

## B Efforts Aimed at Realizing Prosperity in the International Community

### Overview

The global economy in 2004 generally made a steady recovery, despite instability caused by rising crude oil prices and some other factors.

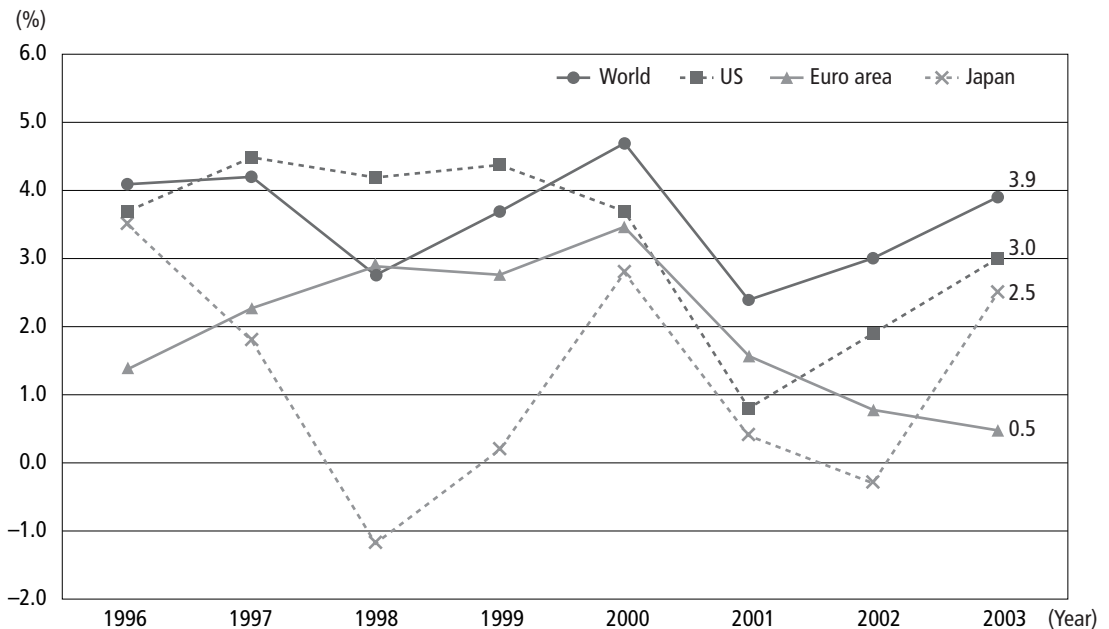
Under these circumstances, Japan has promoted economic foreign policy focusing on the following five issues as its priorities, with the objective of further strengthening the economies of both Japan and the world. The first is maintaining and strengthening the multilateral trading system (global efforts) and promoting economic partnership at the regional and bilateral levels to complement the multilateral trading system. The second is active participation in international efforts on globalization aimed at coping effectively with global issues, such as working on world economic growth and sustainable development. The third is strengthening frameworks for interregional cooperation such as the

Asia-Pacific Economic Cooperation (APEC) and the Asia-Europe Meeting (ASEM), and of multilayered economic relations, including those between Japan and the United States (US) as well as Japan and Europe. The fourth is strengthening economic security, including in the areas of energy, food, marine issues, piracy, and fisheries (including whaling). The final one is support for Japanese companies overseas and the promotion of investments to Japan.

Moreover, while the international community acknowledges the importance of science and technology to resolve various global issues, Japan has been advancing bilateral and multilateral cooperation, using its experience as the world leader in science and technology.

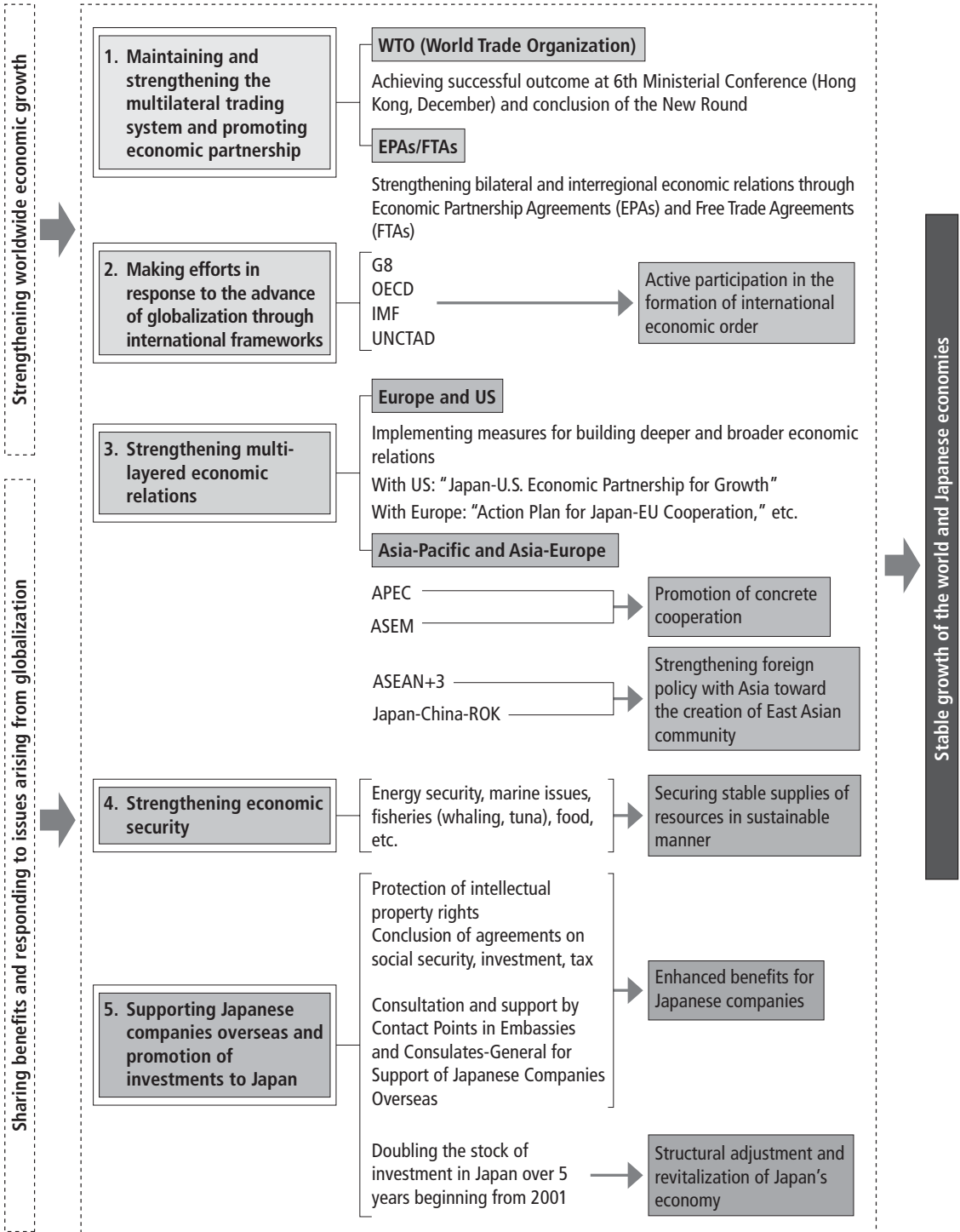
While Japan has been making efforts to enhance its own economic interests, it also endeavors to respond effectively to these various issues in pursuit of the prosperity of the international community.

### Real GDP Growth Rate



Source: International Monetary Fund (IMF), *World Economic Outlook* (September 2004).

Theme of Japan's Economic Foreign Policy



## 1 Strengthening the Multilateral Trading System

### (a) Importance of the Multilateral Trading System to Japan

Following World War II, Japan has come to enjoy today's prosperity through the global rules<sup>1</sup> of the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO) regime. Reforming, strengthening, and developing the free trade system will continue to be indispensable for Japan in the future. Such efforts have been made to draw up new rules for non-regulated areas and to rectify unilateral actions through the WTO's dispute settlement system. At the current round of negotiations, called the "Doha Development Agenda (DDA) New Round," Japan is working toward the creation of new rules to meet the needs of further trade liberalization and globalization. In particular, the integration of developing countries into the multilateral trading system continues to be important in achieving the development of these countries through trade liberalization. Therefore, with these in mind, Japan is striving for a successful conclusion of the round that is ambitious, balanced, and consistent with its national interests through its active participation in negotiations.

Particularly in the DDA negotiations, Brazil, India, China, and African countries are increasingly carrying weight, as opposed to the "Quad" (the four main developed economies: Japan, the US, the EU, and Canada). Furthermore, the WTO is facing changes in its environment; decision-making now takes more time as the number of negotiation agendas increases and the content grows more complex due to the rise in the number of member countries in the WTO (from 77 when it was founded to the current 148). With this in mind, Japan will need to work actively toward the further enhancement of the international economic order.

### (b) Outline of Negotiations in 2004

The Doha Development Agenda (New Round), which commenced in January 2002, took some time to resume after the failure to reach an agreement at the Cancun Ministerial Conference in September 2003. However,

positive momentum emerged by the start of 2004. At the WTO General Council meeting in July (chaired by Ambassador Oshima Shotaro, then permanent representative of Japan to the international organizations in Geneva), the "July Package"<sup>2</sup> of framework agreements was decided upon following a series of informal ministerial meetings to serve as the basis for negotiations. This stemmed from each country's concern that the credibility of the current round would have been seriously damaged if the negotiations were to stall further.

With the acceptance of these framework agreements, the 6th WTO Ministerial Conference will be held in December 2005 in Hong Kong to pursue further negotiations and progress toward a final agreement.<sup>3</sup>

### (c) Outline of the Main Areas

#### *Agriculture*

Negotiations on agriculture started prior to the launch of the New Round. The talks have been conducted with the aim of further removing trade distorting measures.<sup>4</sup> Japan has continued to give consideration to non-trade concerns, such as the multifunctionality of agriculture and food security, and has taken an approach toward the negotiations aiming to achieve balanced and positive results covering domestic support and export subsidies, as well as market access. The July Package, including the decision on elimination of export subsidies, has moved the process forward. Though the prospects of future negotiations are expected to be laborious, Japan continues to work toward a balanced agreement that reflects the differing standpoints of net food-importing and food-exporting countries and cross-cutting issues.

#### *Negotiations on Non-agricultural Market Access*

The focus in this area of negotiation is to realize the reduction and elimination of tariffs and non-tariff barriers on non-agricultural products, such as industrial products and forestry and fishery products. Following the July Package, convergence has not yet been achieved between the members who seek more "ambitious" re-

1. Rules agreed upon as being global standards, such as the WTO agreements, as opposed to rules limited to specific regions. This report distinguishes between the global rules of the WTO and the regional rules of economic partnership agreements.

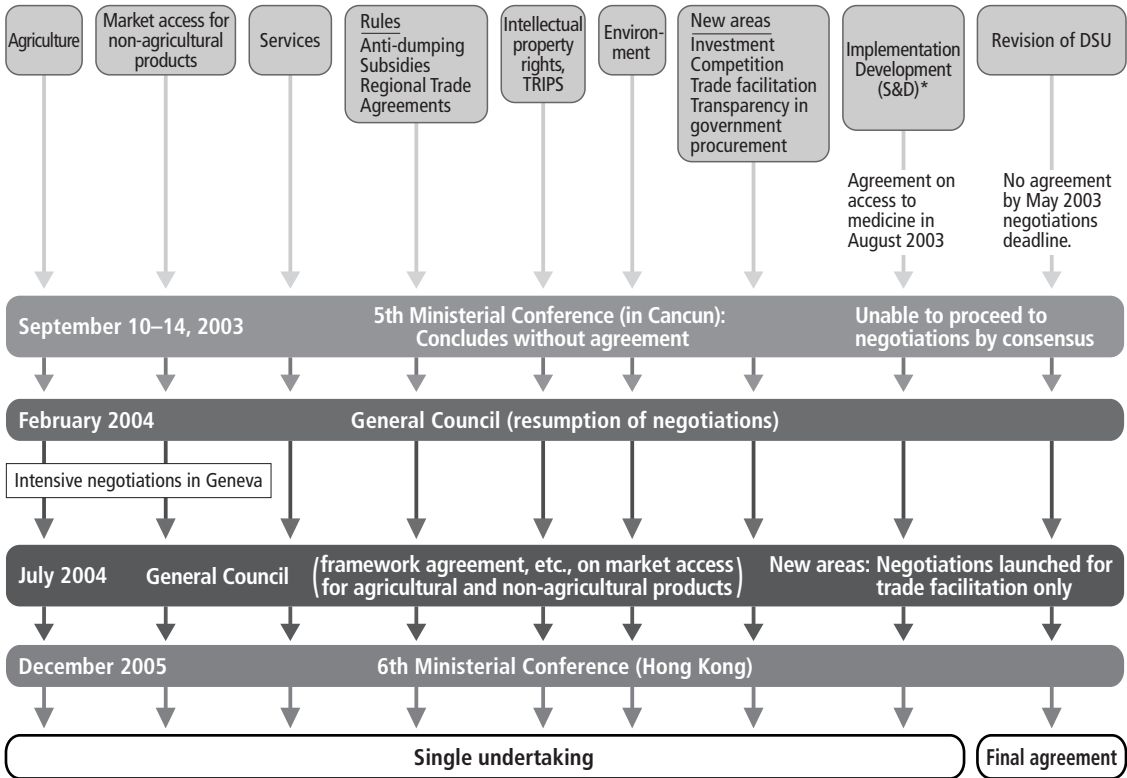
2. The July Package includes (1) a decision of general agreement on negotiations over market access for agricultural and non-agricultural products; launch of negotiations aimed at trade facilitation that carries out reform and other measures for customs procedures; and (2) many references to the concerns of developing countries, as development is a central issue.

3. The deadline for the round's negotiations, originally set for January 2005, has been extended.

4. For example, the elimination of export subsidies, which had elicited criticism that developed countries had crowded out the exports of developing countries, was agreed upon in the July Package with a credible end date.

WTO New Round (Outlook of Negotiations)

November 2001 4th Ministerial Conference (in Doha): new round launched  
 February 1, 2002 1st Trade Negotiations Committee (TNC) Meeting: seven negotiating groups established  
 February 15, 2002 Chairs of each negotiating group agreed upon at the General Council



\* Abbreviation for special differential treatment. "Special" and "Differential" treatments for developing countries and least-developed countries (LDC), such as the exemption and reduction of obligations as recognized in the wording of the WTO agreement.

sults, and others who make a point of special needs and interests of developing and least-developed country members over the issues of tariff reduction,<sup>5</sup> sectorial approach<sup>6</sup> and special differential treatment. Japan, as a country with competitive industrial products, places great importance on these negotiations. In the future as well, it plans to conduct negotiations that will result in substantial market access improvements.

**Services**

A new schedule, under which countries submit their revised offers<sup>7</sup> by May 2005, was agreed upon in the July Package, and momentum emerged to push forward with

the negotiations, which had slowed, on trade in services. On the other hand, the number of initial offers submitted by December 2004 was only 69 of the 148 members. (The initial deadline was March 2003, and Japan's offer was one of those submitted by the deadline.) At the WTO negotiations, Japan attaches importance to trade in services as well as to other market access sectors, such as agriculture and non-agricultural products, and makes efforts for progress in the negotiations on trade in services through such measures as calling on countries that have yet to submit their initial offers to do so promptly and by achieving the submission of high-quality revised offers.

5. A method of reducing tariffs applied to all products of all participants in principle. Generally, this is accomplished using a mathematical formula.

6. A method of reducing tariffs for specific sectors. This is accomplished by eliminating tariffs that make specific sectors tariff-free or by harmonizing tariffs to certain levels.

7. An offer refers to the level of liberalization for which the WTO members are prepared to undertake in service sectors, based on their own judgment, toward other members. This is presented in a form that improves the commitments made during the Uruguay Round.

## Working as the Chairman of the General Council of the WTO

From February 2004 to February 2005, I had the honor and the privilege to serve as the Chairman of the World Trade Organization (WTO)'s\*<sup>1</sup> General Council\*<sup>2</sup> which is the Organization's decision-making body.

The new round of trade negotiations, called the Doha Development Agenda (DDA), had experienced a serious setback when the WTO Ministerial Conference held in Cancun, Mexico, in 2003, ended without any positive outcome. Members were increasingly concerned that further lack of progress could kill the new round of negotiations altogether. The new year, 2004, brought with it a mood of rising willingness among members to bring the negotiations back on track. It was at this juncture that I assumed the chairmanship.

The broad objective of the negotiations had been agreed upon when the round was launched in Doha in November 2001. However, it had not been possible to take the next concrete step forward. The members thus agreed to strive to come to an agreement on certain major issues which would be prerequisite to putting the negotiations back on track, designating the end of July 2004 as a deadline.

However, once members re-engaged in concrete negotiation, clashes of interests came to the fore. Moreover, differences become evident not only between developed and developing members, but the coalitions of different members are formed issue by issue, and thus the overall negotiations become very complicated.

The task of the General Council Chairman is to coordinate the members, whose interests diverge in a very complex manner, so that an overall balance of interests will be obtained. It was not only necessary to be able to appreciate the limit of each individual member's concessions, but also to be able to maintain a delicate sense of balance in the negotiation process itself.

On one hand it was incumbent that transparency in the negotiating process be maintained, while on the other, it was also necessary for efficiency's sake to provide opportunities restricted to some of the important members to negotiate among themselves. This point in fact touches on the very nature of the consensus approach of decision-making taken by the WTO.

In my efforts to coordinate members, I resorted to a method normally applied in the Japanese way of coordination. Thus, when managing the General Council, I made efforts to generate a sense of engagement among all members.

Further, while substantive negotiations proceeded between major members on priority issues, such as agriculture, I, as Chair, felt it vital that lateral coordination between different negotiating areas was maintained. Thus, I relied on a process known in Japan as *ho-ren-so* (a combination of *hokoku* [report], *renraku* [communicate], and *sodan* [consult]) and on *nemawashi* (consulting to find informal agreement before taking up an issue formally).

In Geneva, where the WTO is located, there were intensive consultations, day after day, night after night, throughout the month of July. As a multitude of negotiations on all aspects was pulled together into a single package, the General Council was able to adopt an agreement on the framework of the negotiations. As Chair, I brought the gavel down around midnight of July 31.

With this Framework Agreement, it was made possible for the members to step up the negotiations toward the final conclusion. The Doha Round was brought back on track!! This notwithstanding, the road to the final agreement is long and arduous, and success or failure depends on the seriousness of the commitment on the part of individual members. (Oshima Shotaro, former permanent Japanese government representative to the international organizations in Geneva)



Oshima chairs a General Council meeting.

\*1 The WTO was established with the objective of promoting global free trade. As of January 2005, it had 148 member countries and territories.

\*2 The General Council is structured to represent all member countries. It deals with the tasks involved in the Ministerial Conferences that take place at least twice a year.

### **Other Issues**

In addition to negotiations in agriculture, market access for agricultural and non-agricultural products and services, the Doha Development Agenda also covers negotiations on rules concerning anti-dumping (AD) and subsidies, the environment, trade-related aspects of intellectual property rights (TRIPS),<sup>8</sup> and the improvement and implementation of the Dispute Settlement Understanding (DSU).<sup>9</sup> Trade facilitation negotiations, one of whose objectives is to simplify tariff procedures, were added to the agenda in the July Package.

### **Future Negotiations**

Difficult negotiations are expected due to the differing positions of participating countries and a wide range of areas of negotiations. Even so, the consolidation of the multilateral trade system is the path that leads to stable and balanced global development. With this in mind, Japan will strive toward the creation of systems that benefit its national interests and global trade while giving due consideration to the present and future circumstance in which Japan is placed.

### **The WTO Dispute Settlement System**

In comparison to the GATT era, the WTO's dispute settlement system has been actively utilized by member countries. Since the WTO was established in January 1995, 324 disputes, the number of cases in which a re-

quest for consultations is made, have been brought to the WTO dispute settlement system by the end of December 2004. (The number of cases under GATT from 1948 to 1994 was 314.)

The impartial and fair dispute settlement system of the WTO functions as a pillar that provides stability and predictability of the multilateral trading system, and Japan has utilized this system proactively. For example, Japan, together with several other members, requested authorization to take retaliatory measures against the Byrd Amendment of the US.<sup>10</sup> This law was found by the WTO Dispute Settlement Body to be inconsistent with the WTO Agreements in 2003, but the US has failed to bring this illegal measure into compliance with WTO rules. The requests were granted in 2004. Meanwhile, the Appellate Body issued a report concluding that Japan's phytosanitary measures on imported apples (fire blight disease of apples)<sup>11</sup> were a violation of the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS). The complaint was brought by the US. Japan accepted the Appellate Body's report, and its revised measure is being reviewed by the panel established under Article 21.5 of the DSU as of July 2004. In 2004 the US utilized the WTO's dispute settlement system to seek a resolution of China's refund of the Value-Added Tax on integrated circuits (ICs).<sup>12</sup> The issue attracted great attention, as it was the first time for a WTO case to be brought against China.

8. The expression "TRIPS Agreement" comes from the acronym for the Agreement on Trade-Related Aspects of Intellectual Property Rights. In addition to establishing the minimum level of intellectual property rights protection, this agreement stipulates the procedures for the enforcement of rights as well as procedures for dispute settlement.

9. This is an abbreviation for "Understanding on rules and procedures governing the settlement of disputes," which is Annex 2 of the WTO Agreements.

10. The Byrd Amendment is a US law (enacted in October 2000) that obliges the administration to distribute the revenue from anti-dumping and countervailing duties imposed on foreign products to US domestic companies that supported the anti-dumping or countervailing petitions. In January 2003, the reports of the panel and the Appellate Body, which concluded that the Byrd Amendment was inconsistent with the WTO Agreements, were adopted by DSB.

11. Japan's phytosanitary measures were for fire blight disease in connection with a case over Japan's removal of an import ban on apples. (The measures include the element of creation of buffer zones of 500 meters for orchards in the US.) Fire blight disease has yet to occur in Japan. It is a disease that infects apples, pears, and other fruits as well as flowering trees and shrubs, such as hawthorn. In November 2004, the Appellate Body issued a report in favor of the US complaint.

12. The US argues that the Chinese government's granting of VAT refunds to domestic IC producers violates the national treatment rules and therefore violates the agreement. The two countries later resolved the dispute.

## 2

## Promotion of Economic Partnership Agreements

**(a) Overview**

On September 17, 2004, Prime Minister Koizumi Junichiro and President Vicente Fox signed an Economic Partnership Agreement (EPA) in Mexico, which is the second EPA for Japan following the one with Singapore. At a summit meeting on November 29, the leaders of Japan and the Philippines confirmed that they had reached agreement in principle on the major elements of an EPA. Japan is also conducting bilateral EPA negotiations with Thailand, Malaysia, and the Republic of Korea (ROK). Furthermore, Japan and the Association of Southeast Asian Nations (ASEAN) as a whole agreed to commence the negotiations on an ASEAN-Japan Comprehensive Economic Partnership (AJCEP) Agreement in April 2005. Finally, Japan and Indonesia agreed to launch a Joint Study Group to explore the possibility of launching bilateral negotiations on a bilateral EPA.

Why is Japan pursuing EPAs and Free Trade Agreements (FTAs) so vigorously?

The strengthening and development of the multilateral free trade system, centering on the World Trade Organization (WTO), continues to be important to maintain Japan's economic prosperity through clear global rules. At the same time, negotiations within the WTO, whose system applies to all countries as a core element of global rules, have become more complicated due to the increased number of member countries and to the expansion and deepening of the fields that it covers, and, therefore, it has been pointed out that the WTO faces difficulties in responding swiftly to new issues and working out new rules. In other words, although the multilateral free trade system under the WTO is a pillar that provides common global rules for the member countries, in order to complement this multilateral trade system, it is significant to promote EPAs/FTAs as a means of strengthening economic partnership beyond the levels attainable under the WTO and in areas not covered by the WTO.

In recent years, not only economic but also political partnerships have been strengthened at the regional level. Japan has continuously endeavored to make its ties with East Asian countries closer, as seen in its active contributions to the establishment of an East Asian community (EAc). EPAs are an important means of functional cooperation to build an EAc, and they contribute to the creation of an international environment beneficial to our country from the viewpoint of politi-

cal and diplomatic strategy. In this way, the promotion of EPAs does not just yield economic benefits but also makes important contributions to the establishment of deeper external relations.

In order to realize an agreement that is meaningful both economically and politically, it is necessary to aim for high-quality and mutually beneficial EPAs. But difficult problems may arise on both sides. For example, there are products for which tariffs still remain intact for domestic industries, but the conclusion of EPAs/FTAs calls for the elimination of duties and other restrictive commercial regulations with respect to substantially all trade. Consequently, it is inevitable for structural reforms to be promoted vigorously in such industries in order to enhance their competitiveness because they are required in eliminating tariffs. On the other hand, it also becomes necessary to explain to the negotiating partner the long-term benefits of trade and investment liberalization through EPAs, as well as to promote and support structural reforms in the partner country.

Many countries in the world today are expressing interest in EPAs/FTAs with Japan. Japan will do its utmost to conclude its ongoing EPA negotiations with East Asian countries, but it is also necessary to study the possibility of EPAs with other countries and regions. To consider the prospects of such studies, the Basic Policy toward Further Promotion of Economic Partnership Agreements was approved by the Council of Ministers on the Promotion of Economic Partnership in December 2004. This basic policy points out three criteria that should be fully taken into account in identifying countries and regions to negotiate with: (1) creation of an international environment beneficial to Japan, (2) attainment of economic interests of Japan as a whole, and (3) situation of the partner country/region and the feasibility of forming an EPA/FTA. Japan will continue to actively promote EPAs while identifying countries and regions to negotiate with, based on the above-mentioned basic policy.

**(b) Individual Issues*****Mexico***

Mexico has the tenth largest economy in the world, which is larger than the 10 ASEAN countries put together. Because of the lack of an EPA/FTA between Japan and Mexico, Japanese companies had been placed in a disadvantageous situation in competition with US and EU companies. It was, therefore, an urgent task for

## What Are Economic Partnership Agreements?

Free Trade Agreements (FTAs) aim to liberalize trade in goods and services through the elimination of tariffs and other measures among countries and regions. Economic Partnership Agreements (EPAs), currently being pursued by Japan, aim to strengthen economic partnership in a wider range of areas with the content of FTAs as a base. More specifically, EPAs also promote investment, movement of natural persons (such as nurses and care workers), harmonization of economic systems through cooperation in various fields, and rule-making in such areas as government procurement,<sup>\*1</sup> competition policy<sup>\*2</sup> and intellectual property.

But what kind of benefits do EPAs bring? Let us look at the EPA between Japan and Mexico as an example.

The benefits of this EPA can roughly be divided into three categories: The first is improvement of market access. Mexico's gross domestic product (GDP) is the tenth largest in the world (on the same scale as all 10 ASEAN member countries put together), which means that Mexico is an important trade and invest-

ment partner. The EPA between Japan and Mexico improves market access by eliminating tariffs on 96% of the total volume of trade between both countries.

The second benefit is improved access to other markets. Mexico is expected to be a gateway to the markets of North and South America; concluding an FTA with Mexico, which has actively concluded or is in the process of concluding FTAs with the US, Canada, and Latin American and Caribbean countries, gives access to these markets.

The third benefit is overcoming disadvantages in competition with US and EU companies. The EPA eliminates comparative disadvantages that Japanese industries have suffered due to the lack of an EPA/FTA.

Despite such advantages to both countries, EPAs also have painful aspects because the nature of EPAs is to pressure open markets through changes to and reforms of the existing industrial structure and regulations in both countries. In promoting EPAs, it is important to overcome such difficulties through structural reform in view of future economic growth.

\*1 Government procurement is the procurement of goods and services through government purchases, borrowing, or other ways. Regarding Mexico's government procurement, there are needs to eliminate the disadvantages suffered by Japanese companies in the bidding process, such as the existence of items that bidders of only Mexico and its FTA partner countries can bid on.  
\*2 Competition policy is a policy that promotes fair and free competition among companies. In the framework of EPAs, cooperation on effectively proscribing anti-competitive activities (such as import cartels and unfair dealing habits) has great importance.

the government to develop a bilateral legal framework in order to enhance economic partnership. Japan and Mexico thus decided to launch negotiations on an EPA at the Japan-Mexico summit meeting in October 2002. The negotiations began in November 2002, and both sides confirmed that they had reached agreement in principle on the major elements of an agreement. After the final round of talks, aiming at concluding the agreement, Prime Minister Koizumi and Mexican President Fox signed the agreement in Mexico on September 17, 2004. The agreement was approved by the legislatures of both countries and is scheduled to come into force from April 1, 2005. It is expected that the agreement will contribute to eliminating the comparative disadvantage suffered by Japanese industries and that Mexico, which has actively been concluding FTAs with other countries and regions, will become a gateway for Japanese industry to gain better access to North, Central, and South American markets.

### ***The Significance of Concluding EPAs with East Asian Countries***

While economic globalization advances, international economic relations whose constituent unit used to be the state have changed in character, and we face a new economic and social reality in which the people of different countries have more direct and broad relations. This trend is remarkably evident between Japan and East Asian countries, which have developed a deep and interdependent relationship. For example, trade with East Asian countries accounts for about 40% of all of Japan's trade, and Japanese companies make huge investments in the East Asia region. An international division of labor has developed, and investment is expected to increase in the future. On the other hand, East Asian countries in some cases still have high tariffs, barriers in services and trade areas, and insufficient rules in such areas as intellectual property and competition policies. Great benefits will be derived from concluding high-



quality EPAs that cover a wide range of areas with East Asian countries. Furthermore, such EPAs will contribute to the economic development of Japan and other East Asian countries and to the stability of the entire region. From this point of view, it is strategically crucial for Japan to take the lead in strengthening economic partnership with East Asian countries.

### **Process of Negotiations with East Asian Countries**

At the bilateral summit meeting on the occasion of the Japan-ASEAN Commemorative Summit in December 2003, Japan and the Philippines decided to start negotiations on an EPA. Since the first round of negotiations in February 2004, five rounds and many meetings about specific areas have been held. At the summit meeting held in Laos in November 2004, Prime Minister Koizumi and President Gloria Macapagal-Arroyo confirmed that they had reached agreement in principle on major elements of an EPA. Both countries will continue to negotiate toward the signing of an EPA as early as possible.

In addition, on the occasion of the Japan-ASEAN Commemorative Summit in December 2003, Japan also decided to begin negotiations with Thailand and Malaysia. Since the first round of negotiations with

Malaysia in January 2004 and with Thailand in February 2004, Japan has held negotiations with both countries approximately every two months, and many meetings on specific areas also have been held. The negotiations, aimed at concluding an agreement as soon as possible, have continued without losing the momentum created by the agreement in principle with the Philippines.

At a summit meeting in October 2003, Japan and the ROK decided to begin FTA negotiations<sup>13</sup> in 2003, aiming at its conclusion in substance in 2005. Since the first round of negotiations in December 2003, six rounds of negotiations have been held approximately every two months. At the Japan-ROK summit meeting in July and December 2004, the leaders reaffirmed the aim to substantially conclude negotiations in 2005.

As for Indonesia, two preparatory meetings were held in September and December 2003. Afterward, at a meeting in January 2005, Minister for Foreign Affairs Machimura Nobutaka and Indonesian Vice President H. Muhammad Jusuf Kalla agreed to hold three meetings of a Joint Study Group by April 2005 and to decide on the necessity of starting bilateral EPA negotiations.

In addition to the bilateral negotiations mentioned above, Japan and ASEAN as a whole started a study on the nature of their economic partnership af-

## **Contents of the Agreement in Principle with the Philippines**

Japan's Interests	Philippines' Interests
<p><b>Industrial goods</b> Elimination of tariffs by both sides on almost all goods within 10 years</p> <p><b>Services and investment</b> <b>Services:</b> (1) Compilation of a list providing all measures inconsistent with market access and national treatment; (2) commitment to standstill obligations in many service sectors; (3) commitment to liberalization in specific service sectors (construction, transport, etc.) <b>Investment:</b> Stipulation of high-quality rules, including provisions concerning national treatment, most-favored-nation treatment, and performance requirement prohibitions for the liberalization of investment; provisions concerning protection of investments will also be included</p> <p><b>Protection of intellectual property</b> Stipulation of provisions concerning appropriate protection and enforcement of intellectual property</p> <p><b>Improvement of business environment</b> The establishment of frameworks for consultations to improve business environment</p>	<p><b>Agricultural, forestry, and fishery products</b> Tariff elimination or introduction of a tariff rate quota by the Japanese side on bananas, pineapples, chicken meat, tunas, and skipjack, which are among the Philippines' major export items; raw cane sugar is to be re-negotiated in the fourth year after the entry into force of the agreement</p> <p><b>Movement of natural persons</b> Agreement on a basic framework of the hosting scheme of Filipino nurses and certified careworkers (selection, deployment, training and stay of the candidates), on the assumption that they obtain Japanese certification</p> <p><b>Cooperation</b> Promotion of bilateral cooperation, with a view to contributing to strengthening the economic partnership between Japan and the Philippines, in nine fields, namely human resource development, financial services, information and communications technology (ICT), energy and environment, science and technology, trade and investment promotion, small and medium enterprises, tourism, and transportation.</p>

13. The term "FTA" has been used between Japan and the ROK for the sake of convenience, even though both countries share the recognition of aiming for a comprehensive economic partnership.

ter the Framework for Comprehensive Economic Partnership between Japan and ASEAN was signed by the leaders of these countries in October 2003. The study was conducted by the ASEAN-Japan Committee on Comprehensive Economic Partnership (AJCCEP).<sup>14</sup> Consequently, at the Japan-ASEAN summit meeting held on November 30, 2004, in Vientiane, Laos, they decided to start EPA negotiations from April 2005. It is expected that the EPA between Japan and ASEAN will make the economic relationship closer through increases in trade and investment between the two sides and that it will also contribute to the economic development of ASEAN countries.

### Others

In the Joint Declaration on the Promotion of Tripartite Cooperation issued in October 2003 by Japan, the People's Republic of China, and the ROK, the leaders of the three countries agreed to launch an informal joint study on the possible modalities of trilateral investment arrangements as well as to explore the directions of closer future economic partnerships in view of the increase in direct investment<sup>15</sup> and its significance among the three countries in recent years. The report of the joint study was submitted to the Three-Party-Committee of Japan, the People's Republic of China, and the ROK and the trilateral summit meeting held in November 2004 in Laos. The three countries decided to further work on a legal framework concerning investment<sup>16</sup> and to establish a government-level mechanism aimed not only at following up the implementation of the measures for the improvement of the business en-

vironment—which the countries agreed to take up early in the joint study—but also at considering additional measures for the improvement of the business environment whenever necessary. In addition, at this summit meeting, a report on trilateral economic cooperation, which private research institutes of the three countries had been preparing since 2001, was also submitted.

Chile is a country in the Pacific region with which Japan has good relations. Located in Latin America, Chile has been the most successful country in the region in terms of democratization and modernization of the economy. Chile is also a supplier of important mineral resources, including copper. At the Japan-Chile summit meeting in November 2004, the two countries' leaders decided to launch a Joint Study Group comprising representatives of government, academia, and business from both countries to consider the possibility of concluding a Japan-Chile EPA/FTA.

India, which is potentially a huge market, is important in geopolitical terms and exerts a powerful influence on the formation of worldwide opinion. At the Japan-India summit meeting in November 2004, it was agreed to establish a Japan-India Joint Study Group for a Comprehensive Study (JSG-CS) as a framework for broad-ranging discussions to strengthen the economic relationship. The JSG-CS is expected to review the two countries' current economic ties, including investment and trade, from a comprehensive viewpoint in light of the economic potential of the two countries and identify problems and key future issues in drawing up concrete policies and action plans.

14. A committee of government officials established to strengthen the economic partnership between Japan and ASEAN.

15. The amount of direct inward investment flowing among Japan, China, and the ROK accounted for about 9% of the global total in 2002 and about 11% in 2003. This growth was outstanding, given that the amount of direct inward investment had declined on a global scale. The rapid and intensive increase in the flow of direct investment among the three countries was largely driven by the flow of investment into China from the 1990s. The major pattern of direct inward investment in the 1970s was that of companies setting up production bases near their markets. However, since the 1980s the location of production bases has been based on the optimization and segmentation of the production process in the light of technological advances. Riding this trend, the amount of investment into China has risen steadily owing to a low-cost labor force and other factors. Today, China's economic growth is being driven largely by foreign corporations, which account for a more than 50% share of foreign trade. (In other words, direct inward investment is highly tied to the growth of trade.)

16. Looking at trade among Japan, China, and the ROK, the pattern is more vertical than horizontal, and the three countries are in a complementary relationship. Additionally, increased investment among them not only provides benefits for each country but also promotes the spread of technology and business management knowledge for the receiving country, thereby supporting sustainable economic development among the three countries. It can also be said that China's market expansion is connected dynamically to the domestic economies of Japan and the ROK through foreign direct investment and related trade. In parallel with the strengthening of the economic relationship, people-to-people exchange among the three countries has also been growing in many areas, such as education, culture, and sports. (For example, out of the 5.21 million foreign visitors to Japan in 2003, visitors from the ROK accounted for 1.46 million and those from China accounted for 450,000.)

## Basic Policy towards Further Promotion of Economic Partnership Agreements (EPAs), Approved by the Council of Ministers on the Promotion of Economic Partnership

on December 21, 2004

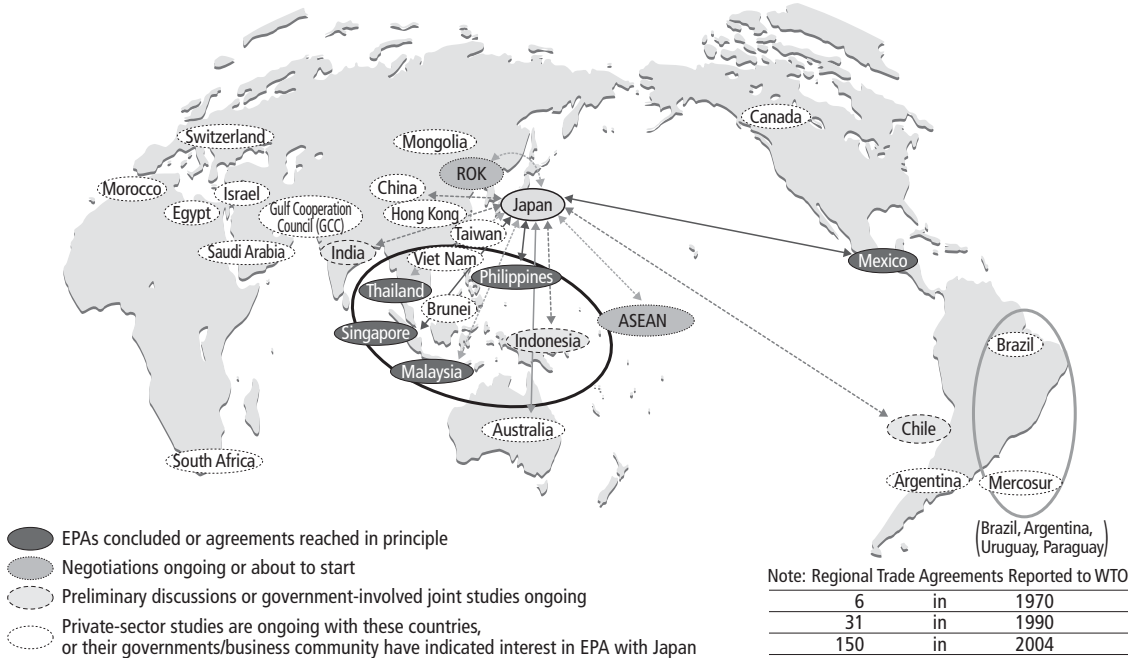
1. Economic Partnership Agreements (EPAs), against the background of growing economic globalization, contribute to the development of Japan's foreign economic relations as well as the attainment of its economic interests as a mechanism to complement the multilateral free trade system centering on the WTO. Simultaneously, EPAs facilitate promotion of structural reforms of Japan and its partners.
2. These EPAs contribute to the creation of international environment further beneficial to our country from the politically and diplomatically strategic points through, among others, fostering the establishment of an East Asian community.
3. Having concluded an EPA with Singapore and having signed one with Mexico, our country has reached agreements in principle on the major elements of the EPA with the Philippines. Negotiations with Thailand, Malaysia, and the Republic of Korea are currently in progress. Furthermore, it has been agreed that negotiations with ASEAN as a whole will be initiated from next year. These efforts are designed to realize our policy to promote economic partnerships with East Asia as its focus, and the Government shall do its utmost to conclude these EPAs as soon as possible.
4. In addition to the above-mentioned negotiations, the Government will study the possibility of negotiations with other countries/regions, taking into account the progress of the on-going negotiations as well as the importance of EPAs to our economy and society. In identifying countries or regions to negotiate with, the Government shall consider overall factors including the economic and diplomatic perspectives and the situation of these countries and regions; more specifically, the attached criteria shall be fully taken into account.
5. In that process, considering the state of economic relations with the proposed partner, the Government shall review possible alternative measures of economic partnership to Free Trade Agreements (FTAs), such as conclusion of an investment agreement or a mutual recognition agreement and improvement of investment environment.
6. The Government shall endeavor to ensure that the promotion of EPA negotiations will facilitate Japan's negotiations at the WTO. In addition, based on the experience of the past negotiations, the Government shall endeavor to conduct negotiations and operations more efficiently, further develop the necessary human resources, and make extensive use of experts in the private sector.

## Criteria on Identifying Countries/Regions with Which to Negotiate the FTAs/EPAs

In identifying countries or regions to negotiate with, the Government shall take the following perspectives into comprehensive consideration:

- 1. Creation of international environment beneficial to our country**
  - 1-1 Whether or not it will facilitate the efforts towards community building and stability and prosperity in East Asia.
  - 1-2 Whether or not it will contribute to the efforts to strengthen our economic power and to tackle political and diplomatic challenges.
  - 1-3 Whether or not it will reinforce Japan's position at multilateral negotiations, including the WTO talks, through partnership and cooperation with the related countries/regions.
- 2. Attainment of economic interests of Japan as a whole**
  - 2-1 Whether or not it will substantially expand and facilitate exports of industrial, agricultural, forestry and fishery products, trade in services, and investment, through the liberalization of trade in goods and services and of investment; whether or not it will improve the business environment for Japanese companies operating in the partner countries/regions, through harmonization of various economic systems such as protection of intellectual property rights, as well as through facilitation of movement of natural persons.
  - 2-2 Whether or not it is indispensable to eliminate economic disadvantages caused by absence of EPA/FTA.
  - 2-3 Whether or not it will contribute to stable imports of resources, safe and reliable food, and to diversification of its suppliers.
  - 2-4 Whether or not it will promote Japan's economic and social structural reforms, thereby making economic activities efficient and vibrant; whether or not, in the sectors of agriculture, forestry and fisheries, it will adversely affect Japan's food security and its on-going efforts towards structural reforms in these sectors.
  - 2-5 Whether or not it will further promote acceptance of professional or technical workers, thereby stimulating Japan's economy and society and promoting its further internationalization.
- 3. Situation of the partner countries/regions and feasibility to realize EPA/FTA**
  - 3-1 Which products are difficult for each party to liberalize given the current trade relations between Japan and partner countries/regions; whether or not both parties are able to give appropriate consideration to such difficulties.
  - 3-2 Whether or not it will cause friction or problems with other countries/regions, which might be affected in the field of trade and investment.
  - 3-3 Whether or not the concerned countries/regions are capable of implementing the commitments under the WTO and EPA/FTA.
  - 3-4 Whether or not an FTA focusing on tariff reduction and elimination is the best means of economic partnership with the concerned countries/regions.

Japan's EPA/FTA Negotiations (As of March 2005)



### 3 Creation of International Rules in Response to Globalization

#### (a) Overview

Under the new international environment after the terrorist attacks in the United States (US) in 2001, the international community has been urged to respond to global challenges, such as sustainable development, poverty reduction, counter-terrorism, and non-proliferation of weapons of mass destruction (WMD) and their delivery means, in addition to global economic growth. Japan has been tackling these issues by active participation in efforts to create basic rules at the Group of Eight (G8) Summit, the Organisation for Economic Co-operation and Development (OECD), and other fora.

#### (b) G8 Summit

At the G8 Sea Island Summit from June 8 to 10, 2004, cooperation among G8 members was tested mainly on the issues of the Middle East. Concerning Iraq issues, given

the unanimous adoption of UN Security Council Resolution 1546 on handing sovereignty over to Iraq on the first day of the summit, the G8 confirmed that they would cooperate to support the Iraqi interim government. Addressing the Middle East more broadly and with the aim of promoting long-term stability in the region, the “Partnership for Progress and a Common Future with the Region of the Broader Middle East and North Africa” (BMENA) and “G8 Plan of Support for Reform,” which was compiled in accordance with the partnership, were issued. Discussions also took place on the global economic situation, a traditional summit theme. Furthermore, the G8 leaders reached consensus on making further efforts in a wide range of areas, including non-proliferation, counter-terrorism, and development.<sup>17</sup> Among Prime Minister Koizumi’s contributions to the discussions, he led the discussion on North Korea, explaining his visit to North Korea in May, and obtained

17. 16 documents were issued at the G8 Sea Island Summit: Chair’s Summary; G8 Leaders’ Statement on Trade; G8 Action Plan: Applying the Power of Entrepreneurship to the Eradication of Poverty; Partnership for Progress and a Common Future with the Region of the Broader Middle East and North Africa; G8 Plan of Support for Reform; G8 Action Plan on Non-Proliferation; G8 Secure and Facilitated International Travel Initiative (SAFTI); G8 Statement on Sudan; G8 Statement: Gaza Withdrawal and the Road Ahead to Mideast Peace; G8 Action Plan: Expanding Global Capability for Peace Support Operations; G8 Action to Endorse and Establish a Global HIV Vaccine Enterprise; Fighting Corruption and Improving Transparency; G8 Commitment to Help Stop Polio Forever; Debt Sustainability for the Poorest; Ending the Cycle of Famine in the Horn of Africa; Raising Agricultural Productivity, and Promoting Rural Development in Food Insecure Countries; and Science and Technology for Sustainable Development: “3R” Action Plan and Progress on Implementation.

## The G8 Summit: A View from Within

The G8 Summit is held once a year (around June and July) and brings together the leaders of Japan, France, the United States (US), the United Kingdom (UK), Germany, Italy, Canada, and Russia. The Sea Island Summit in 2004 marked the 30th anniversary of the foundation of the summit. The main theme of the first several summits was macroeconomic policy coordination. In recent years, however, a number of different issues directly affecting the international community have been discussed, including non-proliferation and counter-terrorism, development in developing countries, the environment, and the regional issues of North Korea and Iraq. In particular, ever since the 2002 Kananaskis Summit, there has been a growing trend that leaders issue a large number of "action plans" to cooperate on adopting concrete measures. Consequently, by looking at the G8 Summit of a particular year, we can understand what kind of issues the world community faced that year and what specific measures were to be taken.

According to the process of the G8 summits, four main officials from each country conduct preparatory work for a period of six months to a year. These are called the "Sherpas" (originally means guides who take climbers to the "summit" of mountains), who personally represent respective leaders. In the case of Japan, these are the Deputy Minister for Foreign Affairs (in charge of Economic Affairs), the Political Directors (Deputy Minister for Foreign Affairs [in charge of Political Affairs]), the Foreign Affairs Sous-Sherpas (Director-General of Economic Affairs Bureau of the Foreign Ministry), and the Financial Sous-Sherpas (Senior Deputy Director-General of the International Bureau of the Ministry of Finance). The documents are finalized after discussions among the leaders.

One of the main issues at the Sea Island Summit last June was "the Broader Middle East and North Africa Partnership." This was initially proposed around January 2004 by the US Presidency, which called for support to Middle Eastern countries for reforms including deepening democracy, building a knowledge

society, and creating economic opportunities. However, the proposal was leaked to Arab newspapers in February, and Arab countries reacted by protesting that the US intended to force the American way of reform on them. The situation concerning the Middle East was thrown into further confusion after the assassination of Hamas leader Ahmed Yassin by Israel (in March) and disclosures of the torture of Iraqi prisoners by US military personnel at the Abu Ghraib prison in Iraq (at the end of April). Although discussions on the US proposal had begun among the related countries in a quiet manner, this broke down due to these events, and I, as a G8 Summit official, seriously worried about the outcome. Yet afterward, directly before the start of the summit, a positive posture favoring reform had emerged from the Middle Eastern region, as the Arab leaders indicated the necessity of Arab efforts for modernization at the Arab Summit in Tunisia (late May). As a result, a political declaration ("Partnership for Progress and a Common Future with the Region of the Broader Middle East and North Africa") and reform plan ("G8 Plan of Support for Reform") were announced at the summit, stating that voluntary reform of the Broader Middle East and North Africa would be supported by the G8. In addition, G8 leaders held talks with several of their counterparts from Middle Eastern countries. In the process of preparation for the summit, I was impressed above all by the fact that Japan's consistent argument—that support for reform in the Broader Middle Eastern region should ensure the ownership and diversity of the region—gained support from the other G8 countries and was reflected in the final documents.

At the Gleneagles Summit in 2005 in the UK, the main topics are scheduled to be Africa and climate change. I hope that readers will pay attention to the meeting to see what kind of leadership Japan will show. (Yokochi Akira, Aid Planning Division, Economic Cooperation Bureau [While at the Economic Affairs Bureau, he was an assistant to the Sherpa for the three summits at Kananaskis, Sea Island and Evian.]

support for the “3R Initiative” (reduce waste, reuse, and recycle), a proposal aimed at the creation of a recycling society on a global scale through promotion of the 3Rs. The prime minister also had talks with leaders on each of the Middle Eastern and African countries who participated in the outreach session of the summit,<sup>18</sup> which served as an important opportunity for direct exchange of views with other leaders.

### (c) The OECD

The OECD<sup>19</sup> serves as the cornerstone for the creation of rules through free exchanges of opinions. Japan has led vigorous discussions in all areas, including economic growth, trade, and development. Notably, a Strategy on

Enlargement (membership for new countries) and Outreach (cooperation with non-members), an initiative of Japan, was approved at the Ministerial Council Meeting in May 2004. This set the direction for the OECD to act as a global entity with greater influence on the world community. In addition, Japan proposed a Strategy on Investment for Development<sup>20</sup> that focused on the important role of private investment in development, based on the belief that nation building can be fulfilled through the participation of various types of partners. Furthermore, Japan has been taking the initiative for the implementation of the project and also vigorously contributing to the projects for economic development in the Middle East and North Africa (MENA) region.<sup>21</sup>

## 4 Strengthening Economic Security

### (a) Overview

Most of the crude oil and natural gas, as well as a high share of fishery resources, agricultural products, and many other resources consumed in Japan are supplied from abroad. Securing a stable supply of these resources is indispensable for Japan to maintain a stable economy and social life and eliminate threats to the lives and property of Japanese citizens. It is an important issue in Japan’s foreign policy to strengthen international cooperation for these reasons, and Japan has been putting more efforts in the areas summarized below.

### (b) Energy Security

In 2004 the prices of many resources rose rapidly due to such factors as economic growth in China and other countries, which pushed up demand for them. For example, the price of a barrel of crude oil hit US\$55 in late October, an all-time high. Even though prices subsequently eased somewhat, they continue to hover at high levels (around US\$45 in January 2005). Japan engaged vigor-

ously in efforts to strengthen international cooperation in the areas of improving transparency in energy markets, securing stable and adequate supplies of crude oil, and improving energy efficiency and energy conservation, as continued high crude oil prices have the potential of becoming a major risk factor for the world economy.

Specifically, Japan strengthened its international efforts in cooperation with other developed countries through the International Energy Agency (IEA), which has a leading role in the area of energy security. With regard to energy cooperation in Asia, where demand for energy has risen sharply, Japan has contributed to promoting regional cooperation based on the recognition that strengthening energy security in the region is an urgent issue. The Qingdao Initiative on energy security was adopted at the 3rd Asia Cooperation Dialogue (ACD) Foreign Ministers’ Meeting held in Qingdao in June; the Comprehensive Action Initiative Recognizing the Need for Strengthening the APEC Energy Security Initiative (Cairns Initiative)<sup>22</sup> was approved at the Asia-Pacific Economic Cooperation (APEC) Economic Leaders’

18. The leaders of the seven Middle Eastern countries of Afghanistan, Algeria, Yemen, Iraq, Turkey, Jordan, and Bahrain and the leaders of the six African countries of Algeria, Uganda, Ghana, Senegal, Nigeria, and South Africa.

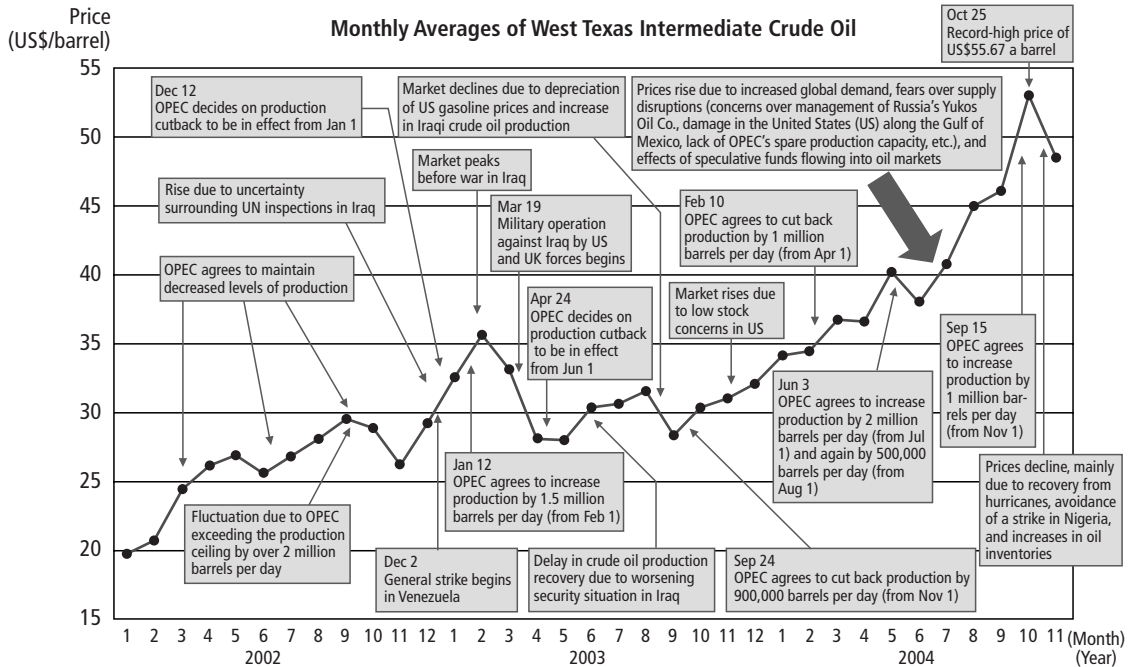
19. The OECD was established in 1961 with 20 countries. Japan joined the OECD in 1964 and currently 30 countries are the members. The OECD carries out policy coordination through analyses and policy proposals in wide-ranging fields such as economic growth, trade, development, environment, and science and technology.

20. The activities include: (1) research on policy frameworks for the improvement of investment environments in developing countries, (2) research on efficient linkage between Official Development Assistance (ODA) and private investment, and (3) assistance for mutual investigation by developing countries regarding investment environments.

21. Activities with the aim of contributing to stability and development in the Middle East and North Africa region, through offering knowledge accumulated by the OECD to the region. Since 2004, cooperation on “investment for development” and “public governance” has been moving forward.

22. In addition to efforts (countermeasures for disruptions of oil supplies, improvement of efficiency of energy use, and promotion of diversified energy sources) that are continuously implemented, references were made to the strengthening of short-term measures, such as analysis of the effects that high crude oil prices have on the APEC region’s economy and long-term measures, such as investment promotion and technological innovation in the energy field.

## Changes in Crude Oil Prices



Meeting and Joint Ministerial Meeting in November; and the Action Strategy on Trilateral Cooperation among China, Japan, and the Republic of Korea (ROK)<sup>23</sup> was formulated for coordinated action among relevant countries on energy security at the Trilateral Meeting of the Leaders of Japan, China, and the ROK in November.

Furthermore, Japan appealed to oil-producing countries for stable and appropriate supplies of oil and for necessary investment and improvement of the environment at the International Energy Forum (IEF), which was held for dialogue between oil-producing and oil-consuming countries in the Netherlands in May.

### (c) Food Issues

Japan, which imports much of its food, is pressing ahead with necessary international cooperation in order to maintain its food supply. Japan is also actively engaged in dealing with international food issues, including hunger.

Specifically, Japan took part in financial cooperation through the Food and Agriculture Organization (FAO) of the United Nations (UN) to assist programs in Laos, Cambodia, Indonesia, and Viet Nam to deal with avian influenza, which spread in these four countries and

elsewhere in the Asian region from around the winter of 2003. In addition, the problem of serious malnutrition continues as before, mainly in developing countries. Japan is involved in comprehensive measures, including agricultural development, international trade, education, and technology transfers, as well as food assistance and assistance to raise food production. These efforts are made either bilaterally or through international organizations. Assistance is being given to the FAO's activities to supply grains and vegetable seeds to alleviate the human rights crisis in the Darfur region.

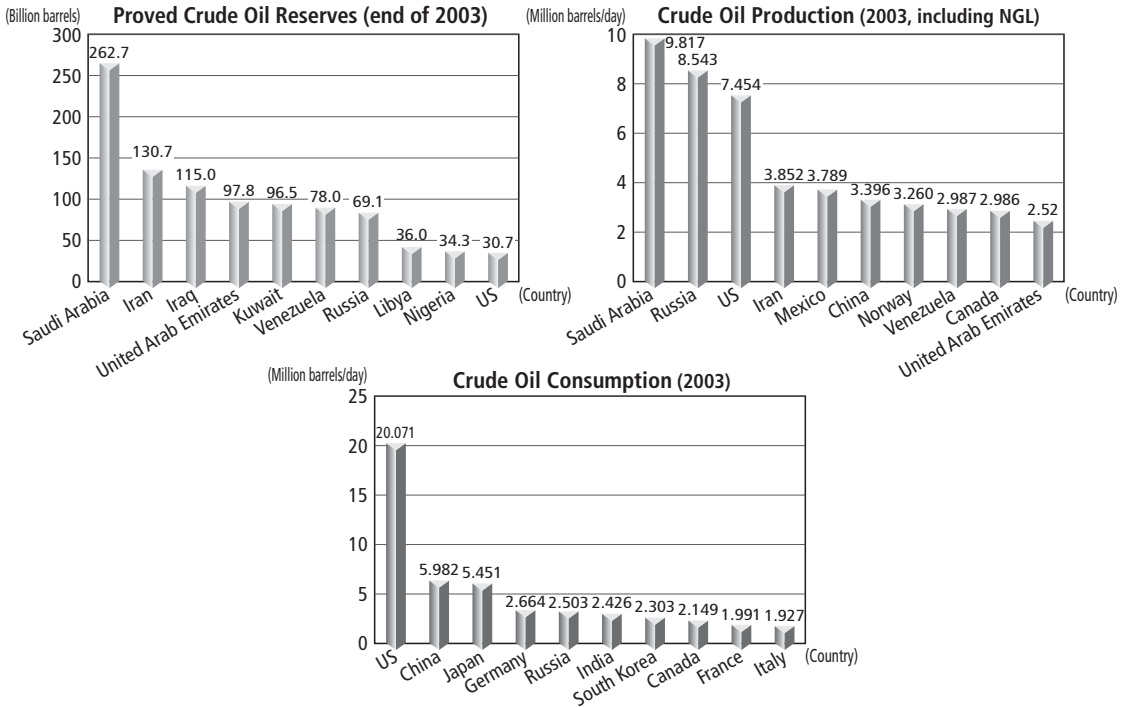
### (d) Marine Issues

Japan is an island country with a limited land area and few natural resources. So marine living resources and other natural resources lying on continental shelves and in deep seabeds under surrounding waters are very important from an economic viewpoint.

The UN Convention on the Law of the Sea provides that the continental shelf of a coastal state comprises the seabed and subsoil of the submarine area up to 200 nautical miles from the base line, and that in the event the continental margin extends beyond 200 nautical miles, the outer limit of the continental shelf beyond 200 nau-

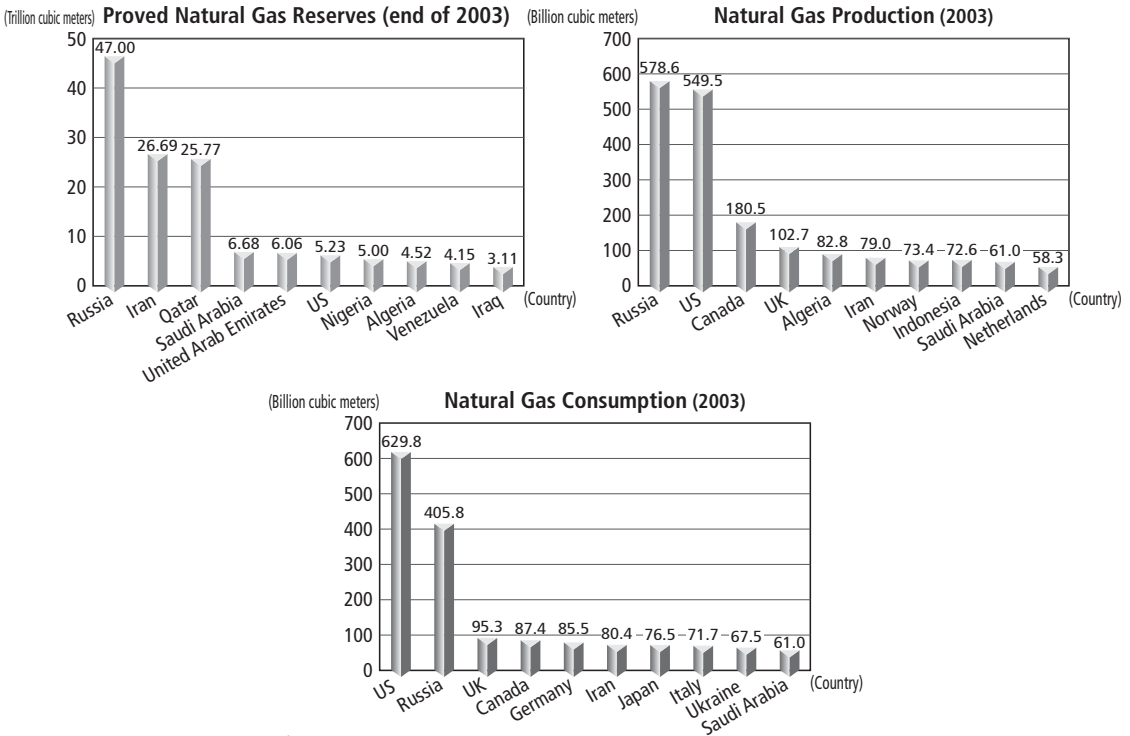
23. On the issue of energy, it recognizes the importance of energy efficiency and conservation, promotes trilateral cooperation for region-wide energy security, and calls for energy strategy dialogue and joint undertakings.

Top 10 Countries in Proved World Reserves, Production, and Consumption of Crude Oil



Source: BP Statistical Review of World Energy 2004

Top 10 Countries in Proved World Reserves, Production, and Consumption of Natural Gas



Source: BP Statistical Review of World Energy 2004



## Reported Piracy Cases

Region	Year	1995	1996	1997	1998	1999	2000	2001	2002	2003
East Asia		80	133	109	100	173	257	178	175	193
Malacca Straits within East Asia		12	12	8	6	37	112	58	34	36
Indian Ocean		15	30	41	25	51	109	56	66	96
Africa		15	28	41	41	52	62	80	70	89
Latin America and the Caribbean		20	32	45	38	29	41	23	67	72
Others		2	5	16	6	4	2	3	5	2
<b>Total</b>		<b>132</b>	<b>228</b>	<b>252</b>	<b>210</b>	<b>309</b>	<b>471</b>	<b>370</b>	<b>383</b>	<b>452</b>
<b>Number of incidents involving ships related to Japan</b>		<b>8</b>	<b>11</b>	<b>18</b>	<b>19</b>	<b>39</b>	<b>31</b>	<b>10</b>	<b>16</b>	<b>12</b>
<b>Number of incidents in East Asia involving ships related to Japan</b>		<b>5</b>	<b>10</b>	<b>12</b>	<b>14</b>	<b>28</b>	<b>22</b>	<b>4</b>	<b>12</b>	<b>11</b>

Sources : International Maritime Organization (IMO), *Report on Acts of Piracy and Armed Robbery against Ships Annual Report 2003*; Ministry of Land, Infrastructure and Transport, *Maritime Report 2004*.

Note: According to the IMO, the reported number of incidents in 2003 rose to 452 from 383 during the previous year, an increase of 69. Of these cases, 14 ships were hijacked, 6 were missing, 13 people (including 2 passengers and 6 military members) were killed, 45 were injured, and 54 remain missing. This shows a trend toward the violent nature of these incidents.

tical miles can be established when the topography and geological features of the seabed meet certain conditions. In order for Japan to maintain its economic interests by securing a stable supply of marine natural resources, Japan has been conducting studies on the topography and geological features of the seabed in waters surrounding Japan with a view to extending the outer limit of its continental shelf to the maximum limit of 350 nautical miles in accordance with the convention. Additionally, Japan is an active participant in various international conferences in the belief that sharing information on the extension of the outer limit of the continental shelf will help other countries prepare to extend the outer limit of their own continental shelves. Japan's views on this issue were reflected in the 59th UN General Assembly Resolution on Oceans and the Law of the Sea.

### (e) Piracy

As a maritime country, Japan depends on maritime transport for imports of energy resources, including oil and minerals. More than half of the imports arrive via sea routes in the Asian region. Maritime security in Asia is not just important for Japan's maritime transport but also critical for the stability and economic development of the entire region.

Piracy incidents have risen sharply in Asia since the late 1990s. In 2003, 289 of the 452 incidents worldwide occurred in the Asian region, including East Asia and the Indian Ocean. There were cases that caused damage to Japan-related vessels.<sup>24</sup>

To serve as an effective response to the problem of piracy in Asia, Prime Minister Koizumi Junichiro proposed the creation of a legal framework to promote regional cooperation at the ASEAN+3 Summit Meeting in November 2001. Under Japan's leadership, the draft of the Regional Cooperation Agreement on Combating Piracy and Armed Robbery against Ships in Asia was formulated in cooperation with members of the Association of Southeast Asian Nations (ASEAN), China, the ROK, India, Sri Lanka, and Bangladesh. The agreement was adopted in November 2004, and it will enter into force after being concluded by these participating countries. Through the establishment of structures for the sharing of piracy information and cooperative networks as well as through their implementation, the agreement is expected to strengthen cooperation among the participating countries in anti-piracy measures in the Asian region and serve as a good model for Asian regional cooperation.

### (f) Fishery and Whaling

International concern is spreading that three-fourths or more of global marine fishery resources have been overfished. As a major fishing country and importer of marine products, Japan has been playing an active role in international cooperation for fishery resources management and conservation of the marine environment.

In recent years, regional fisheries management organizations have made progress in dealing with illegal, unreported, and unregulated (IUU) fishing operations.

24. For example, the aluminum ingot carrying freighter, the *Alondra Rainbow*, Panama-registered and operated by a Japanese merchant ship company, was hijacked by an armed group in a high-speed boat. The case occurred in the Malacca and Singapore Straits in October 1999.

In particular, the positive listing scheme<sup>25</sup> was introduced at Japan's initiative in each regional fisheries management organization for tuna in the Atlantic Ocean, the Indian Ocean, the Eastern Pacific Ocean, and the South Pacific Ocean. Furthermore, the Convention on the Conservation and Management of Highly Migratory Fish Stocks in the Western and Central Pacific Ocean entered into force in June 2004. This convention aims to conserve and manage highly migratory fish stocks in the Western and Central Pacific, which yield approximately 80% of Japan's fishery production of tuna and tuna-like species. Japan has been working on having the convention concluded at an early date to ensure the proper management of fishery resources and fishery interests.

As for whaling, there is still no prospect of the resumption of commercial whaling. At the 56th Annual

Meeting of the International Whaling Commission (IWC) in July 2004 the countries that support the sustainable use of cetaceans were almost equal in number as anti-whaling countries, and some constructive discussions were observed between the pro- and anti-whaling sides. However, the proposals to establish quotas for the commercial capture of Minke whales in the Antarctic Ocean and the coastal areas of Japan were rejected. Japan supports the position in favor of the proper conservation and sustainable use of cetacean resources based on scientific grounds. Japan continues vigorously its efforts to cooperate with those countries that support the principle of sustainable use and strengthens its ties with member countries that share the same position at the IWC.

## 5 Promoting Investment into Japan

Foreign direct investment brings new business models and management methods to Japan and thereby contributes to revitalizing Japan's economy as well as strengthening its competitiveness. Examples of this include the revival of Japanese automakers and banks through tie-ups with foreign companies and the success of newly styled coffee shops and shopping centers.

Under these circumstances, the government of Japan has decided to take various measures to make Japan a more attractive market for foreign firms, with the aim of doubling the stock of foreign direct investment in Japan within five years beginning in 2001. The government has launched the "Invest Japan" Campaign<sup>26</sup> and is currently implementing the "Program for the Promotion of Foreign Direct Investment into Japan,"<sup>27</sup> which consists of five core areas: (1) reviewing

administrative procedures, (2) improving the business environment, (3) improving the employment and living environments, (4) improving local and national structures and systems, and (5) dissemination of information within Japan and abroad.

The Ministry of Foreign Affairs, actively utilizing its diplomatic establishments abroad, has cooperated closely with other related Japanese organizations in publicizing and promoting investment in Japan. It has also been engaged in active discussions and exchange of opinions with the United States (US) and the European Union (EU)<sup>28</sup> on a wide range of issues from deregulation to improvement of the business environment through various fora, such as the Japan-US Investment Initiative.<sup>29</sup>

25. By creating a list of registered vessels and farming facilities that comply with regulations, imports from IUU fishing vessels and farming facilities that are not on this list can be excluded.

26. The campaign is being jointly undertaken by the government and other related organizations under the common "Invest Japan" logo. It carries out active publicity campaigns such as airing/running TV commercials and newspaper advertisements featuring Prime Minister Koizumi Junichiro in the US. Also, thorough information and support are being provided to investors through the contact points set up at all relevant government ministries or the Invest Japan Business Support Center (a one-stop service center) of the Japan External Trade Organization (JETRO).

27. The stock amount of foreign direct investment in Japan has increased from ¥6.6 trillion at the end of 2001 to ¥9.6 trillion at the end of 2003. 28. The Japan-US Investment Initiative is one of the six initiatives/meetings set out under the Japan-US Economic Partnership for Growth, established at the Japan-US summit in June 2001. The Cooperation Framework for Promotion for Japan-EU Two-Way Investment is a document issued at the Japan-EU regular summit in June 2004.

29. The discussions under the Japan-US Investment Initiative cover the promotion of investment in the education and medical sectors, the facilitation of cross-border M&As, and labor mobility. The Cooperation Framework for Promotion for Japan-EU Two-Way Investment commits the two sides to enhance dialogue and cooperation between regulatory authorities, improve the investment environment on both sides, and cooperate on investment promotion.

## 6 International Science and Technology Cooperation

### (a) Overview

Great importance has been attached to international cooperation in making full use of the power of science and technology to resolve various challenges, including those relating to sustainable development, the global environment, natural resources and energy, the realization of safe and secure society, and disaster prevention. From that perspective, Japan intends to aim for the further development and application of science and technology. To this end, it will promote bilateral cooperation with other countries and at the same time actively advance multilateral cooperation in order to expedite large-scale international scientific projects that cannot be implemented by one country alone.

### (b) Individual Cases

In order to promote bilateral cooperation in science and technology, Japan has concluded science and technology cooperation agreements with various countries, and it has also held exchanges of opinions on science and technology policy and on various issues as well as consultations on specific projects of joint research through regular intergovernmental meetings based on the agreements. Such meetings were held in 2004 with the United Kingdom, South Africa, Hungary, Norway, Finland, and Australia. In addition, it newly agreed to start negotiations for the conclusion of a science and technology agreement with Switzerland to promote enhanced cooperation.

Japan's efforts in such areas as natural resources and energy, space, earth observation, life sciences, and disarmament and non-proliferation are examples of large-scale international science projects that have been promoted.

In the field of energy, Japan has promoted the International Thermonuclear Experimental Reactor (ITER) project, a joint international project that aims to demonstrate the feasibility of nuclear fusion energy, which is expected to become an energy source for mankind with an almost permanent supply. Japan has been proactively participating in the intergovernmental negotiations with the purpose of implementing the

ITER project under the international framework by inviting the ITER to Rokkasho Village, Aomori Prefecture.

With respect to the field of space, Japan has been participating jointly with various countries in the International Space Station (ISS) program to construct a laboratory for a wide range of experiments under the special conditions of space. In accordance with the ISS program, Japan's first-ever manned experimental facility called *Kibo* (*meaning hope*) will be launched in 2007. Japan is also engaged in the development of a supply ship to be a means of transporting items to the ISS.

In regard to the area of earth observation, based on the increasing need for global-scale observation, Japan, in cooperation with other countries, has principally advanced such initiatives as the Argo Project (advanced ocean observation system)<sup>30</sup> and the Integrated Ocean Drilling Program (IODP).<sup>31</sup> In addition, Japan hosted the Earth Observation Summit in April 2004 and, as a co-chair of the Ad Hoc Group on Earth Observations (GEO), played a leading role in formulating an implementation plan for establishing the Global Earth Observation System of Systems (GEOSS).

In the area of life sciences, because of advances in cloning technology, the possibility of producing human clones is becoming real. It is the perception of the international community, including Japan, that producing human clones, since it is an act against human dignity, must be banned internationally. On this account, Japan has been actively participating in deliberations, held at the United Nations General Assembly since 2001, which aim to formulate an international norm for prohibiting the production of human clones.

Regarding the area of non-proliferation, in order to prevent proliferation of the technology related to weapons of mass destruction (WMD) following the collapse of the former Soviet Union, Japan, in cooperation with the United States, Russia, and the European Union, established the International Science and Technology Center (ISTC) in 1994 and has been assisting in the provision of civilian employment for scientists and engineers who were engaged in WMD research and development in the former republics of the Soviet Union.

30. The project calls for the creation of an ocean observation system that consists of around 3,000 floats deployed over the world that collect and transmit data on water temperature and salinity at depths of up to 2,000 meters.

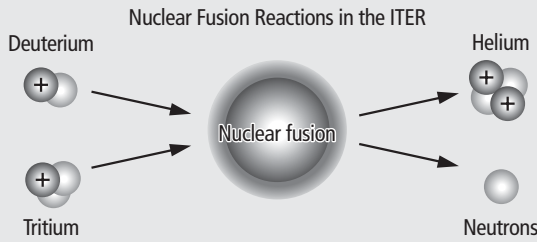
31. The program seeks to survey deep into the earth using deep-sea drilling ships (capable of drilling up to 7,000 meters) provided by Japan.

Summary of ITER

**International Thermonuclear Experimental Reactor**

When deuterium and tritium, isotopes of hydrogen, are fused (nuclear fusion), enormous energy is produced. The International Thermonuclear Experimental Reactor (ITER) is an international research cooperation project that aims at using such energy for peaceful purposes. The project originated in the 1985 US-Soviet summit meeting (between Ronald Reagan and Mikhail Gorbachev). Technical studies on the conceptual and engineering design were subsequently conducted, and a final report of ITER's design specifications was compiled in July 2001. Under the ITER project, nuclear-fusion reacting plasma is to be maintained for long periods (of over 400 seconds) to conduct studies into the scientific and engineering feasibility of nuclear-fusion power generation.

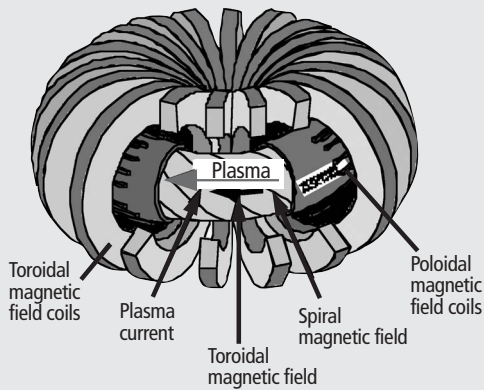
**Fundamentals of Nuclear Fusion and Plasma Confinement**



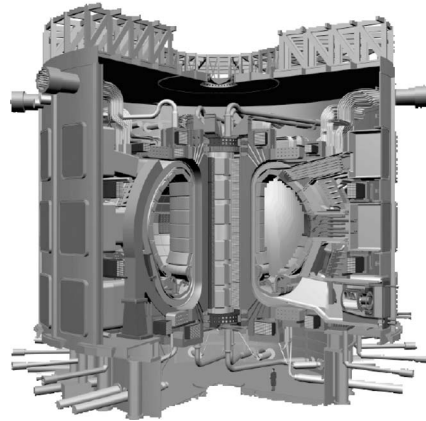
The ITER creates nuclear fusion reactions by achieving a plasma state (with atomic nuclei and electrons of atoms moving around freely) of superheated (over 100 million degrees) deuterium and tritium, as the fuels. Merely 1 gram of fuel produces energy equivalent to that generated by 8 tons of petroleum. This enormous energy will be used to generate electricity.

**How Is the Superheated Plasma Confined?**

A donut shaped plasma is generated, and many coils are set up surrounding it (see diagram below). Electric current flowing inside these coils and inside the plasma creates a basket-like wall of magnetic field lines (with about 100,000 times the strength of the magnetism of the earth) wrapping around the plasma. This is how the ultrahigh temperature plasma can be easily confined. ITER employs this method.



**Cutaway of the ITER**



Nuclear fusion output : 500,000 kw  
 (can be raised to 700,000 kw)  
 Plasma volume : Approx. 840 meters<sup>3</sup>  
 Weight of main structure : 18,000 tons

**Schedule of ITER Project**

