

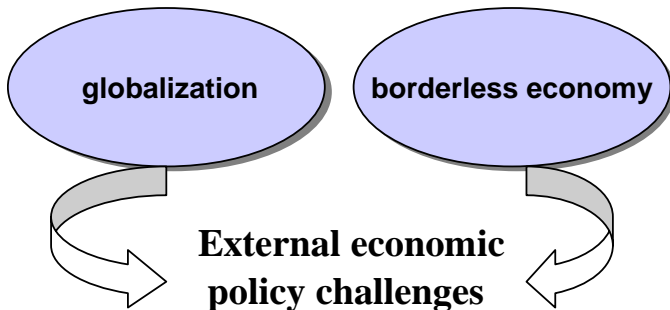
*Japan's Policy
to
Strengthen Economic Partnership*

November 2003

1. Basic Structure of Japan's External Economic Policy

-Promoting Economic Partnership Agreements with closely related countries and regions

-Working toward the WTO new round for establishing global rules



- Free trade and cross-border systemic deregulation
- Worldwide trend toward regional integration
- Domestic economic structural reform

Japan's external economic policy

<Multi-layered approach>

- WTO

Essential foundation for a free trading system (144 members)
Provision of multilateral trade rules through Round negotiations

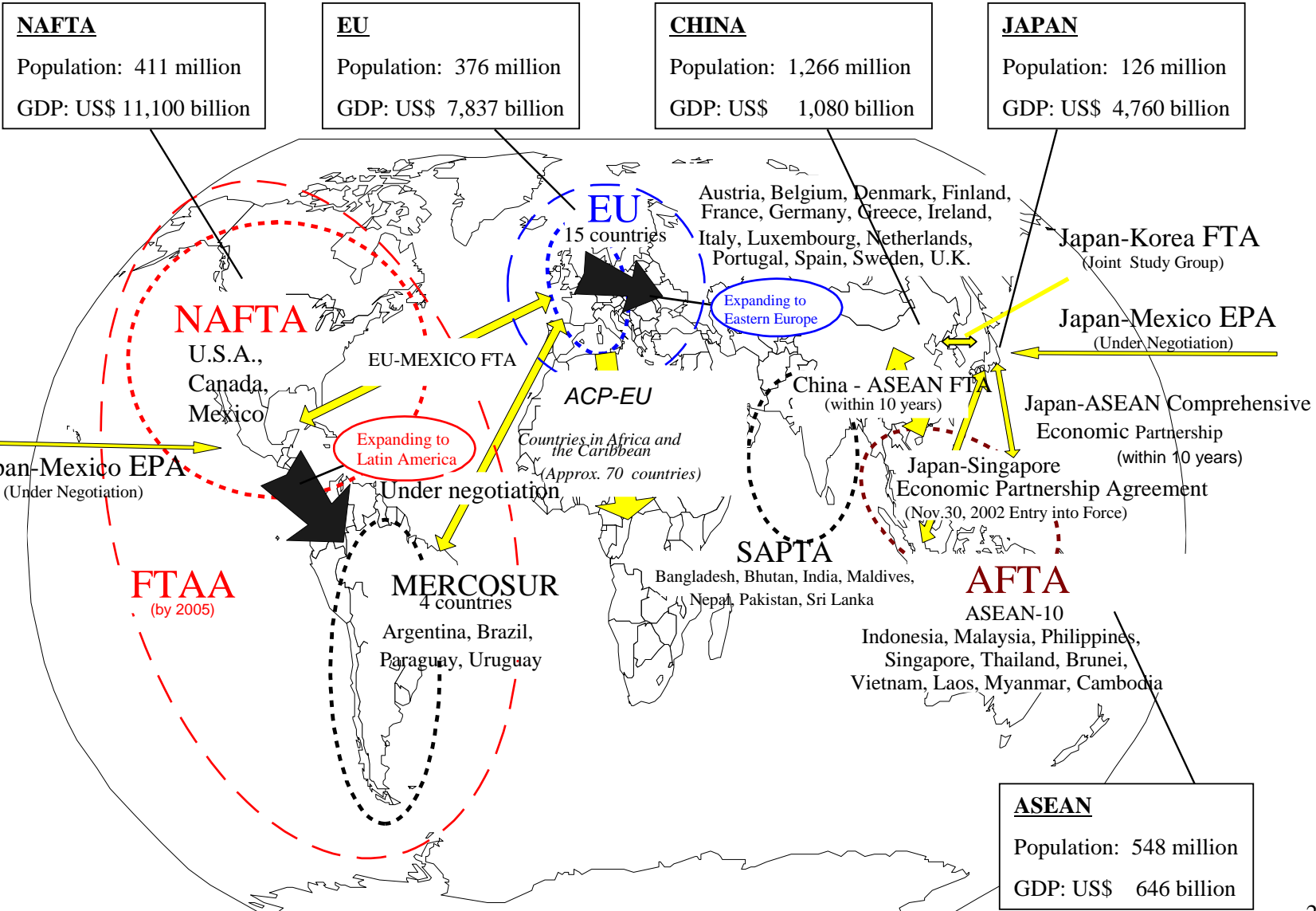
- Regional Cooperation

Strengthening of ties with selected countries and regions
(e.g. APEC)

- Bilateral cooperation

Moving away from dealing with individual cases of trade friction to enhance more broad-ranging ties
(e.g. Japan-Singapore, Japan-Mexico, Japan-Korea, etc.)

< Main Regional FTAs/EPAs >



2. Japan's Policy to Strengthen Economic Partnership

<Basic Concept>

- To maximize benefit for Japan as a whole.
- Points to be considered
 - ➔ **Benefits to Japan's entire economy**
 - Producing significant economic benefits
 - Preventing disadvantageous conditions
 - Promoting structural reform
 - ➔ **Importance for Japan's external policy**
 - Geopolitical view
 - Strengthening the situation of international negotiations
 - ➔ **Circumstances of the other country/economy**

<Main Targets >

(with East Asia)

- East Asia is rapidly gaining a bigger economic presence and deepening economic interdependence
- Utilizing East Asian growth elements
 - ➡ revitalizing Japanese economy
 - ➡ developing East Asian economy
- Promoting structural reform
- Ensuring security in the area.

(with Mexico)

- Japanese companies are in a disadvantageous condition in Mexico because of the absence of a FTA (cf. NAFTA, EU-Mexico)
- A FTA should be concluded to improve this condition.

3. East Asia

Reference 1: East Asia Economy and Japan

**GDP is/will be increasing remarkably in East Asia.
The amount of trade is also increasing.**

Transition of actual GDP growth rate
in the world and East Asia (%)

Calendar year	Annual average growth rate			
	1980-90	90-2000	2000-10	2010-20
World	2.8	3.0	2.9	2.8
U.S.A.	2.6	2.1	1.7	1.4
Western Europe	2.3	2.6	2.1	1.5
Japan	4.1	2.6	1.9	0.5
East Asia	7.7	7.6	6.8	5.5
Asia NIES	8.2	7.5	6.6	5.2
ASEAN4	5.4	6.8	7.6	5.9
China	8.9	8.3	6.5	5.6

(Note) ASEAN4: Indonesia, Malaysia, Philippines, Thailand

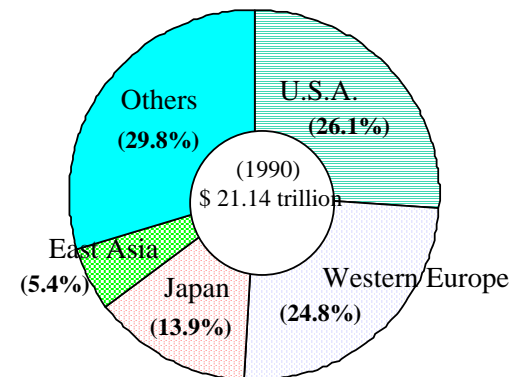
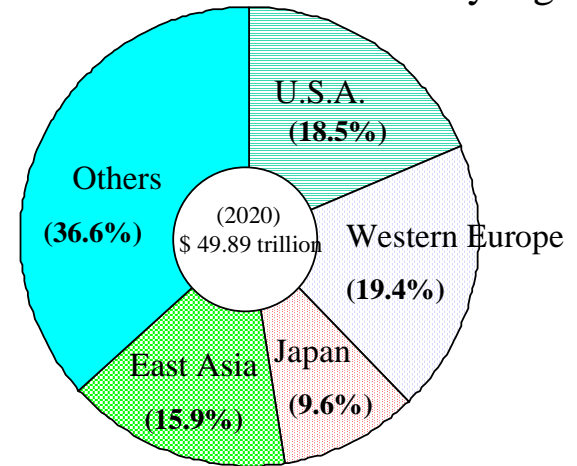
Sources: IMF, *International Financial Statistics*

Republic of China, Taiwan Statistical Date Book 1994

World Bank, World Table 1994

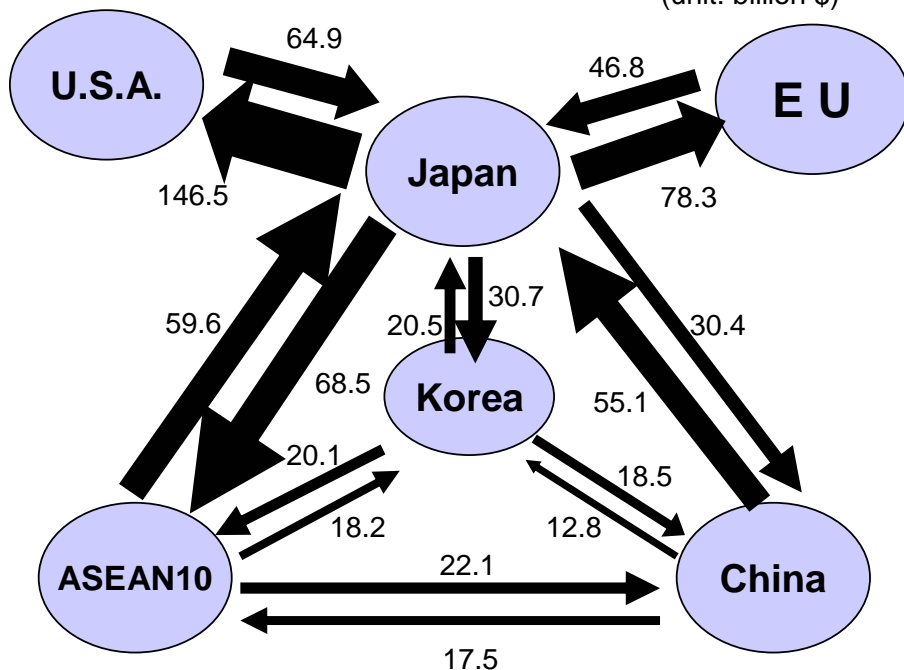
Economic Planning Agency "Annual Report on National Accounts"

Shares of the world GDP by region



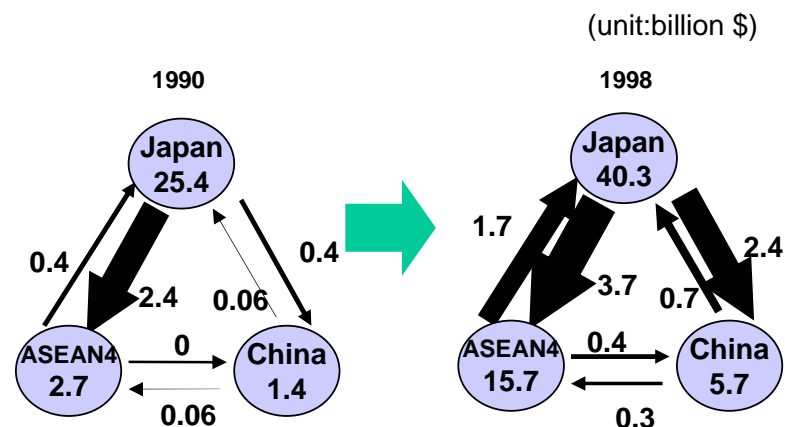
Reference 2: Deepening of Economic Mutual Dependence in East Asia

Trade relationships among Japan, ASEAN, China and Korea (USA, EU) (2000)
(unit: billion \$)

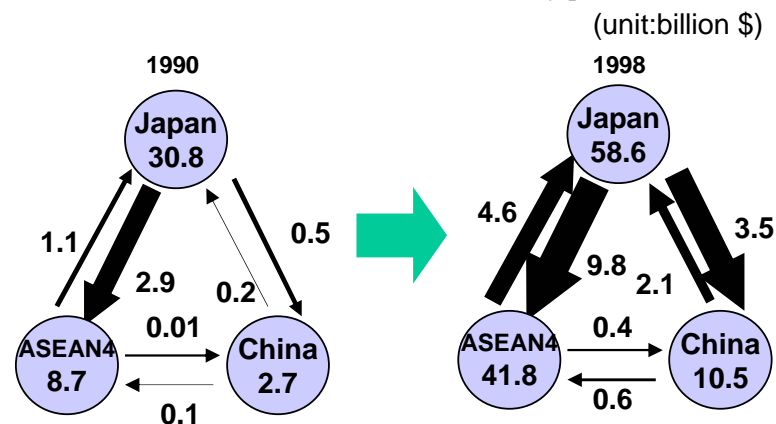


- Notes:
- The amount of trade between Japan and ASEAN, China, Korea, U.S.A. and EU is based on Japanese Statistics.
 - The amount of trade between Korea, ASEAN and China is based on Korean statistics.
 - The amount of trade between China-ASEAN is based on Chinese statistics.
 - Japanese statistics (107.77yen=\$1; annual average exchange rate of 2000)
 - ASEAN10: Philippines, Indonesia, Malaysia, Singapore, Brunei, Thailand, Vietnam, Cambodia, Laos, Myanmar
 - Sources: IMF, World Trade Atlas

Expansion of intermediate material trade
<1.The amount of general machinery parts>



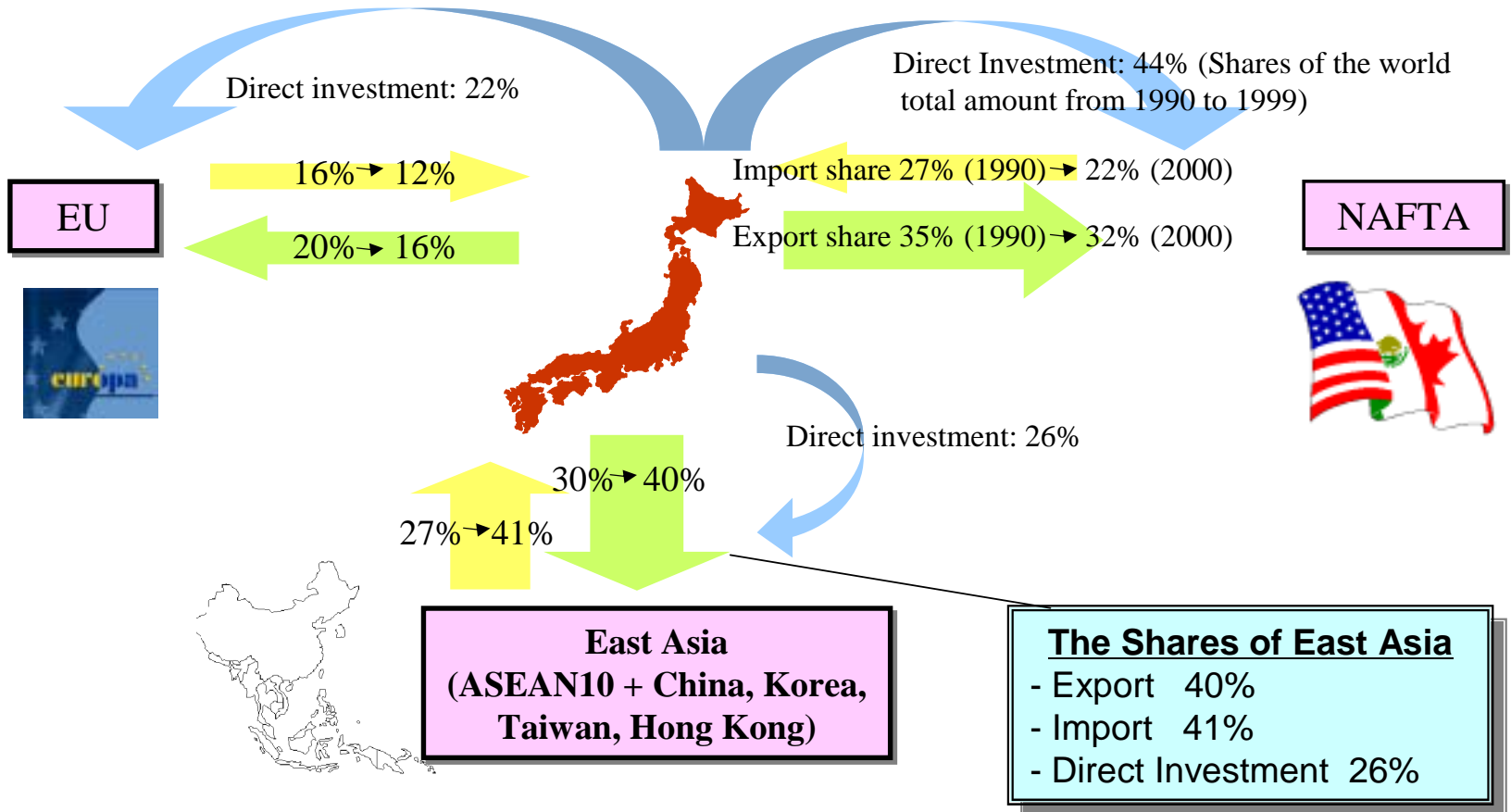
Expansion of intermediate material trade
<2.The amount of electrical machinery parts>



(note) The figures in circles show the amounts of exports.

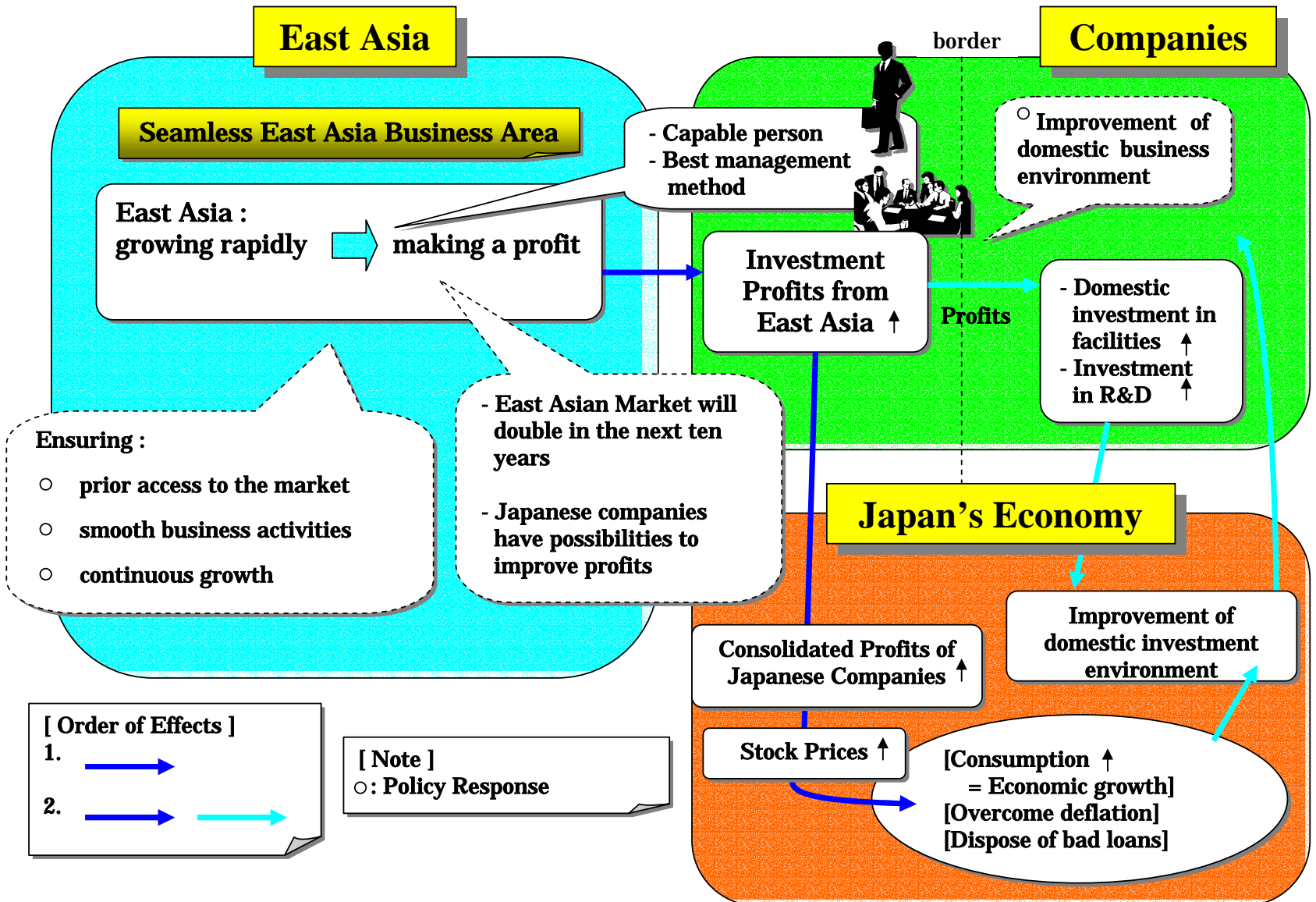
Reference 3: Increase in Trade and Investment Flows between Japan and East Asia

The amount of trade and investment with East Asia is increasing



Note: The figures are calculated by METI

Reference 4: Increase in profits in East Asia and its positive effect on Japan's economy



(Note) East Asia : NIES, ASEAN, China

3a. Japan-ASEAN

The leaders of Japan and ASEAN countries signed the Joint Declaration at the Japan-ASEAN Summit on Nov. 5th, 2002. The leaders decided that the implementation of measures for the realization of the partnership, including elements of a possible free trade area, should be completed as soon as possible and within 10 years.

- *Japan-(whole)ASEAN*

- Established a committee, consisting of government officials of Japan and ASEAN in March, 2003 and a framework for the realization of the Comprehensive Economic Partnership was signed at the Japan - ASEAN Summit held in Bali in October, 2003 by the leaders.

- *Japan-Thailand*

- Concluded Working Groups between both pairs of governments (5 meetings from last September) and held the JTEPA Task Force (3 meetings from this August).

- *Japan-Philippines*

- Concluded Working Groups between both pairs of governments (5 meetings from last October) and held the first Joint Coordination Team discussion on September 26-27, 2003.

- *Japan-Malaysia*

- Concluded Working Groups between both pairs of governments (2 meetings from this May) and held the first Joint Study Group meeting on September 29-30, 2003.

3b. Japan-Korea FTA

2002. 3 -Prime Minister Koizumi and President Kim decided to start Japan-Korea FTA joint study group composed of representatives of the government, business, and academia of the two countries.
- . 7 -Launched the Japan-Korea FTA joint study group. (8 meetings up to the present)
2003. 6 -Prime Minister Koizumi and President Roh agreed to start FTA negotiations as early as possible.
- 2003.10 -Prime Minister Koizumi and President Roh agreed to start in this year and to finish negotiation in 2005.

(Note) ASEAN+3(Japan, Korea and China)

- The East Asia Study Group examined possible ways to strengthen the economic relations among ASEAN countries, Japan, China and Korea, including the possibility of an FTA.
- The East Asia Study Group submitted its final report to the ASEAN+3 Summit on Nov. 4th, 2002.
- The feasibility study on establishment of an East Asia Free Trade Area (EAFTA) will be conducted at the ASEAN+3 Economic Ministers Meeting.

4. Mexico

Reference 5: Damage Resulting from Absence of FTA with Mexico

Japanese companies have become less competitive, suffering from high tariff rates with an average of 16% in Mexico.

(Mexico has concluded 31 FTAs including NAFTA and EU-Mexico FTA.)

- Mexico's trade has focused more on North America and EU and less on Japan.

6.1% (1994) → 3.7% (2000)

The share of Mexico's imports from FTA partners in its total imports : 80%
(Calculated by METI)

- Negative impact on domestic economy was caused by decreased exports.
→ **Decreased production: 600 billion yen**
Job losses: 30000

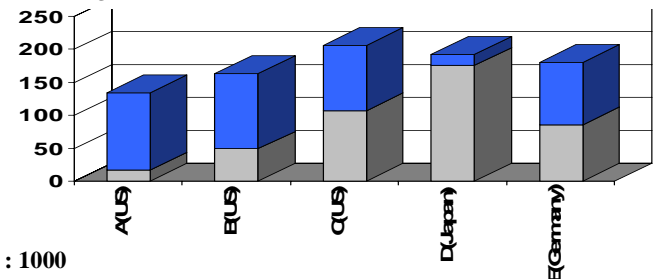
Example: Effect on power generation plant
→ **Decreased production: 120 billion yen**
Job losses: 10,000

Note: Comparison with the case assuming that the import share from Japan is maintained at the same level as that just before NAFTA came into effect. (Estimated by METI)

- Tariff charges limit global business development.

→ **A certain Japanese manufacturer has far lower import sales ratios than other companies in the same industry.**

Origin of some products sold in the Mexican market



Unit : 1000

Legend: Domestic Products (Grey), Overseas products (Blue)

Outline of the EPA Negotiation between Japan and Mexico

2002.10 The leaders of both countries agreed to launch the negotiations for the Japan-Mexico Economic Partnership Agreement, which includes the element of an FTA.

The leaders also agreed that both governments should make every effort to finish the negotiations as soon as possible with a target of approximately one-year period.

2002.11 First negotiation meeting was held.
(11 negotiation meetings have been held so far.)

2003.10 Both countries decided to continue the negotiation.

(Scope of the negotiation)

-Trade in Goods

-Trade in Services

-Investment

-Government Procurement

-System Harmonization (Competition, Custom Procedure, etc)

-Improvement of Business Environment

-Bilateral Cooperation

-Dispute Settlement