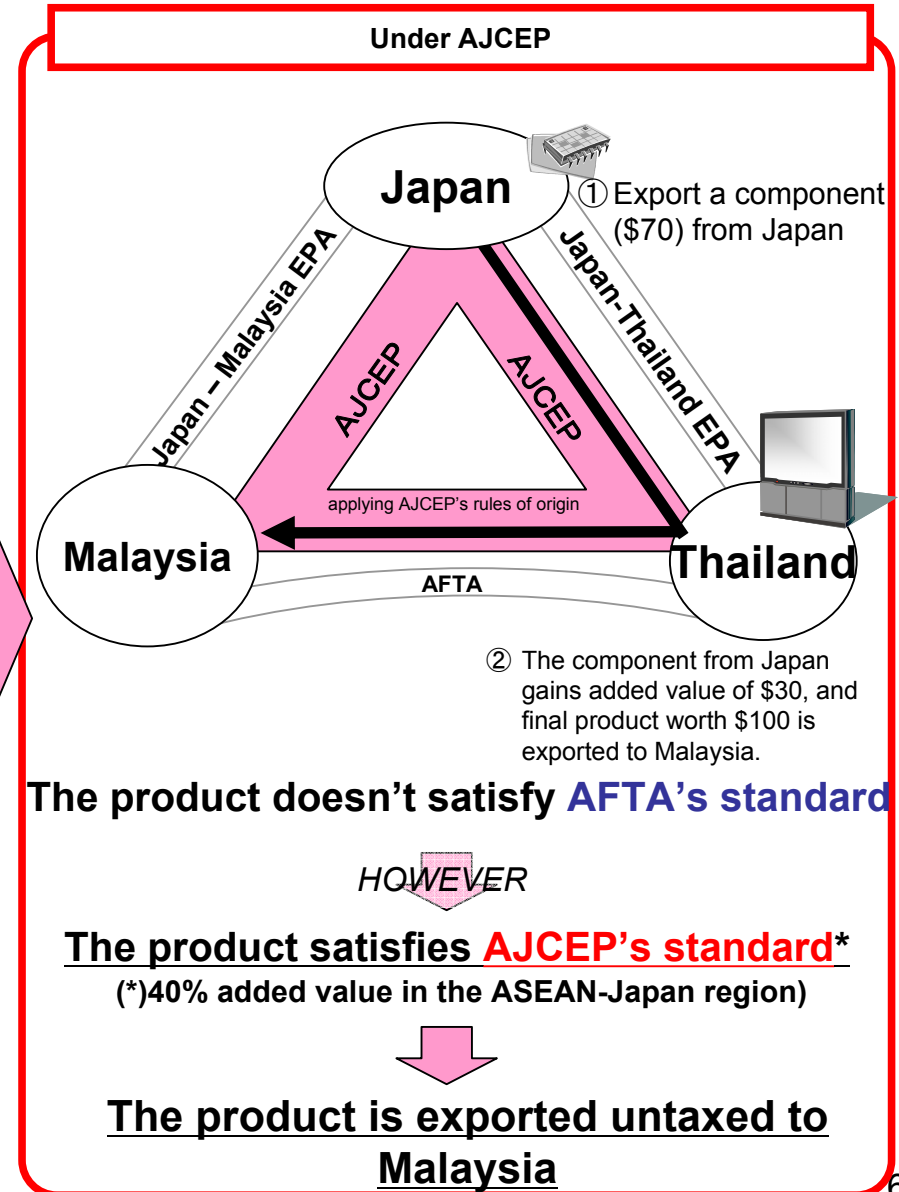
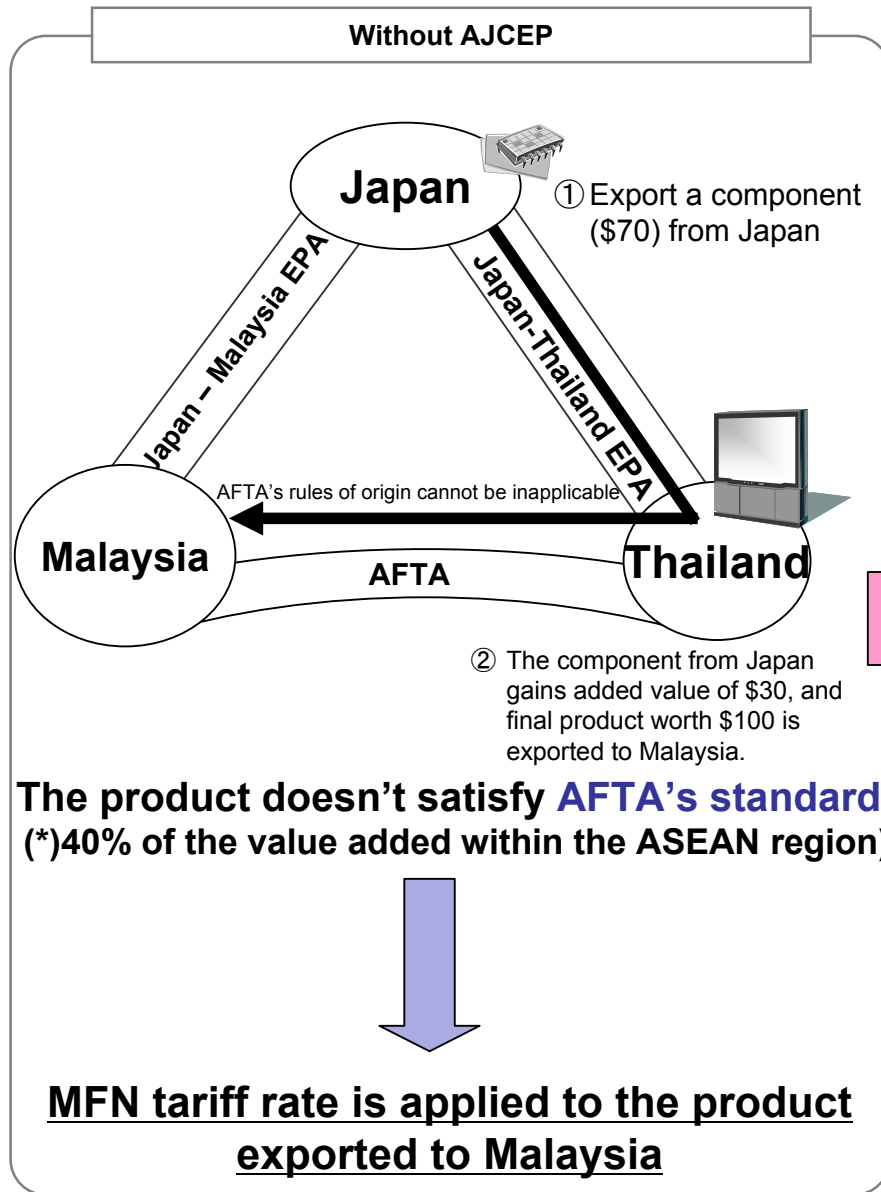
Among the 10 countries of ASEAN, following countries are not APEC member: Myanmar, Cambodia, Laos

- Nov. '06: studying for FTAAP as a long term goal was agreed at the summit meeting

1-5. Significance of AJCEP (ASEAN-Japan Comprehensive Economic Partnership)



[Examples of trade in goods **without AJCEP** & **under AJCEP**]



1-6. “Basic Policies 2007” (decided by the Cabinet on June 19, 2007)

[Provisional Translation]



Regarding to EPA, “Basic Policies 2007” is addressing the issues of (1) future work plan for **EPAs with countries constituting major markets and investment destinations, including U.S. and EU**, (2) **an EPA covering ASEAN+6 countries**, (3) realization of **EPAs deep in quality and wide in coverage of economic issues**, (4) ideal forms of **border measures**, etc.

Ch.2 Enhancing Growth Potential

2. Reforms Addressing Globalization

(1) Strengthening Approaches on WTO and EPA

2. Strengthening Approaches on EPA Negotiations

Following the EPA timetable (attached), work on EPA negotiations with positive attitudes. Consequentially, by the beginning of 2009, the number of countries Japan has concluded EPAs with is expected to increase at least by three times (12 countries). EPA negotiations are accelerating in worldwide scale, including the EPAs with large economic communities. Under this worldwide circumstance, **EPAs with countries constituting major markets and investment destinations, including U.S. and EU**, are **to be considered as future issues** for Japan, while paying attention to the factors such as the movements of other countries, status of economic relationship between the potential EPA partner and Japan, and size of the economy. **Start preparation for EPAs from possible countries/regions**. Additionally, **propel study for region-wide economic partnership, including the proposal of economic partnership covering ASEAN+6 countries**.

3. Realization of High Quality EPAs

Aim to conclude **EPAs with high quality, covering** trade liberalization and **various other fields**, such as trade in service, investment, IPR etc.

4. Border Measures

Under WTO and EPA negotiations, take initiatives for narrowing down the number of goods protected under border measures, and lowering tariff. Take considerations on **the ideal form of differential tariff system**. Paying attention to the progress of strengthening the nation’s agriculture, forestry, and fisheries etc.. Take systematic measures, restricted on the measures useful for structural reform, for the effects caused by EPA.

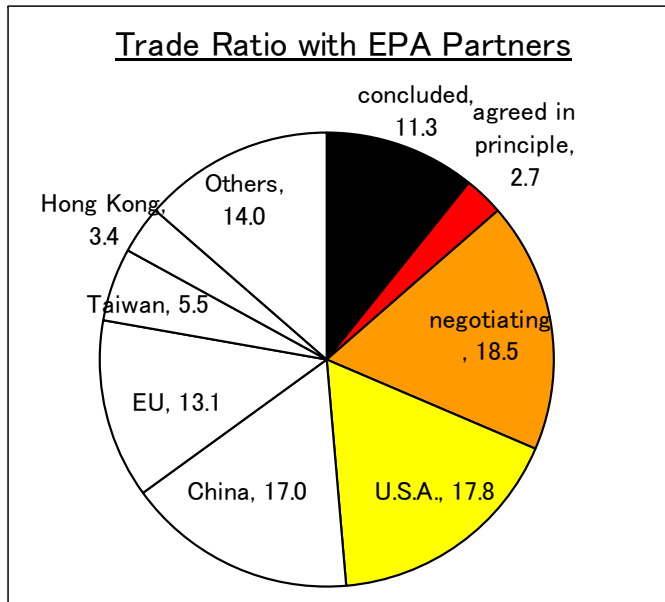
EPA timetable (attachment to “Basic Policies 2007”)

country/region	current status	Goals
Singapore	Taken effect on Nov. 30 th , 2002. Signed on the amending protocol on Mar. 19 th , 2007.	Taken effect. Aim to bring the amending protocol into effect quickly.
Mexico	Taken effect on Apr. 1 st , 2005. A protocol on the EPA has taken effect on Apr. 1 st , 2007.	Taken effect.
Malaysia	Took effect on Jul 13 th , 2006.	Taken effect.
Philippines	Approved by the National Diet on Dec. 6 th , 2006.	Gain approval from the Upper House of the Philippines, and bring the treaty in effect.
Thailand	Signed on Apr. 3 rd , 2007.	Aim to bring the treaty into effect as early as possible in 2007.
Chile	Signed on Mar. 27 th , 2007.	Aim to bring the treaty into effect as early as possible in 2007.
Brunei	Signed on Jun. 18 th , 2007.	Aim to bring the treaty into effect as early as possible in 2007.
Indonesia	Agreed in principle on Nov., 2006.	Aim to sign the treaty as early as possible in 2007.
ASEAN	Negotiation started in Apr. 2005.	With the cooperation from ASEAN, aim to conclude the negotiation substantially as early as possible in 2007.
Republic of Korea	Negotiation stopped since Nov. 2004.	Continue to persevere in taking approaches to the Republic of Korea for the resumption of negotiations.
Gulf Coast Countries (GCC)	Negotiation started in Sep. 2006.	Aim to reach agreement in principle on major points of the negotiations as early as possible.
Vietnam	Negotiation started in Jan. 2007.	Aim to reach agreement in principle on major points of the negotiations as early as possible.
India	Negotiation started in Jan. 2007.	Aim to reach substantial agreement as early as possible, within approximately two years from the commencement of negotiation.
Switzerland	Negotiation started in May 2007.	Aim to strengthen economic relationship, and formulate high quality rules, covering not only trade in goods but also other wide range of fields such as investment, trade in services, IPR etc.
Australia	Negotiation started in Apr. 2007.	Aim to gain the largest merit for Japan, under the policy of “protect what has to be protected”, with thorough recognition of the importance of agriculture, forestry, and fishery.

1-7. (reference) Ratio of Trading Value with EPA Partners



Japan



Trading status is as of July 24th, 2007

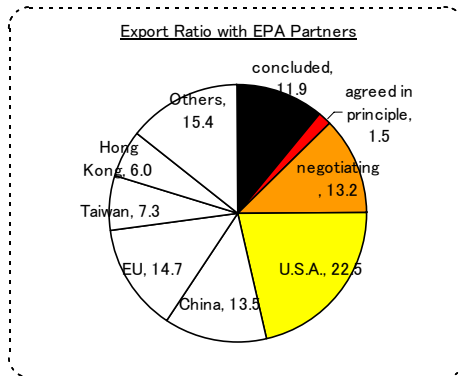
Trading values are based on Trade Statistics 2005 (MOF, Japan)

With concluded & agreed countries: 14.0%

Singapore	2.3	Mexico	0.9	Malaysia	2.4
Philippines	1.5	Chile	0.5	Thailand	3.4
Indonesia	2.7	Brunei	0.22	Cambodia	0.02

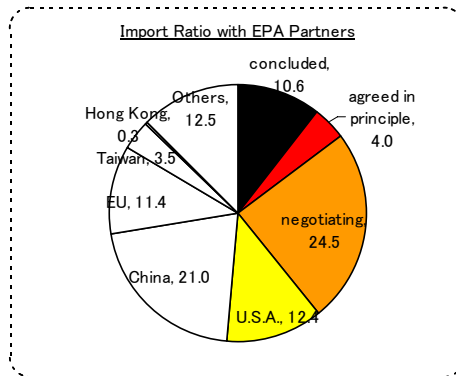
With concluded, agreed & negotiating countries/region: 32.4%

Korea	6.4	Vietnam	0.7	GCC	8.0
Laos	0.002	Myanmar	0.03	India	0.6
Australia	3.3	Switzerland	0.6		



With concluded & agreed countries: 13.4%

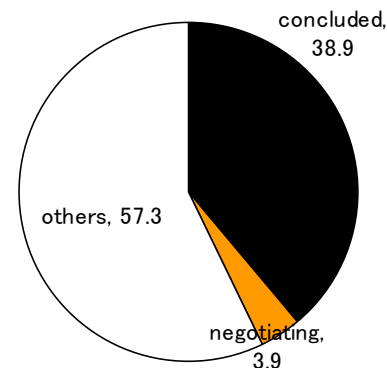
With concluded, agreed & negotiating countries/region: 26.6%



With concluded & agreed countries: 14.6%

With concluded, agreed & negotiating countries/region: 39.2%

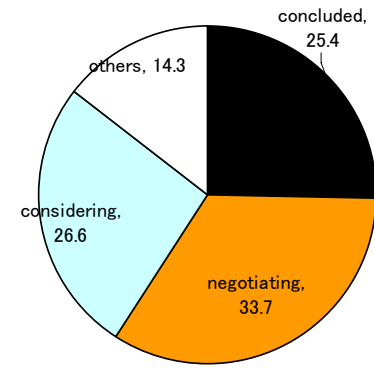
Trading Ratio Between U.S.A. and her FTA Partners



With concluded countries: 38.9%

With concluded & negotiating countries: 42.7%

Trading Ratio Between South Korea and her FTA Partners



With concluded countries: 25.4%

With concluded & negotiating countries: 59.1%

1-8. (reference 2) EPA/FTA Negotiations of Major Countries/Regions

countries /regions	situation	countries /regions		countries /regions	situation	countries/ regions	
U.S.	in effect / concluded	19	Chile, El Salvador, Honduras, Nicaragua, Guatemala, NAFTA, Morocco, Bahrain, Jordan, Israel, Australia, Singapore, Peru, Columbia, Oman, Costa Rica, Dominican Republic, Korea, Panama	India	in effect / concluded	5	Singapore, Mercosur, Sri Lanka, Nepal, Bhutan
	under negotiations	7	Ecuador, FTA, SACU, UAE, Malaysia, Thailand		under negotiations	6	Japan, ASEAN, Thailand, Egypt, Korea, GCC
	under consideration	2	ASEAN, FTAAP		under consideration	7	East Asia, EU, South Africa, China, BIMSTEN, SAARC, FTAAP
EU	in effect / concluded	22	Mexico, Chile, Algeria, Tunisia, South Africa, Morocco, Egypt, overseas territories, Switzerland, Andorra, Iceland, Norway, Liechtenstein, Turkey, Faroe islands, Macedonia, Croatia, Syria, Palestine, Israel, Jordan, Lebanon	China	in effect / concluded	4	Chile, ASEAN, Hong Kong, Macao
	under negotiations	4	ACP, GCC, Mercosur, Korea		under negotiations	6	NZ, Australia, Pakistan, GCC, SACU, Singapore
	under consideration	5	ASEAN, India, Latin America region, Andean Community, Mediterranean Community		under consideration	7	East Asia, Iceland, India, Korea, Japan-China-Korea, FTAAP, Switzerland
Australia	in effect / concluded	4	Thailand, U.S., NZ, Singapore	Korea	in effect / concluded	5	Chile, Singapore, EFTA, ASEAN, U.S.
	under negotiations	5	China, ASEAN, Malaysia, GCC, Japan		under negotiations	5	India, Mexico, Canada, Japan, EU
	under consideration	3	Korea, Chile, East Asia		under consideration	9	East Asia, FTAAP, China, Mercosur, NZ, South Africa, Japan-China-Korea, Australia, GCC
Mercosur	in effect / concluded	3	SACU, India, Andean Community	Japan	in effect / concluded	7	Singapore, Mexico, Malaysia, Philippines, Chile, Thailand, Brunei
	under negotiations	3	GCC, Israel, FTA		under negotiations	8	Indonesia, India, Viet Nam, Australia, Switzerland, Korea, GCC, ASEAN
	under consideration	3	EU, Pakistan, Korea		under consideration	4	East Asia, FTAAP, Japan-China-Korea, South Africa

Information based on various reports and governments' press releases. There could be information omitted in some fields.

2. “East Asia Initiative”

2-1. “East Asia Initiative”



Promote the economic integration of East Asia through;
(1) trade/investment liberalization and system facilitation by CEPEA,
(2) narrowing economic gap in the region by ERIA

CEPEA

(Comprehensive Economic Partnership in East Asia)

**trade/investment liberalization,
system facilitation**

forming economic partnership by
ASEAN-plus-six* countries

(*) Japan, China, Korea, India, Australia, NZ

ERIA

(Economic Research Institute
for ASEAN and East Asia)

**cooperation,
narrowing economic gap**

making intellectual contribution, such
as policy recommendation, for the
sustainable development of East Asia

**strengthen industrial
competitiveness of the
region**, by promoting the
formation of efficient
production network

**the Japanese style
approach**, which promote
both (1) **liberalization** and
system facilitation, and (2)
narrowing the economic gap
through **cooperation**

**keeping the
complementary
relationship with APEC**, by
placing this initiative under
the multi-layered cooperation
mechanisms in Asia

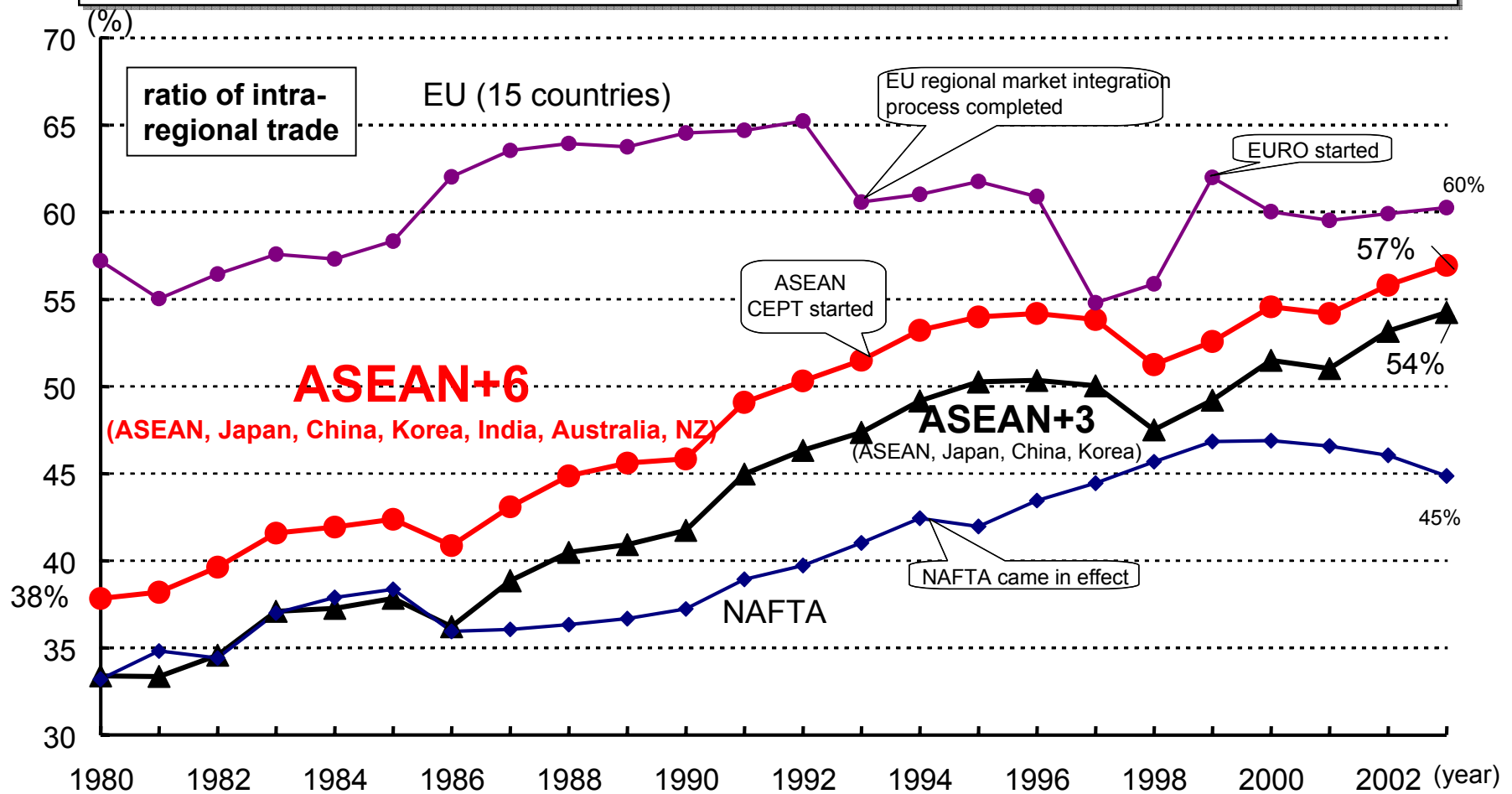
**the prosperity brought by economic integration of
East Asia will connect Japan’s economy with Asia’s growth**

2-2. What is Behind “East Asia Initiative” –Trade Structures of East Asia-

2-2-1. Closely Connected Economic Zone



Ratio of intra-regional trade in East Asia has been increasing:
The ratio of East Asia is deeper than the ratio of North America (NAFTA), and almost equal to that of EU (15 countries).



(c.f.) ASEAN+6: Hong Kong and Taiwan included
(reference) DOT (IMF)

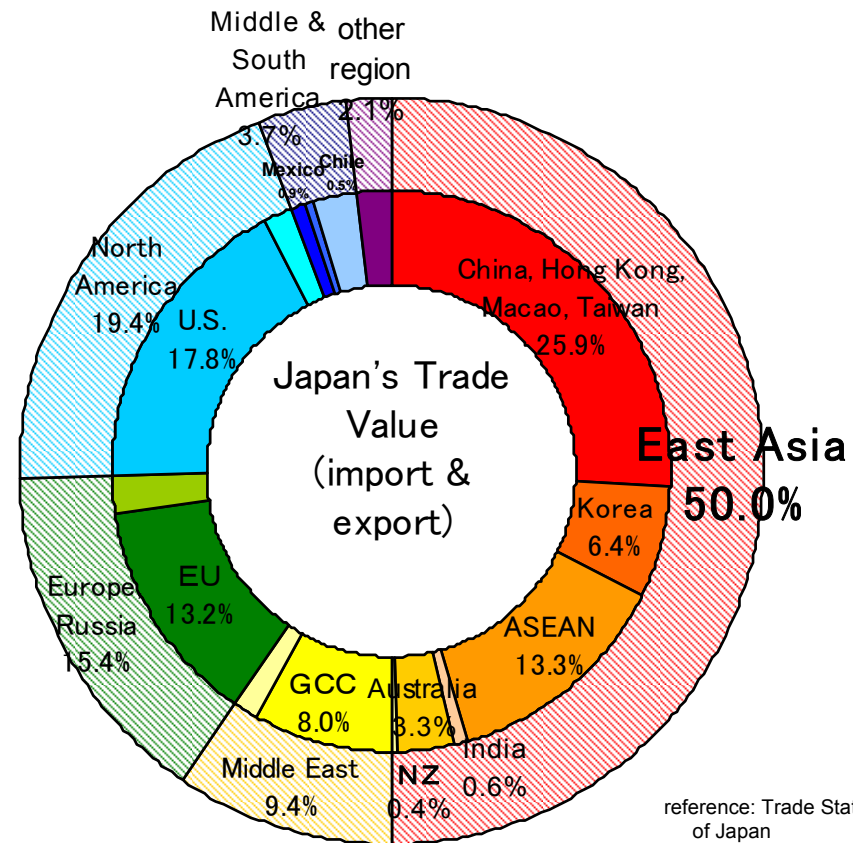
Trade Statistics (Board of Foreign Trade, Taiwan, Chinese Taipei) (<http://eweb.trade.gov.tw/default.asp/>)



Japan's trade structure, by region (2005)

50.0% is covered by the trade with East Asia, including Australia, New Zealand and India

East Asia: ASEAN, Korea, China, Hong Kong, Taiwan, Australia, India, New Zealand



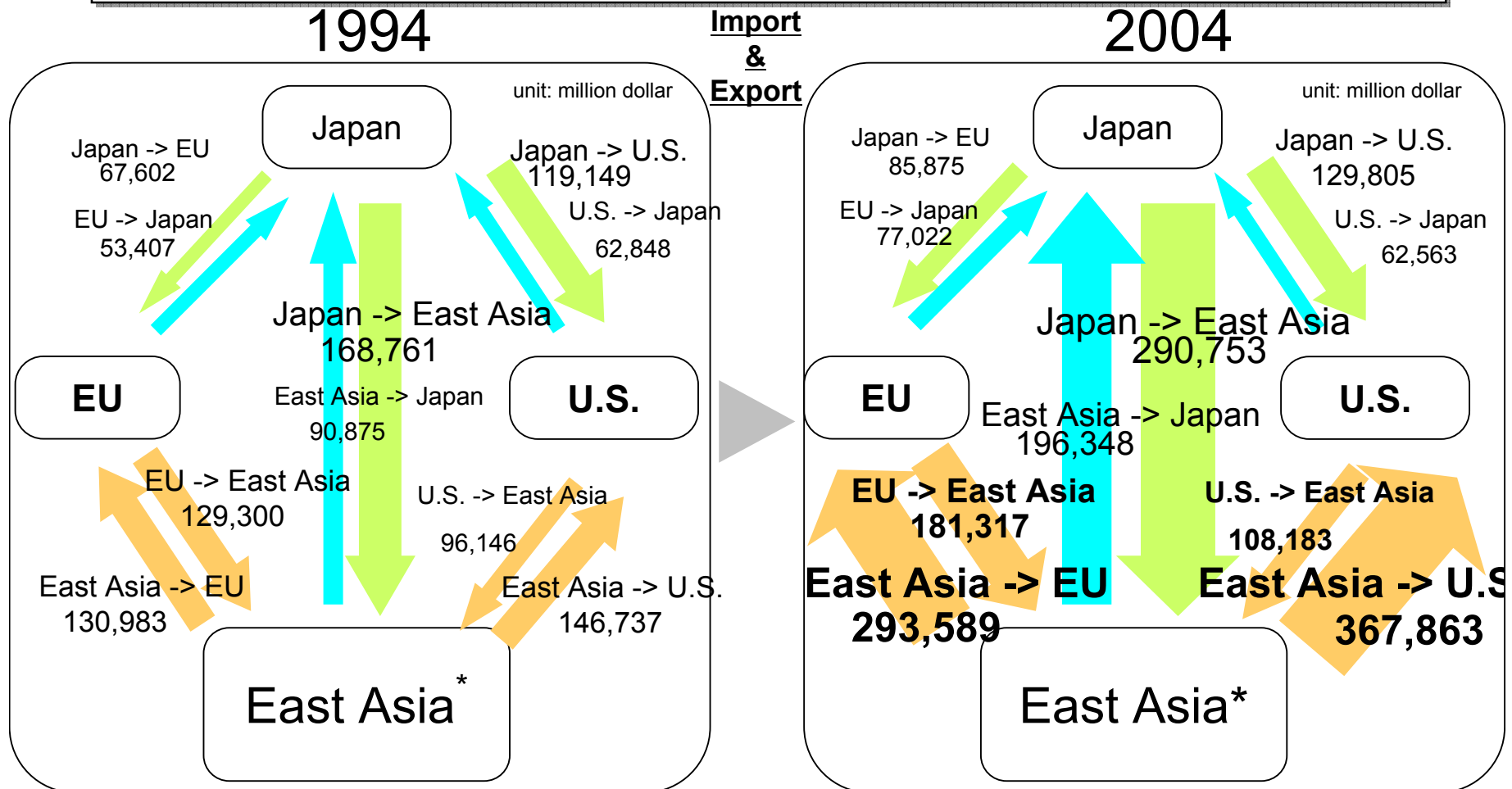
reference: Trade Statistics of Japan (Ministry of Finance)

ASEAN: Thailand, Philippines, Singapore, Malaysia, Indonesia, Brunei, Vietnam, Myanmar, Laos, Cambodia
 GCC: Saudi Arabia, UAE, Qatar, Kuwait, Oman, Bahrain
 EFTA: Switzerland, Iceland, Norway, Liechtenstein
 Mercosur: Brazil, Argentine, Uruguay, Paraguay
 SACU: South Africa, Lesotho, Botswana, Namibia

2-2-3. Deepening Relationships between East Asia and Other Regions



In addition to rapidly increasing Japan-East Asia trade, **East Asia-U.S. trade** and **East Asia-EU trade** are also increasing sharply. The fact of **Japanese companies making production in East Asia** contribute a lot to this tendency.



Reference: White Paper on International Economy and Trade 2006

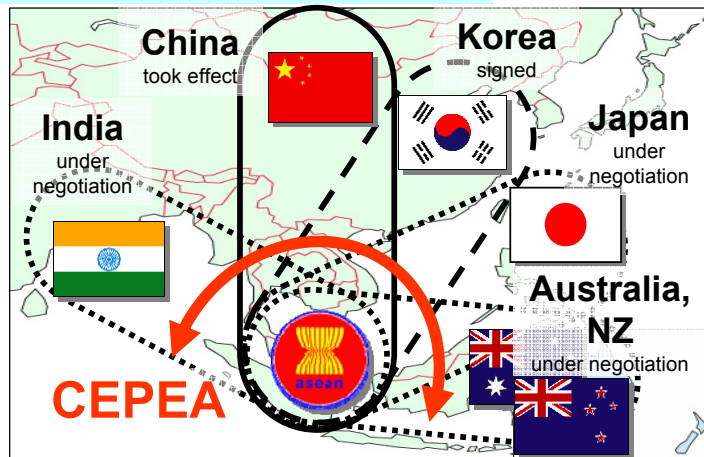
(*) in this page, "East Asia" stands for: ASEAN5 (Singapore, Indonesia, Philippines, Thailand, Malaysia), China, H.K., Taiwan, Korea

2-3. Comprehensive Economic Partnership in East Asia (CEPEA)

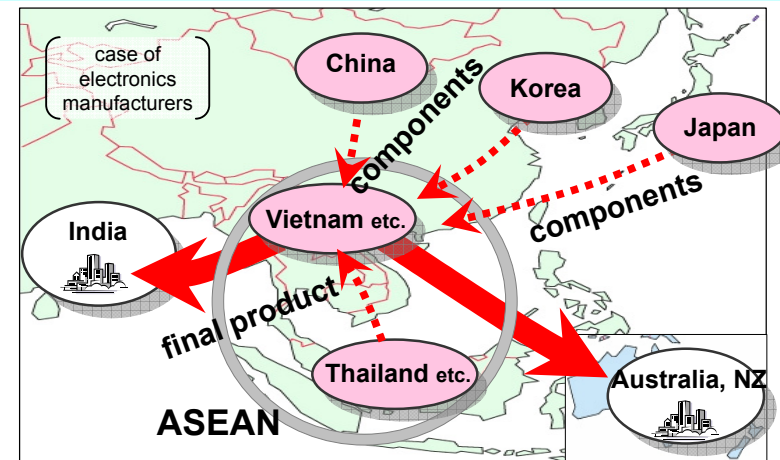


- Aiming to form an EPA among ASEAN plus six (ASEAN and its FTA/EPA partners; China, Japan, Korea, India, Australia, and New Zealand). CEPEA will contribute to achievement of further developing regional production network unique to this region.
- By covering wide range of issues (trade in goods, trade in service, investment, intellectual property, etc.), CEPEA will contribute to build free, fair and rule-based market economy.

FTA/EPAs with ASEAN



Example of regional production network



Schedule

Jan. 2007
East Asia Summit
agreed to commence
track-two study
(by Japan's proposal)



Jun. 2007
commencement of
track-two study

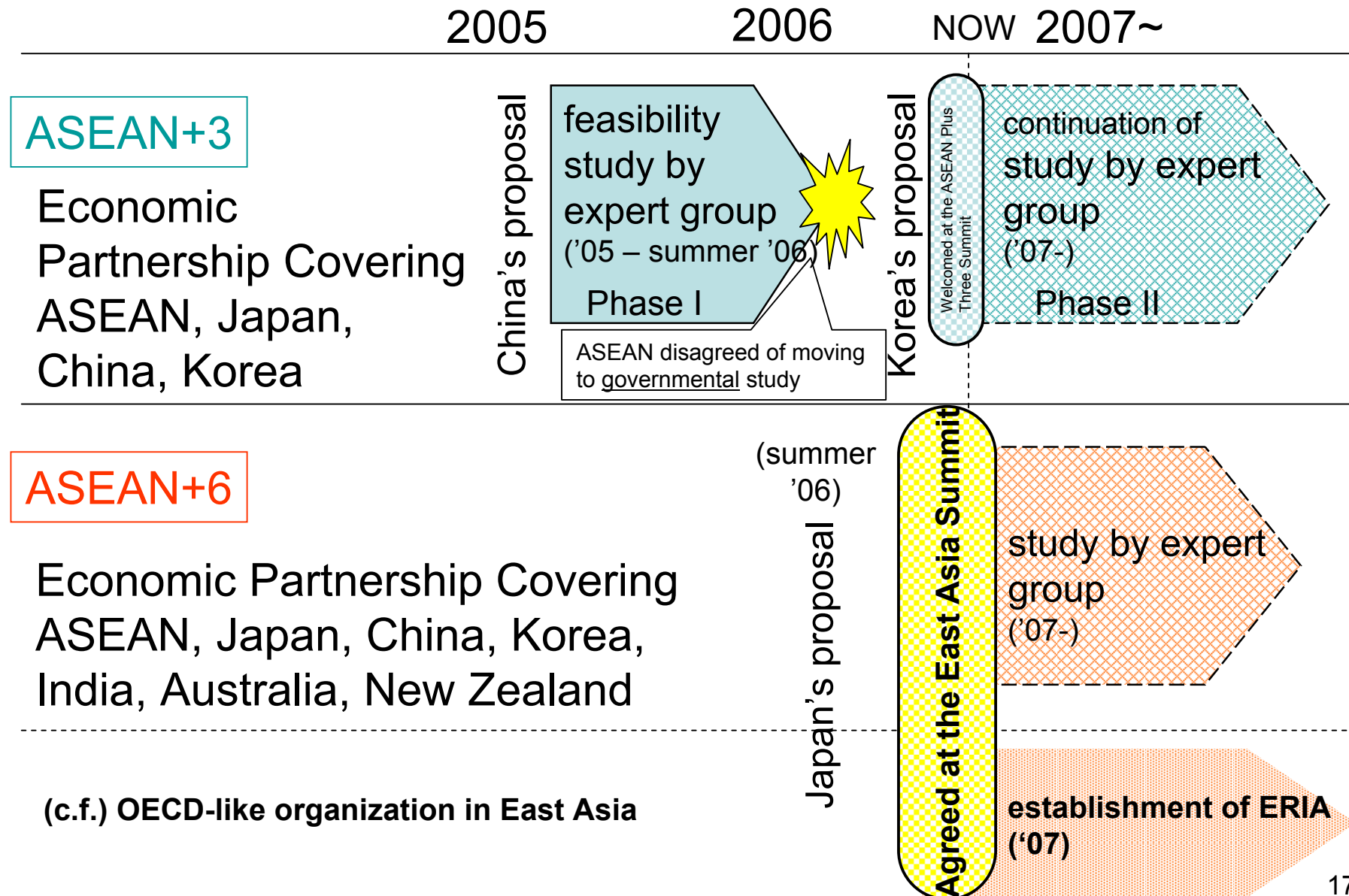


Nov. 2007
East Asia Summit
report from track-
two study group



consider
further
plans

2-4. Plans for Regional Economic Integration in East Asia

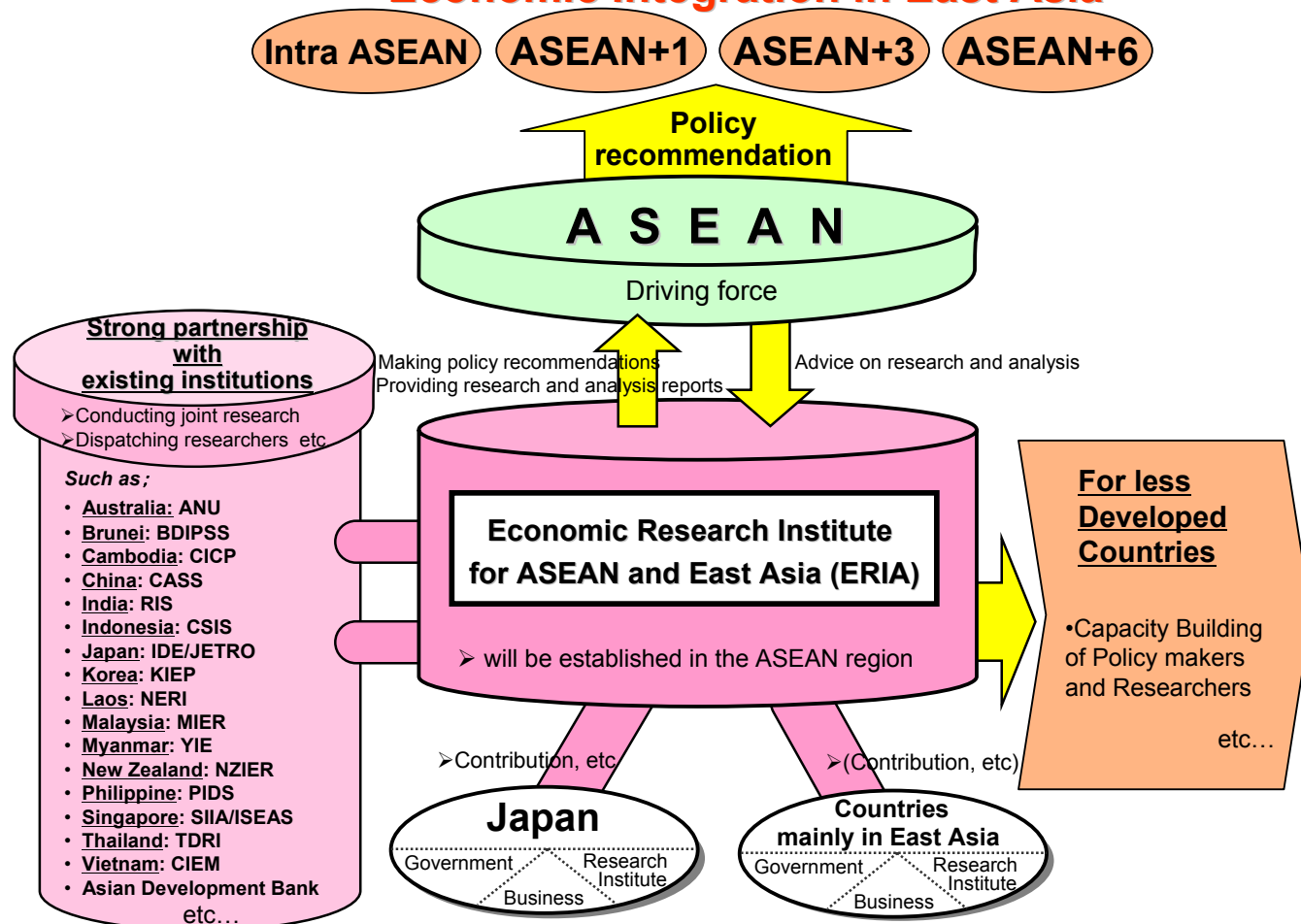


2-5. Economic Research Institutes for ASEAN and East Asia (ERIA)



- For the sustainable economic growth in East Asia, we have to address not only Trade/Investment liberalization through FTA/EPAs but also wide range of policy issues such as Human Resources, Infrastructure Development, Economic Development Gaps, Energy Security/Environment Degradation, etc.
- ERIA will make intellectual contribution to the regional efforts driven by ASEAN through policy studies and recommendations. ERIA will be developed step by step in cooperation with the countries in the region.

Economic Integration in East Asia



Roadmap Plan

- January 2007
(ASEAN Summit / EAS)
Welcome the Proposal
- August 2007
(AEM with Dialogue Partners)
Agree on Outline Structure, etc
- November 2007
(ASEAN Summit / EAS)
Welcome the Establishment

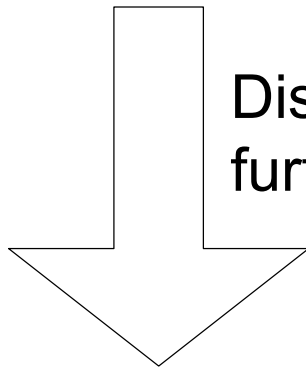
Example of research themes

- Not only Trade/Investment
But also
- Human Resources
 - Supporting Industry
 - Small and Medium Enterprises
 - Distribution, Infrastructure
 - Energy /Environment
 - Intellectual property
 - Standards and Conformity Assessment
 - Capacity Building etc.



Jan., 2007 : Second East Asia Summit (Cebu, Philippines)

- PM Abe made proposal of establishing ERIA
- The proposal was welcomed by all the summit members of East Asia region



Discussions with countries in the region,
further concrete the plan

Aug., 2007 : East Asia Economic Ministers Meeting

Nov., 2007 : Third East Asia Summit (Singapore)

- official establishment of ERIA, and the headquarter location will be decided (through ASEAN's affirmation)
- mid-term report of the Track Two study on CEPEA (Agreement on AJCEP is necessary for this)



2-6. The Architecture of the Asia-Pacific Region

- “ASEAN+1” FTAs/EPAs, with ASEAN as their hub, are being formulated in East Asia. Generally, the main focus of “ASEAN+1” FTAs/EPAs is on trade in goods. Works for FTAs/EPAs between ASEAN’s neighboring countries are also beginning gradually.

Under such circumstance, Japan is working on comprehensive and high quality EPAs, and also proposing “CEPEA”, an EPA covering ASEAN+6 nations.

-U.S. also aspires to comprehensive and high quality FTAs.

America’s FTA network is being gradually formulated in the region, and U.S. is also proposing “FTAAP”, an free trade area of Asia-Pacific.

