

Chapter 3

Japan's Economic Diplomacy to Promote National and Global Interests

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Section 1

Promotion of Rule-Making to Bolster Free and Open Global Economic Systems

1 Overview of Economic Diplomacy

In the international community, as inter-state competition arises in the fields of politics, economy, and the military, the balance of power in the international arena is changing in an increasingly rapid and complex manner, while uncertainty over the existing international order is growing. Particularly along with economic challenges such as the rise of economic protectionism and trade conflicts, the novel coronavirus disease (COVID-19) has had a profound impact on the global economy, causing stagnant economic activity, a rapid decline in demand, and restrictions on the movement of people. Supply chain problems wherein the world has become reliant on certain countries for the production of certain products have also become clear.

Amid these circumstances, Japan has continued its efforts for rule-making and further trade liberalization through economic partnerships. These efforts led to the signing of the Japan-UK Comprehensive Economic Partnership Agreement (CEPA) (see the Special Feature on page 180) and the Regional Comprehensive Economic Partnership (RCEP) Agreement in 2020. These, combined with the Japan-U.S. Trade Agreement, Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP11), and EU-Japan Economic Partnership Agreement that are already

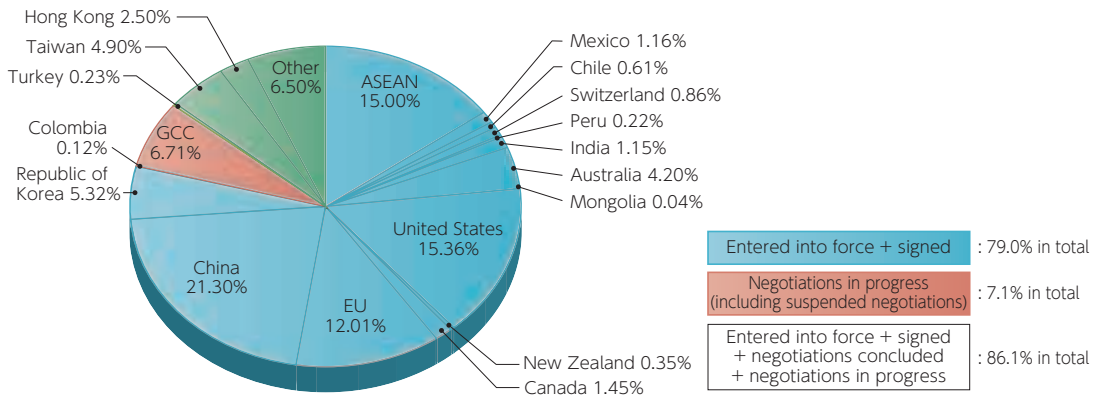
in force, will create a free economic zone covering 80% of the global GDP. With regard to the World Trade Organization (WTO), while the organization continues to be central to the Multilateral Trading System, there is an urgent need for reform in the face of rising emerging countries, an inadequate response to the advance of digitalization, and a contraction of global trade due to COVID-19 (see the Special Feature on page 186). With a view to the 12th Ministerial Conference, which was postponed until 2021, Japan must coordinate with concerned countries and provide leadership to the reform.

Japan has advanced initiatives with the aim of accelerating the promotion of economic diplomacy as one of the priority areas of its diplomacy, centered around the following three areas: (1) rule-making and initiatives through international organizations to bolster free and open global economic systems by promoting economic partnership agreements, while maintaining and strengthening the multilateral trading system; (2) supporting the overseas business expansion of Japanese companies through promotion of public-private partnerships; and (3) promoting resource diplomacy along with inbound tourism toward Japan.

2 Promotion of Economic Partnerships

In recent years, development of economic globalization movement has seen a growing

Percentages of Japan's economic partnership agreement partner countries and regions within Japan's total trade



Source: Trade Statistics of Japan by the Ministry of Finance (released in March 2020)
(Percentages of each country's trade value are rounded to the nearest hundredth)

prevalence in protectionism. In such circumstances, Japan has emphasized and steadily promoted Economic Partnership Agreements (EPAs) and Free Trade Agreements (FTAs), which help capture the vitality of the growing market overseas and strengthen the basis of the Japanese economy through measures such as the reduction or elimination of tariffs on goods as well as barriers on trade in services, and through rule-making for trade and investment. In 2020, the First Protocol to Amend the Agreement on Comprehensive Economic Partnership Among Japan and Member States of the ASEAN entered into force for Japan, Thailand, Singapore, Laos, Myanmar, and Viet Nam on August 1, as well as for Brunei Darussalam on October 1. Japan signed the Japan-UK CEPA on October 23 and the RCEP Agreement on November 15. As a result, the EPA/FTA ratio in Japan's trade (the ratio of trade value with countries that have FTAs already signed or entered into force with Japan, to the total trade value) reached 79.0%. This ratio becomes 86.1% when including the trade value with the countries with which Japan is currently in negotiations (source: Trade Statistics, Ministry of Finance, 2020).

To advance a free and fair economic order, the basis for its peace and prosperity, Japan will continue to proactively continue its endeavors, including the early entry into force of the

RCEP Agreement and full implementation of the Agreement, steady implementation and expansion of the TPP11 Agreement as the chair of the TPP Commission in 2021, and negotiations of other economic partnership agreements.

(1) Economic Partnership Agreements

A Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP11 Agreement)

The TPP11 Agreement is an effort to establish new economic integration rules for the 21st century in a wide range of areas such as tariffs, services, investments, intellectual property and state-owned enterprises in the fast-growing Asia-Pacific region. It is also an opportunity for Japanese companies to better thrive in overseas markets, giving it important economic significance as a major driving force for the country's economic growth. Furthermore, the TPP11 Agreement has great strategic significance in that it facilitates the building of a free and fair economic order together with countries that share fundamental values such as freedom, democracy, fundamental human rights, and the rule of law, contributing to Japan's security and stability in the Asia-Pacific region as well as leading peace and prosperity in the region and the world at large.

The 12 countries of Japan, Australia, Brunei

Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, the U.S., and Viet Nam signed the Trans-Pacific Partnership Agreement (TPP12 Agreement) in February 2016. However, due to the U.S.'s announcement of its withdrawal from the TPP12 Agreement in 2017, Japan proactively led discussions among the 11 countries for the early realization of the TPP. At the TPP Ministerial Meeting held in Viet Nam in November 2017, the Ministers agreed (agreement in principle) to move forward with the new TPP11 Agreement among 11 countries by incorporating the articles of the original TPP12 drawn up by the 12 countries into the TPP11, while exceptionally suspending the application of certain articles. The TPP11 Agreement was later signed in Chile in March 2018. The six countries (Mexico, Japan, Singapore, New Zealand, Canada, and Australia), completed necessary domestic procedures and the Agreement entered into force on December 30, 2018. Furthermore, Viet Nam became the seventh Party to conclude the Agreement in January 2019.

In January 2019, after the entry into force of the TPP11 Agreement, Japan became the TPP chair and hosted the First Commission of the TPP at the ministerial-level. The Second Commission was held in October in Auckland, New Zealand. The Third Commission was virtually held in August 2020, with Mexico serving as the chair. At the meeting, Ministers confirmed the importance of promoting free trade through the TPP11 Agreement as part of the discussions centered on achieving economic recovery from the COVID-19 crisis. The Ministers also exchanged views particularly on the usage of the TPP11 Agreement for strengthening supply chains and digitalization. As the chair of the TPP Commission in 2021, Japan will work towards the steady implementation of the TPP11 Agreement in light of the economic conditions caused by COVID-19 and discussions at the Third Commission.

The TPP11 Agreement has significance in providing to the world a shared set of high-standard and balanced rules for the 21st century. A number of economies (countries and regions) have expressed interests in joining the TPP11 Agreement. The UK submitted a formal request to commence negotiations on acceding to the TPP11 Agreement in February 2021. While thoroughly assessing, with strategic perspectives, whether these economies are prepared to satisfy the high standards of the TPP11 Agreement in terms of market access and rules, Japan will continue to work toward the steady implementation and expansion of the TPP11 Agreement.

B Japan-EU Economic Partnership Agreement (Japan-EU EPA)

The Japan-EU EPA, which accounts for roughly 30% of global GDP and 40% of global trade, entered into force in February 2019. It is a model for a 21st century economic order based on free and fair rules. Although the UK withdrew from the EU at the end of January 2020, the combined economies of Japan and the EU amount to 20.7 trillion US dollars in GDP and 12.7 trillion US dollars in trade. It is the largest economic sphere after the RCEP, which was signed in November. Global trade volume declined due to the effects of the COVID-19 pandemic beginning in 2020. However, certain effects have been seen in the year since the Japan-EU EPA entered into force, including an increase in trade volume of such products as passenger cars and wine. Furthermore, the Japan-EU EPA has brought visible benefits to consumers such as the fairs related to the Japan-EU EPA organized by numerous retail stores and restaurants.

Since the agreement entered into force, Japan and the EU have steadily implemented this agreement by confirming the operational status and holding discussions on topics such as future initiatives for further promoting trade between Japan

and the EU, through joint committees¹ in accordance with the agreement, as well as separate specialized committees² and working groups³ in 12 areas.

Japan and the EU share fundamental values that include freedom, democracy, market economy, human rights and the rule of law, and Japan has built a cooperative relationship with the EU in many areas as a key partner in tackling a range of global problems. Positioning the Japan-EU EPA as a legal foundation for furthering cooperation between Japan and the EU, these two parties are working to strengthen their coordination and address a range of problems by taking a multilayered approach that includes the existing policy dialogue between the relevant authorities in both parties and joint public-private initiatives.

C UK-Japan Comprehensive Economic Partnership Agreement (CEPA)

The Japan-UK CEPA entered into force on January 1, 2021. Due to the UK's withdrawal from the EU, the Japan-EU EPA would no longer apply to the UK once the transition period ends on December 31, 2020, a date set in the withdrawal agreement between the UK and the EU. In light of this, negotiations began on June 9, 2020 toward building a new trade and investment framework between Japan and the UK that would replace the Japan-EU EPA.

Following an agreement in principle reached on September 11, 2020 and signings by Foreign Minister Motegi and Trade Secretary Elizabeth Truss on October 23, the new agreement was approved at the 203rd extraordinary Diet session



Japan-UK CEPA signing (October 23, Tokyo)

and entered into force on January 1, 2021. While being based on the Japan-EU EPA, the new agreement establishes more progressive, higher-level rules in areas such as electronic commerce and financial services. The agreement is a particularly high-level document that guides discussions over international rule-making in the digital sphere. It establishes rules concerning the latest digital domains that are on the level of or above those in the TPP11 Agreement and the Japan-U.S. Digital Trade Agreement, including the prohibition of restrictions on the cross-border transfer of information, of requests for location of computing facilities, and of requests to disclose algorithms.

This agreement can be counted on to ensure the continuity of Japanese companies' businesses and promote further trade and investment between Japan and the UK in accordance with high standards. Roughly 1,000 Japanese companies are doing business in the UK and have created 180,000 jobs, making the UK their gateway to Europe. The agreement will serve as an important foundation for further strengthening good relations between Japan and the UK.

¹ Joint Committee: Held once a year, in principle, and co-chaired by ministerial-level officials (or their representatives) from both parties to ensure the proper and effective implementation of the Japan-EU EPA.

² Specialized committees: Established under the EPA Joint Committee, with sessions held once a year, in principle, in the following fields: (1) trade in goods, (2) rules of origin and customs, (3) sanitary and phytosanitary measures, (4) technical barrier to trade, (5) trade in services, investment liberalization and electronic commerce, (6) government procurement, (7) intellectual property, (8) trade and sustainable development, (9) cooperation on regulation, and (10) cooperation on agriculture.

³ Working groups: Established under the EPA Joint Committees, with meetings held once a year, in principle, in the following fields: (1) wine and (2) automobiles and parts.

Special
FeatureThe Japan-UK Comprehensive Economic Partnership
Agreement (Japan-UK EPA)

Japan and the UK launched the negotiations of the Economic Partnership Agreement following the withdrawal of the United Kingdom from the European Union ("Brexit") at the end of January. This EPA was signed unusually quickly, just four-and-a-half months after negotiations started in June, and it entered into force on January 1, 2021. As the impact of the novel coronavirus disease (COVID-19) spread across the world, and led to the stagnation of trade and investments, the conclusion of this agreement, which was negotiated primarily through videoconferences, sent a strong message on promotion of free trade to the international community. This Special Feature provides an overview of the Japan-UK EPA and its negotiation process.

Overview: Establishment of advanced rules based on the Japan-EU EPA

The Japan-UK EPA stipulates a new framework for trade and investment with the United Kingdom as a replacement for the Japan-EU EPA after Brexit. It is based on the Japan-EU EPA and comprises a total of 24 chapters. The contents can be broadly categorized into the section that prescribes how tariffs are reduced for trade in goods, and the section that sets out the broad rules concerning trade and investment. With regard to trade in goods, the tariff rate for exports from Japan to the UK is basically maintained at a similarly low rate with the Japan-EU EPA, with the addition of the immediate abolition of tariffs for certain items, such as railway rolling stocks and some automobile parts. As for agricultural, forestry and fishery products, the Agreement stays within the extent of the Japan-EU EPA, with tariffs on the UK kept at the same level as the Japan-EU EPA and no new tariff rate quotas introduced for the UK. The Agreement also stipulates new and more advanced rules than the Japan-EU EPA in some areas, such as electronic commerce and financial services, and is the first Japanese EPA that includes an independent chapter on gender while also prescribing bilateral cooperation to ensure that women benefit fully from trade.

Negotiation process: A trade agreement concluded unusually quickly against the backdrop of the COVID-19 pandemic

Against the backdrop of time restrictions due to the need of establishing a new Japan-UK trade and investment framework by the end of the Brexit transitional period (December 31, 2020) to avoid causing severe impact to Japan-UK trade, as well as the situation of the spread of COVID-19, the negotiations for this EPA, usually held through in-person meetings, were carried out by fully taking advantage of videoconferencing technology. Negotiators from the two governments surmounted the nine-hour time difference (eight hours during British summer time) to engage in videoconferences on an almost daily basis. At the ministerial level, videoconferences were held between Foreign Minister Motegi and Secretary of State for International Trade Elizabeth Truss, on June 9 when the negotiations were launched and on other occasions. However, as in-person consultations were also essential at important phases of the negotiation process, Foreign Minister Motegi visited the UK on August 5, marking his first overseas visit since the outbreak of the COVID-19 pandemic. For two whole days, he engaged in direct negotiations with Secretary of State for International Trade Truss, and they eventually reached an agreement in substance. After the two ministers confirmed the agreement in principle through the second videoconference on September 11, Secretary of State for International Trade Truss visited Japan on October 23 and a signing ceremony was held. The series of events, including the signing ceremony, took place with various COVID-19 measures in place. At the joint press conference held after the signing ceremony, the two ministers smiled and bumped elbows instead of exchanging handshakes, and the atmosphere was very convivial. The Japan-UK EPA, which entered into force on January 1, 2021, is expected to serve as an important foundation for further strengthening Japan-UK relations.



Consultation between Foreign Minister Motegi and Secretary of State for International Trade Truss (August, United Kingdom)



The two ministers after the signing of the Japan-UK Comprehensive Economic Partnership Agreement (October, Tokyo)

D Regional Comprehensive Economic Partnership (RCEP) Agreement

The RCEP Agreement is an economic partnership agreement with a total of 15 member states, namely the ASEAN member states, Japan, Australia, China, the Republic of Korea (ROK), and New Zealand. RCEP participating countries account for roughly 30% of the world's total GDP, total trade, and population. Furthermore, trade value between Japan and RCEP member states account for just under 50% of Japan's total trade value. The RCEP Agreement aims to improve market access and promote regional trade and investment while boosting supply chain efficiency, by establishing rules in areas such as intellectual property and e-commerce that go beyond the WTO rules. The Agreement is expected to further strengthen Japan's ties with the regions serving as the world's growth center, thus contributing to the economic growth of Japan. It is also expected that the RCEP Agreement will serve to send a message that it will promote free trade amid worldwide concerns over protectionism that have grown particularly strong with the outbreak of COVID-19.

The negotiations of the RCEP Agreement continued for nearly eight years. Following a ceremony to launch RCEP negotiations during the ASEAN-related summit meeting held in Phnom Penh, Cambodia in November 2012, four summit meetings, 19 ministerial meetings, and 31 rounds of negotiations were held. The Agreement was signed on the occasion of the fourth RCEP Summit on November 15, 2020.

Although India had participated from the start of negotiations, at the third Summit in November 2019, India declared that it would not participate in further negotiations and did not sign the RCEP Agreement. However, at the signing, Signatory States issued a "Ministers' Declaration on India's Participation in the RCEP," which clarified that the Agreement would be open for India, and stipulated a facilitation of India's future accession and allowed it to participate in related meetings as an observer. Japan proposed and led the discussion

in issuing this declaration. Considering the significant economic and strategic importance of India's participation in the RCEP Agreement due to its population of more than one billion and its steady economic growth in recent years, Japan will continue to play a leading role for the future participation of India to the RCEP Agreement.

The RCEP Agreement is stipulated to enter into force for these signatory States that have deposited their instrument of ratification, etc., 60 days after the deposit by at least six signatory States that are Member States of ASEAN and at least three signatory States that are not the member states of ASEAN. Along with working to ensure the early entry into force of the RCEP Agreement, after its entry into force, Japan will coordinate closely with countries involved to enforce economic activity that is based on free and fair rules in the region by ensuring the implementation of the Agreement.

E EPAs Currently in Negotiation

(A) Japan-China-ROK FTA

The Japan-China-ROK FTA is a negotiation with Japan's major trading partners: China and the ROK. The negotiations were launched in March 2013 and 16 rounds of negotiations had been held as of December 2020. In accordance with the content of the RCEP Agreement, to which Japan, China, and the ROK participate, the three countries have been engaged in discussions concerning a wide range of areas including trade in goods, investment, trade in services, competition, intellectual property and electronic commerce with the shared objective of pursuing a comprehensive, high quality, and mutually beneficial FTA.

(B) Japan-Turkey EPA

As an important country that serves as a hub among Europe, the Middle East, the Central Asia and Caucasus region, and Africa, Turkey has considerable economic potential and is attracting attention as a production base for exports to surrounding regions. The country has signed FTAs

with over 20 countries and regions, and the need has been recognized for Japan to develop conditions of competition for Japanese companies through the conclusion of an EPA. Furthermore, business communities in both countries have high expectations for an early conclusion of an EPA between the two countries. At the Japan-Turkey Summit Meeting in January 2014, the leaders agreed to launch negotiations, and 17 rounds of negotiations had been held as of the end of 2020.

(C) Japan-Colombia EPA

Japan began EPA negotiations in December 2012 with Colombia, a country with rich natural resources and high economic growth. Since Colombia has concluded FTAs with a number of countries (including the U.S., Canada, the EU and the ROK), it has been increasingly necessary for Japan to establish a competitive environment in the country. The strengthening of bilateral relations through an EPA is also expected to lead to improved cooperation in the international arena and promote cooperation among Japan and the Pacific Alliance (Mexico, Colombia, Peru, and Chile). Negotiations are currently ongoing.

F Existing EPAs

The existing EPAs contain provisions concerning the joint committee, which is a body that discusses the implementation of the agreements, and a process to review the agreements after a certain period of time following their entry into force. In addition, a variety of consultations are being held in order to smoothly implement EPAs after their entry into force.

In accordance with the EPAs, Japan has been accepting candidates for nurses and certified care workers from Indonesia, the Philippines, and Viet Nam. In total, 3,080 (as of FY2020) candidates have been accepted from Indonesia (since 2008), 2,592 (as of FY2019) from the Philippines (since 2009), and 1,340 (as of FY2020) from Viet Nam (since 2014). Acceptance of candidates from the Philippines for FY2020 is currently being

coordinated. The total numbers of nurses and certified care workers who have passed national exams are 459 and 1,322 individuals, respectively, as of FY2019.

(2) Free Trade Area of the Asia-Pacific (FTAAP) Concept

The Lima Declaration on the FTAAP adopted at the 2016 Asia-Pacific Economic Cooperation (APEC) summit meeting confirmed mainly the following two points: (1) that the FTAAP would be high quality and comprehensive, and address next-generation trade and investment issues, being built in accordance with the TPP Agreement and the RCEP Agreement; (2) efforts would begin on implementing work plans supporting capacity building aimed at promoting the realization of FTAAP. In a progress report presented to leaders in 2020, the need was expressed for further efforts.

Since 2017, Japan has been continuously providing capacity building support through workshops and policy dialogues concerning the “competition chapters” in FTAs and EPAs. From the viewpoint of achieving a comprehensive and high-quality FTAAP, it is highly significant that the TPP11 Agreement entered into force at the end of December 2018 and that the RCEP Agreement was signed in November 2020.

(3) Investment Treaties, Tax Conventions, and Agreements on Social Security

A Investment Treaties

Investment treaties constitute an important legal basis to promote investments, by stipulating the protection of investors and their investment property, enhancement of transparency in regulations, expansion of investment opportunities, procedures for investment dispute settlement, and other matters. Japan has actively engaged in concluding investment treaties in order to promote the improvement of the investment environment overseas and to attract foreign investment to the Japanese market.

In August, the Japan-Jordan Investment Agreement and Japan-UAE Investment Agreement entered into force. As of the end of December 2020, there are currently 47 investment-related treaties that have entered into force (32 investment treaties and 15 EPAs), and six (three investment treaties and three EPAs) that have been signed but not yet entered into force, bringing the total to 53, covering 78 economies. As of the end of December 2020, including investment-related treaties that are currently in negotiation, treaties cover 94 economies and around 93% of Japan's direct investments overseas⁴ will be covered.

B Tax Conventions

Tax conventions are intended to eliminate international double taxation in cross-border economic activities (e.g. to reduce or exempt withholding taxes imposed on investment income such as dividends), or to prevent tax evasion or avoidance, and provide an important legal basis for promoting sound investment and economic exchange between two countries. To support the sound overseas business expansion of Japanese companies, the Government of Japan is working to expand the necessary tax treaty networks, both in terms of quality and quantity.

Entering into force in 2020 were a tax treaty with Jamaica in September and a new (completely revised) tax treaty with Uzbekistan in October. Meanwhile, Japan signed tax treaties with Morocco in January and Serbia in July. Furthermore, in October a substantial agreement was achieved for a new (completely revised) tax treaty with Georgia. As of the end of December 2020, Japan has signed 78 tax treaties applied to 141 economies.

C Agreements on Social Security

Agreements on social security aim to resolve the issues of the double payment of social security insurance premiums and annuity insurance non-refunds. They are expected to facilitate interpersonal exchange and strengthen further bilateral relations, including economic exchange, by reducing the burden on Japanese companies and citizens working overseas. The total number of countries that have concluded or signed such agreements with Japan now stands at 23 as of the end of December 2020. In 2020, Turkey and Japan held intergovernmental negotiations toward the signing of a new agreement.

3 Initiatives with International Organizations

(1) World Trade Organization (WTO)

A Issues Facing the WTO

The remarkable economic growth that Japan achieved with scarce natural resources after World War II is owed to the free trade system. The WTO has facilitated free trade through various efforts such as rule-making for trade liberalization, dispute settlement between WTO Members, and conducting monitoring to ensure the implementation of the WTO Agreements. However, the WTO today is not adequately addressing certain changes such as the rise of emerging countries and digitalization of the economy, and new problems are arising with the free trade system due to COVID-19.

The WTO's dysfunction can be seen clearly in the weakening of its rule-making mechanisms such as the stall of the Doha Round,⁵ and in the stagnation of its dispute settlement system, exemplified by the paralysis of the Appellate Body.

⁴ "Regional balance of Direct Investment (Assets)," Ministry of Finance (All regions) (As of the end of 2019)

⁵ "Rounds" are trade liberalization negotiations in which all WTO Members participate. There were eight rounds of negotiations held during the GATT (General Agreement on Tariffs and Trade) years, from the first negotiations held in Geneva in 1947 to the last round held in Uruguay in 1994, and with each round held in response to the global economic demands of the time. The Uruguay Round saw decisions made to implement rules for new fields at the time, including trade in services and intellectual property, and strengthen mechanisms that included establishing the international organization that is the WTO. Later, the Doha Round became the first round to be held under the WTO system.

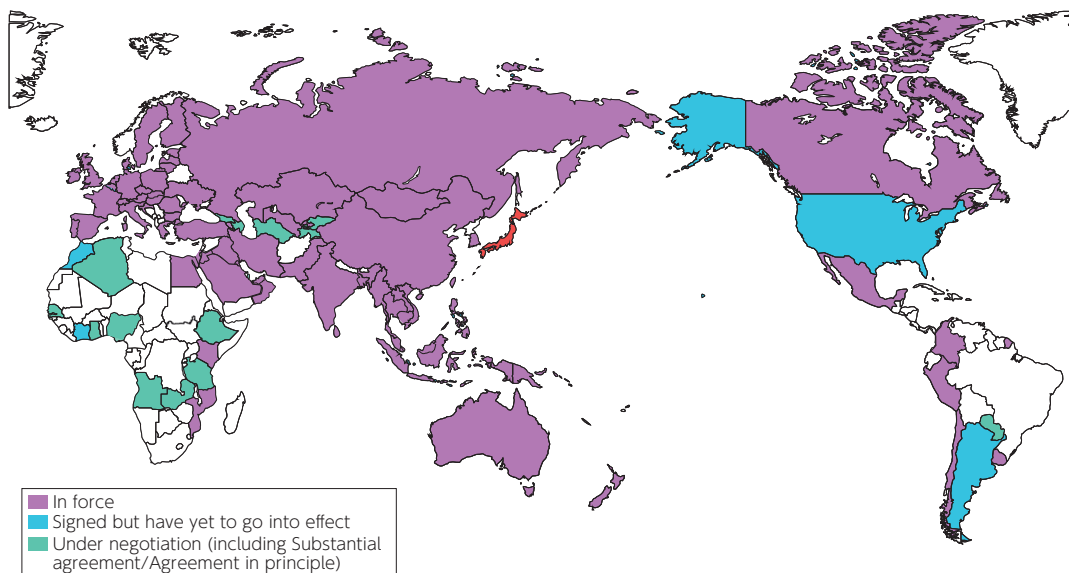
Current investment-related treaties (as of December 2020)

Status of investment-related treaties (*) (*) Investment treaties and EPA/FTA including investment chapters

- In force: 47 (32 investment agreements, 15 EPAs)

- Signed but have yet to go into effect: 6 (3 investment treaties, 3 EPAs) } 78 Countries/Regions covered

- Under negotiation: 20 (17 investment treaties, 3 EPAs) — Combined with treaties under negotiation, 94 Countries/Regions covered



■ **In force (excluding expired agreements)** (): Year of entry into force
*: Treaties based on liberalization

Investment treaties

1 Egypt (1978)	17 Iraq (2014)
2 Sri Lanka (1982)	18 Japan-China-ROK (2014)
3 China (1989)	19 Myanmar (2014)*
4 Turkey (1993)	20 Mozambique (2014)*
5 Hong Kong (1997)	21 Colombia (2015)*
6 Pakistan (2002)	22 Kazakhstan (2015)
7 Bangladesh (1999)	23 Ukraine (2015)
8 Russia (2000)	24 Saudi Arabia (2017)
9 ROK (2003)*	25 Uruguay (2017)*
10 Vietnam (2004)*	26 Iran (2017)
11 Cambodia (2008)*	27 Oman (2017)
12 Laos (2008)*	28 Kenya (2017)
13 Pakistan (2009)*	29 Israel (2017)*
14 Peru (2009)*	30 Armenia (2019)*
15 Papua New Guinea (2014)	31 Jordan (2020)
16 Kuwait (2014)*	32 United Arab Emirates (2020)

Note: Japan has a Japan-Taiwan Private Investment arrangement based on liberalization in 2011.

EPAs including investment chapters

1 Singapore (2002)*	9 Switzerland (2009)*
2 Mexico (2005)*	10 India (2011)*
3 Malaysia (2006)*	11 Australia (2015)*
4 Chile (2007)*	12 Mongolia (2016)*
5 Thailand (2007)*	13 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (2018)
6 Brunei (2008)*	14 EU (2019)*
7 Indonesia (2008)*	15 ASEAN (2020)*
8 Philippines (2008)*	

*Year of entry into force of the amended protocol

■ Under negotiation

Investment treaties

1 Angola	10 Kirghiz
2 Algeria	11 Nigeria
3 Qatar	12 Zambia
4 Ghana	13 Ethiopia
5 Tanzania	14 Tajikistan
6 Bahrain	15 EU
7 Turkmenistan	16 Paraguay
8 Georgia	17 Azerbaijan
9 Senegal	

EPAs/FTAs including investment chapters

1 Canada
2 Japan-China-ROK
3 Turkey

■ Signed but have yet to go into effect

- TPP* agreement (signed in February 2016, approved by the Diet) (EPA)*
- Argentina (signed in December 2018, approved by the Diet)*
- Morocco (signed in January 2020, approved by the Diet)
- Ivory Coast (signed in January 2020, approved by the Diet)*
- United Kingdom (signed in October 2020, approved by the Diet) (EPA)*
- RCEP** (signed in November 2020, unapproved) (EPA)*

*TPP: Trans-Pacific Partnership

**RCEP : Regional Comprehensive Economic Partnership

Furthermore, although the organization is attempting to improve the transparency and predictability of Members' trade policies by monitoring implementation of the obligations under the Agreements such as notifications, such obligations are not being fully implemented.

According to the WTO's statistics, the world merchandise trade volume in 2020 is expected to drop by 9.2% year-on-year due to the COVID-19 pandemic, and many countries have introduced export restrictions on food and medical products such as masks. It is difficult to address these export restrictions under the current WTO Agreements, and members are discussing the necessity of creating new rules in order to tackle the current COVID-19 crisis and also to prepare for future pandemics.

B Increasing Momentum for WTO Reform

Confronted by these challenges, the international community has recognized that the WTO needs to promote its reform (see Special Feature on page 186) with the new Director-General Ngozi Okonjo-Iweala, and now the momentum for WTO reforms has been increasing.

With regard to the digital economy, the Joint Statement Initiative was released by like-minded members at the 11th WTO Ministerial Conference (MC11) in 2017, and 86 members are currently actively engaged in WTO e-commerce negotiations. Japan is leading the WTO e-commerce negotiations as co-convenor with Australia and Singapore under the "Osaka Track⁶" toward achieving "Data Free Flow with Trust (DFFT)."⁷

Two-thirds of WTO Members have self-declared as "developing countries" and are being exempted from the WTO Agreements obligations (special and differential treatment, also known as S&DT⁸). Developed countries maintain the stance that every country should assume their fair share of responsibility in the rise of emerging countries, and recent years have seen Taiwan, Brazil, Singapore and the ROK renounce S&DT in current and future negotiations. Of the view that S&DT should be allowed to countries that truly need it to the extent that it is really needed, Japan has been engaging in discussions with countries on this issue in a constructive manner.

Regarding the dispute settlement system, in response to the Appellate Body's ceasing to function, some members launched a mechanism known as the Multi-party Interim Appeal Arrangement (MPIA)⁹ as a provisional alternative mechanism. Meanwhile, Japan considers that the Appellate Body has not been fulfilling its original role to settle disputes in a clear and prompt way and that it is important that the DS reform should be made in a way that addresses this problem. Based on this idea, Japan has been taking the initiative on the DS reform.

C Developments in the WTO and Broader International Arena concerning COVID-19

The COVID-19 pandemic exposed limitations and vulnerabilities of the free trade system in 2020. In light of these challenges, actions to be taken with a sense of urgency were agreed in various fora. Extraordinary G20 Trade and Investment

⁶ Data Free Flow with Trust (DFFT). A concept proposed by Prime Minister Abe during his speech at the Davos conference in January 2019 for promoting international rule-making for a digital economy. DFFT aims to prevent certain countries from monopolizing data and to instead ensure, in principle, the free flow of data both inside and outside of a country, while ensuring privacy, security and the safety of intellectual property and other forms of data.

⁷ Launched during the Leaders' Special Event on the Digital Economy hosted by Prime Minister Abe at the G20 Osaka Summit in 2019, this process promotes international rule-making concerning the digital economy, particularly the data flow and e-commerce.

⁸ Special and Differential Treatment (S&DT): In the wording of the WTO Agreements, this refers to the acknowledgment of "special" or "differentiated" (from developed countries) treatment for developing countries and least developed countries (LDC). Specifically, the WTO Agreements contain S&DT clauses that entitle developing countries to receive exemptions or relaxations of obligations, as well as technical cooperation.

⁹ Multi-party Interim Appeal Arbitration (MPIA). Proposed by the EU as an alternative interim measure until Appellate Body functions are restored, and uses arbitration proceedings similar to those of the Appellate Body. Like-minded countries and regions officially notified to the WTO Secretariat of the establishment of the MPIA in April 2020.

Special
Feature

WTO Reform

"Free trade should not stop..." This was a remark made by Prime Minister Suga at the UN General Assembly in relation to World Trade Organization (WTO) reform, a goal that was also shared by the international community later at the G20 Summit and APEC Ministerial Meeting. This Special Feature introduces a part of the international cooperation on WTO reform that Japan is taking the lead on.

Since its founding in 1995, the WTO has consistently supported free trade around the world. However, it is now becoming increasingly difficult for this 25-year-old international organization to respond to the trends of the times. For example, the rise of emerging economies and advancement of digitalization have transformed the face of international trade and business in recent years, and the rules for governing such activities can no longer keep pace. The functions of WTO's dispute settlement procedures have also been suspended for more than a year. On top of that, the whole world is shrinking and becoming more inward-looking as a result of factors such as retaliative responses to unilateral tariff measures and the increase in export restrictions brought about by the novel coronavirus disease (COVID-19) pandemic. 2020, more than ever before, brought home painfully the systemic fatigue of the WTO and the need for bold reforms.

The 164 members of the WTO may be right in the midst of systemic reorganization. Japan has benefited from the postwar GATT* and WTO systems and enjoyed peace and prosperity. With protectionism on the rise in recent times, Japan has worked hard to bring life back to free trade in the world, such as through the signing of the TPP11, the Japan-EU EPA, the Trade Agreement Between Japan and the U.S. and the Agreement between Japan and the U.S. Concerning Digital Trade, the Japan-UK Comprehensive Economic Partnership Agreement, and the Regional Comprehensive Economic Partnership (RCEP) Agreement. In light of Japan's track record in this area as the standard-bearer for free trade, there have been high expectations for Japan to fulfill its role as a leader in WTO reform.

Japan has joined forces with other countries and is working hard on reforms with a focus on the following four areas, among the many challenges faced by the WTO.

The first is the establishment of new rules based on the principles of "Data Free Flow with Trust (DFFT)," amidst the growing digitalization in the world under the conditions of the COVID-19 pandemic. During the G20 Osaka Summit held in 2019, Japan launched the "Osaka Track," aiming at promoting international rule-making for digital economies. Under the umbrella of this initiative, Japan is serving as the co-convenor, alongside Australia and Singapore, for e-commerce negotiations in the WTO that close to 90 members are participating in. It is an extremely difficult task to coordinate the interests of countries with different circumstances in the promotion and use of digital technology.

The second is the creation of an environment in which each country fulfills its responsibilities to an extent corresponding to its capabilities. In this respect, for example, Japan, the U.S., and other countries have presented "market-oriented conditions" for preventing excessive intervention by non-market economies in corporate activities.

The third is the attaching of conditions to measures that could limit free trade, even though such limitations may be temporarily unavoidable under the circumstances of the COVID-19 pandemic. Discussions are under way on the proposal drawn up by more than 10 like-minded countries, with a view to establishing rules for the whole of the WTO.

The final point is reform to the permanent dispute settlement system. Along with Australia and Chile, Japan has proposed remedies for the various issues that have built up on the WTO Appellate Body over many years.

The WTO reform is a pressing issue. To fulfill its responsibilities in the international community, Japan shall support Dr Ngozi Okonjo-Iweala, appointed as WTO Director-General in February 2021, and work in cooperation with the other members of the WTO, to continue contributing to maintaining and strengthening the multilateral free trading system.

Read more about the WTO reform and Japan's initiatives in the serial publication by MOFA, "WTO Reform—Why now?" (https://www.mofa.go.jp/mofaj/ecm/it/page25_002061.html)

(Only in the Japanese language)



Foreign Minister Motegi attending the WTO Informal Ministerial Meeting hosted by Australia, and engaging in a discussion on WTO reform and other matters (October 27, Tokyo)



*General Agreement on Tariffs and Trade (GATT)

Ministerial Virtual Meetings were held in March and May, and the “G20 Actions to Support World Trade and Investment in Response to COVID-19” was released in pertaining to trade facilitation, ensuring transparency, and more resilient global supply chains. With the regular WTO meetings being postponed, the WTO Secretariat conducted the monitoring of trade related measures taken by members in connection with COVID-19 and the analysis of the impact of the pandemic on trade. And the “Statement on COVID-19 and the multilateral trading system by Ministers responsible for the WTO,” was released, which was jointly proposed by Japan and emphasized the importance of WTO notifications and WTO reforms that include a permanent resolution for the WTO’s dispute settlement system. In June, the “Statement of the Ottawa Group: Focusing Action on COVID-19” was released at the Ministerial meeting of the Ottawa Group, a small group of like-minded nations promoting WTO reforms, of which Japan is also a member. In the statement, the principle that trade related measures in connection with COVID-19 should be “targeted, proportionate, transparent, temporary, and consistent with WTO rules” was reaffirmed and agreements were also reached in such areas as medical supplies and e-commerce. The Ottawa Group Ministerial meeting was also held in November, and Japan actively engaged in and contributed to discussions.



Parliamentary Vice-Minister for Foreign Affairs Suzuki Hayato attending the WTO’s virtual Ottawa Group Ministerial Meeting chaired by Canada (November 23, Tokyo)

D Discussions Toward the 12th Ministerial Conference (MC12)

Discussions continue to be held in preparation for MC12, which was postponed from June 2020 due to the COVID-19 pandemic, with the following points given a particular focus.

The WTO Members are taking part in fisheries subsidies negotiations based on the Ministerial Decision adopted at MC11 to achieve one of the United Nations’ Sustainable Development Goals (SDGs), to “prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, and eliminate subsidies that contribute to illegal, unreported, and unregulated (IUU) fishing.” Japan is actively engaged in these negotiations with the view that subsidies that truly result in overfishing and expanding overfishing capacity be regulated, aiming at the early conclusion of the negotiations.

With regard to rule-making in the digital domain, the global COVID-19 pandemic has given greater importance to negotiations as the role of online trade and the digital economy grows further. Although there has been a temporary suspension of the aforementioned WTO e-commerce negotiations due to the pandemic, discussions have been ongoing thereafter via virtual meetings. As a co-convenor leading the negotiations, Japan released a Co-convenors’ Update in December that calls for speeding the pace of negotiations with the aim of achieving a high-standard in rule-making. In the lead up to MC12, Japan will continue in a leadership capacity toward achieving substantial progress on such issues as the cross-border transfer of data and the protection of personal information.

E Individual Dispute Settlement Cases

The WTO dispute settlement system is a system for resolving disputes among its members under the WTO Agreement according to procedures. This system is positioned as a pillar that imparts stability and predictability to the WTO system. The following is a list of recent cases that have involved Japan (as of December 2020).

- The ROK — Anti-Dumping Duties on Pneumatic Valves from Japan (DS504)¹⁰: A panel was established in June 2016, and the panel ruled that the ROK's measures were in violation of the WTO Agreements in April 2018. In September 2019, the Appellate Body issued the same ruling as the panel, and made the decision to recommend that the ROK take corrective measures. The ROK eliminated the anti-dumping duties in August 2020.
- India — Safeguard Measure on Imports of Iron and Steel Products (DS518): A panel was established in April 2017, and the panel recognized that India's safeguard measure was in violation of the WTO Agreements in November 2018. The case was referred to the Appellate Body in December 2018, but proceedings have halted with the cessation of Appellate Body functions.
- The ROK — Measure Imposing Anti-dumping Duties on Stainless Steel Bars Originating from Japan (DS553): Following the establishment of a panel in October 2018, the ROK's measure was recognized as being in violation of the WTO Agreements and the country was issued the recommendation to take corrective measures in November 2020.
- The ROK — Measures Affecting Trade in Commercial Vessels (DS571/DS594): Japan sent a request for bilateral consultations to the ROK in November 2018, and consultations were held in December 2018. In January 2020, Japan requested another consultation covering new support measures in the ROK, which was held in March.
- India — Measures Concerning Tariff Increases on ICT Products (DS584): In May 2019, Japan requested bilateral consultations concerning whether the tariff increase measures by India for information and communications technology products were consistent with the WTO Agreements. A panel was established in July 2020.
- Japan — Update of licensing policies and procedures on exports of controlled items to the

ROK (DS590): In July 2019, Japan announced on the application of its export control measures on three semiconductor materials (fluorinated polyimides, resists, and hydrogen fluoride) to the ROK and implemented individual export licensing requirements for such materials. In September 2019, claiming that Japan's measures violated the WTO Agreements, the ROK requested bilateral consultations and the two countries conducted two rounds of such consultations. In November, the ROK announced that it would suspend the WTO dispute settlement procedures while the Export Control Policy Dialogues were pursued on a normal course of action between the relevant authorities. The dialogues were conducted on two occasions, and in June 2020 the ROK resumed WTO dispute settlement procedures. A panel was established in July.

(2) Organisation for Economic Co-operation and Development (OECD)

A Features

The OECD is the “world's largest think tank,” covering a wide range of economic and social fields such as macro economy, trade and investment, agriculture, industry, the environment, and science and technology. It makes policy recommendations and forms international norms, including through discussions at relevant committees. Japan acceded to the OECD in 1964 as the first country to do so outside of the U.S. and Europe. Since then, Japan has been actively engaged in OECD initiatives through discussions at relevant committees as well as through contributions in terms of financial and human resources.

B 2020 OECD Ministerial Council Meeting

The OECD Ministerial Council Meeting, which was originally scheduled in May, was postponed due to the COVID-19 pandemic. Between June and September, three Ministerial Council Meeting

¹⁰ DS numbers have been used since the launch of the WTO's dispute settlement system in 1995 and are assigned to every dispute case by the WTO Secretariat at the time when a request for discussions is received.

Roundtables were held that saw ministers from each country share their experiences on policies aimed at combating and recovering from the pandemic. At the October Ministerial Council Meeting with the theme “The Path to Recovery,” Prime Minister Suga issued a video message where he emphasized the importance of international cooperation and expressed his hope for the OECD to play its role as a vital place for international policy coordination toward maintaining measures to prevent the spread of infection while revitalizing socio-economic activities. He also spoke on efforts being made by Japan concerning digitalization and resuming cross-border travel. In addition, State Minister for Foreign Affairs Washio Eiichiro emphasized the government-wide undertakings on digitalization, the importance of the OECD’s initiatives to support international rule-making based on the idea of “Data Free Flow with Trust (DFFT),” and Japan’s international cooperation efforts, including strengthening medical and health systems over the medium to long term. He also affirmed Japan’s intention to lead OECD’s outreach activities (relationship strengthening and policy dialogue) to the Asian region.



State Minister for Foreign Affairs Washio Eiichiro attending the OECD Ministerial Meeting (virtual meeting) (October 29, Tokyo)

C Commemoration of the 60th Anniversary of the signing of the OECD Convention

At a ceremony commemorating the 60th anniversary of the signing of the OECD Convention in December, Prime Minister Suga made an appearance via a video message where he appreciated

the OECD’s efforts, including its evidence-based analysis and quality standard-setting, and emphasized the importance of the OECD’s role in handling globalization and the COVID-19 crisis. He also spoke on Japan’s works toward promoting digital transformation and realizing a green society, and expressed Japan’s intention to support the endeavors to strengthen relations between the OECD and Asia, including Southeast Asia.

D Initiatives in Various Sectors

For the issue of steel excess capacity, the Global Forum on Steel Excess Capacity (GFSEC) was established following the G20 Hangzhou Summit, China in 2016. At a Ministerial Council Meeting in October 2020, which was attended by 30 major steel manufacturing countries and regions as well as the OECD Secretariat, discussions were conducted concerning multi-lateral cooperation toward mitigating the impact of COVID-19 on steel demand and solving the problem of structural excess production capacity. Japan will continue to demonstrate strong leadership toward and play an active role in solving these problems.

Meanwhile, the OECD is strengthening its cooperation with the G20 in areas that include reviewing international taxation principles in response to the digitalization of the economy, as well as the formulation of principles concerning quality infrastructure investment and corporate governance.

E Strengthening Relations with Asia

In light of the growing importance of Southeast Asia as a center for global economic growth, the OECD places importance on strengthening relations with the region. In 2020, a range of policy dialogues and other events were held online between Southeast Asian nations and OECD member countries. Participants to these events discussed areas where the OECD should give priority in Southeast Asia in response to COVID-19 and affirmed the importance of cooperation. Going forward, it is important to effectively utilize the Southeast Asia Regional Programme (SEARP) in

order to continue to support economic integration and domestic reform in the region with a view to the future accession to the OECD by ASEAN countries.

F Contributions in Terms of Financial and Human Resources

Japan was the second largest financial contributor to the OECD after the U.S. in 2020, covering 9.4% of the OECD's mandatory contributions (Part I Budget). Moreover, Japanese nationals have successively served as the Deputy Secretary General (currently Deputy Secretary General Kono Masamichi), the second-highest position at the OECD Secretariat. Japan was the largest contributor to the OECD Development Centre in 2020, and a Japanese national serves as a Deputy Director of the Centre (Ms. Yuasa Ayumi, assumed this position in September 2020). Thus, Japan supports the OECD through contributions in terms of financial and human resources.

4 Intellectual Property Protection

Strengthening intellectual property protections is extremely important for the promotion of technological innovation and eventually for economic development. Japan has actively participated in multilateral consultations such as APEC, the WTO (TRIPS),¹¹ and the World Intellectual

Property Organization (WIPO), and is working to improve an environment for ensuring that Japanese intellectual property is appropriately protected and utilized overseas. During bilateral talks, Japan also calls on other countries to proactively strengthen intellectual property protections. For EPAs as well, Japan strives to establish regulations on intellectual property rights to ensure the adequate and effective protection of intellectual property. Following the TPP11 Agreement and the Japan-EU EPA, both the Japan-UK CEPA and the RCEP Agreement have incorporated contents on further promotion of the protection and use of intellectual property. Moreover, for the purpose of rapidly and efficiently providing assistance for Japanese companies that are facing problems such as counterfeit and pirated goods, MOFA appoints Intellectual Property Officers at almost all of Japan's diplomatic missions overseas so that they can advise Japanese companies and make inquiries with or requests to their counterpart governments. Japan is also engaged in efforts to improve the capacity of government officials in developing countries to counter the spread of counterfeit and pirated goods, and to strengthen the protection of intellectual property, by dispatching experts through the Japan International Cooperation Agency (JICA) and providing other assistance.

¹¹ Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)