



**Trade Policy Review Body**

**TRADE POLICY REVIEW**

REPORT BY

JAPAN

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Japan is attached.

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## 1 TRADE AND ECONOMIC ENVIRONMENT

### 1.1 Japan's Economic Environment

1.1. The Japanese economy is recovering at a moderate pace. The private consumption and business investment are on the increase, supported by continued improvements in the employment and income situation and high corporate profits. However, due to the declining global demand for IT-related goods and slowdown of the Chinese economy exports in certain sectors remain weak since 2018. As a consequence, industrial production has been in a weak tone. Further attention shall be given to international trade issues and ambiguous economic trends and policies abroad, including the prospect of the Chinese economy.

1.2. In addition, as the Japanese economy recovers and the issue of low birth rate and longevity exacerbate, there is a rising concern of labor shortage in private sectors. In order to sustain and enhance domestic market demands, the virtuous cycle of increasing wage to generate private consumption becomes a key factor. As a means to create such virtuous cycle, it is important to improve productivity of limited human resources through innovation and human-capital investment.

### 1.2 Trends in Foreign Trade

1.3. In 2018, the value of exports from Japan increased to JPY 81.5 trillion by 4.1% compared to the previous year and that of imports to Japan increased to JPY 82.7 trillion by 9.7%. As a result, the trade balance turned into a deficit, amounted to JPY 1.2 trillion, for the first time since 2016.

1.4. The total value of exports from Japan in 2018 amounted to ¥81.5 trillion (an increase of 4.1% from 2017).

- Regional trends in the total value of exports in 2018 (compared to 2017)

China	up by 6.8%
Chinese Taipei	up by 2.7%
Republic of Korea	down by 3.1%
ASEAN	up by 6.4%
United States	up by 2.4%
European Union (EU)	up by 6.4%

1.5. The total value of imports to Japan in 2018 amounted to ¥82.7 trillion (an increase of 9.7% from 2017).

- Regional trends in the total value of imports in 2018 (compared to 2017)

China	up by 4.0%
ASEAN	up by 7.4%
Australia	up by 15.8%
United States	up by 11.4%
European Union (EU)	up by 11.0%
Middle East	up by 25.9%

### 1.3 Trends in Foreign Direct Investment

1.6. The amount of outward FDI stocks increased from JPY 175.1 trillion (32.1% of GDP) in 2017 to JPY 181.7 trillion (33.1% of GDP) in 2018. The amount of inward FDI stocks increased from JPY 28.9 trillion (5.3% of GDP) in 2017 to JPY 30.7 trillion (5.6% of GDP) in 2018.

#### 2018 Outward FDI

1.7. Japan's outflow of FDI (outward FDI) decreased from JPY 19,536.9 billion in 2017 to JPY 17,578.8 billion in 2018. The major characteristics of Japan's outward FDI in 2018 were as follows:

- By industry: in 2018, outward FDI in manufacturing industries decreased to JPY 6,057.5 billion (i.e. by -4.2%). The food and precision machinery sectors decreased sharply. And Outward FDI in non-manufacturing industries decreased to JPY 9,750.8 billion (i.e. by -19.7%). The sectors such as services, wholesale and retail decreased sharply;
- By region: in 2018, outward FDI to Asia increased by 26.9% to JPY 5,816.1 billion, and to Central and South America by 97.0% to JPY 2,699.4 billion. On the other hand, outward FDI to North America decreased by 52.8% to JPY 2,671.7 billion, to Europe by 14.1% to JPY 5,959.5 billion.

### **2018 Inward FDI**

1.8. The FDI flow to Japan (inward FDI) increased from JPY 2,296.3 billion in 2017 to JPY 2,859.0 billion in 2018. The major characteristics of inward FDI flow to Japan in 2018 were as follows:

- By industry: in 2018, inward FDI in the manufacturing industries increased to JPY 1,462.4 billion (i.e. by 29.9%). The sector of chemicals and pharmaceuticals, electric machinery increased. On the other hand, inward FDI in the non-manufacturing industries decreased by JPY -373.9 billion. The sectors such as services, wholesale and retail decreased.
- By region: in 2018, the inward FDI from Asia decreased by 11.9% to JPY 552.2 billion, and from North America by 4.0% to JPY 668.1 billion. On the other hand, outward FDI from Central and South America increased by 52.8% to JPY 478.2 billion, and from Europe by 30.4% to JPY 804.9 billion.

## **2 TRADE AND INVESTMENT POLICY**

### **2.1 Overview**

2.1. Japan has been committed to trade liberalization under the multilateral trading system centered on the WTO. Japan is determined to be fully engaged in this non-discriminatory, open and rule-based regime.

2.2. While committed to the multilateral trade negotiations, Japan is also pursuing the conclusion of Economic Partnership Agreements (EPAs), bilateral and regional, and plurilateral trade agreements. The negotiations of EPAs and plurilateral agreements will enhance the transparency of the respective member country's economic policy and reinforce the competitiveness of its industries, which will bring about positive impacts on the multilateral trade negotiations. Japan also has in mind assessing the possibility of reflecting the outcomes of the bilateral and plurilateral initiatives in the multilateral trading system.

2.3. Japan is currently a party to eighteen EPAs. Japan is aiming for the swift conclusion of RCEP negotiations among 16 countries, through which the FTA ratio<sup>1</sup> will exceed 70%, as set out in the Growth Strategy 2019. Japan has also promoted its regional and bilateral trade policies as a means of complementing the multilateral trading system under the WTO and Japan believes that these agreements will serve as building blocks to achieve higher trade liberalization at the multilateral level.

2.4. Regarding plurilateral negotiations in relation to the WTO, Japan has actively participated in plurilateral negotiations such as the Trade in Services Agreement (TiSA) and the Environmental Goods Agreement (EGA). Although their negotiations have been under suspension since December 2016, Japan hopes for its resumption at the earliest opportunity, seeking to achieve the potential benefits from further liberalization of environmental goods and services. These negotiations will achieve significant progress towards multilateral trade liberalization.

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<sup>1</sup> Share of trade in total Japanese trade value with countries with which EPA/FTA has entered into force or signed.

2.5. With the rise of protectionism and trade-restrictive measures around the world, Japan welcomes the political commitments made at international fora such as G7, G20 and APEC to address such measures. In this context, Japan fully supports the WTO's peer review system of Trade Policy Review, which aim at curbing protectionist measures.

2.6. As the holder of the G20 Presidency in 2019, Japan hosted the G20 Osaka Summit and led the discussion on trade issues. The G20 leaders confirmed to strive to realize a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment, and to keep their markets open. They also reaffirmed their support for the necessary reform of the WTO to improve its functions.

## 2.2 WTO

2.7. Strengthening and maintaining the multilateral trading system, which forms the basis of global trade, is a main pillar of Japan's trade policy. Since the last review, Japan has always fully engaged in bringing about progress in the multilateral trading system under the WTO. While respecting the principles of openness, transparency, non-discrimination and inclusiveness, Japan is setting out to offer new ideas and approaches to advance the trade negotiations under the WTO. In the lead up to the successful conclusion of the 11<sup>th</sup> WTO Ministerial Conference (MC11) in Buenos Aires in 2017, Japan has made significant contributions to the launch of the Joint Statement Initiative on Electronic Commerce based on the Joint Statement issued at MC11 (WT/MIN(17)/60). In this statement, signatories agreed to jointly initiate exploratory work toward future WTO negotiations on trade-related aspects of electronic commerce. Japan, as a co-convenor, has led exploratory work toward future WTO negotiations in 2018. In January 2019, another Joint Statement (WT/L/1056) was issued in Davos, in which 76 WTO Members confirmed their intention to commence WTO negotiations on trade-related aspects of electronic commerce. As of December 2019, the latter Joint Statement has been joined by 82 Members, and building on that, the like-minded Members have observed positive and effective progress in the negotiation. Furthermore, through the launch of the "Osaka Track" at the sideline of the G20 Osaka Summit, Japan seeks to achieve a high standard agreement on trade-related aspects of e-commerce with the participation of as many WTO Members as possible, aiming at achieving substantial progress by MC12. Japan has made significant contributions to narrowing the gaps among WTO Members and reaching consensus. Japan also believes that it is necessary to explore new approaches including up-to-date issues, in order to revitalize and reinforce the WTO's negotiation function.

### 2.2.1 Rule setting

2.8. At MC10, over fifty Members concluded the ITA expansion negotiations led by Japan as the Chair. Eliminating tariffs on 201 items valued at over USD 1.3 trillion per year by 53 Members who account for approximately 90% of world trade in the products proposed for inclusion in the product expansion is expected to bring benefits to all WTO Members. The new agreement covers new generation semi-conductors, semi-conductor manufacturing equipment, optical lenses, GPS navigation equipment, and medical equipment such as magnetic resonance imaging products and ultra-sonic scanning apparatus. The agreement also contains a commitment to tackle non-tariff barriers in the IT sector, and to keep the list of products covered under review to determine whether further expansion may be needed to reflect future technological developments. To reflect its ITA expansion commitment, the modifications and rectifications of Japan's Goods Schedule has entered into force on 16 May 2017.

2.9. Japan's dedication to making new rules and practices through negotiations on TiSA and EGA will contribute to establishing a more solid and conducive basis for enhancing business and trade on a worldwide scale.

### 2.2.2 Dispute settlement

2.10. Observing the compliance with the WTO rules through dispute settlement is one of the most important and critical roles played by the WTO to maintain an open and fair multilateral trading system. Japan has actively engaged in the WTO dispute settlement mechanism to resolve disputes as both a party and a third party to a dispute. Japan continues to make best efforts towards the reform of the dispute settlement system, including the Appellate Body.

### 2.2.3 Development

2.11. Development was one of the major components agreed among the WTO Members in the decisions taken at the Nairobi Ministerial Conference in December 2015. Among the decisions, those that are relevant to development include i) Special Safeguard Mechanism for Developing Country Members; ii) Public Stockholding for Food Security Purposes; iii) Export Competition; iv) Cotton; v) Preferential Rules of Origin for Least developed countries; and vi) implementation of Preferential Treatment in Favour of Services and Service Suppliers of Least Developed Countries and Increasing LDC Participation in Services Trade. Through its active participation in the Conference, Japan has played an important role in leading the outcome of these decisions.

2.12. Japan has been actively continuing its participation in the discussions related to various items of the development agenda such as Aid for Trade, recognizing that integrating developing and least-developed countries in the multilateral trading system is one of the essential roles of the WTO. In particular, Japan has actively supported LDC accessions through technical assistance to accession applicants to build their trade capacity.

### 2.3 FTA/EPAs

2.13. Maintaining and strengthening the multilateral trading system under the WTO has been a main pillar of Japan's external economic policy. At the same time, Japan has also promoted its regional and bilateral trade policies as a means of complementing the multilateral trading system, particularly through Economic Partnership Agreements that include elements of Free Trade Agreements and institution-building.

2.14. The data concerning the Economic Partnership Agreements is summarized in Table 2.1 below (as of December 2019).

**Table 2.1**

Country	Date of the entry into force	Additional information
<b>Entered into force</b>		
Singapore (The Agreement between Japan and Republic of Singapore for a New Age Economic Partnership (JSEPA))	30 November 2002	The sixth and seventh Supervisory Committees were held in January and March 2016 respectively. The amended Agreement came into force in September 2007. The partial amendment of the Annex (IIA "Product-Specific Rules" and IIB "Minimum Data Requirement for Certificate of Origin") came into effect in January 2008.
Mexico (The Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership)	1 April 2005	The Protocol between Japan and the United Mexican States related to Improvement of Market Access Conditions based on paragraphs 3 and 5 of Article 5 of the Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership entered into force in April 2007. The Protocol Amending the Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership was signed in September 2011 and entered into force in April 2012. Sub-Committees on Trade in Goods, SPS Measures, Technical Regulations, Standards and Conformity Assessment Procedures, Rules of Origin, Certificate of Origin and Customs Procedures, Cross-Border Trade in Services, Entry and Temporary Stay, Government Procurement, Cooperation in the Field of Trade and Investment Promotion, Cooperation in the Field of Agriculture, Cooperation in the Field of Tourism, and also the Special Sub-Committee on Steel Products and the Committees for the Improvement of the Business Environment have been held to date.

Country	Date of the entry into force	Additional information
Malaysia (The Agreement between the Government of Japan and the Government of Malaysia for an Economic Partnership)	13 July 2006	The third Joint Committee was held in February 2013. Sub-Committees on Trade in Services, Improvement of Business Environment, Cooperation, Rules of Origin, Intellectual Property, Sanitary and Phytosanitary, Investment, Trade in Goods, and Technical Regulations, Standards and Conformity Assessment Procedures have been held to date.
Chile (The Agreement between Japan and the Republic of Chile for a Strategic Economic Partnership)	3 September 2007	- Meetings of the Commission, Committees on Trade in Goods and Improvement of Business Environment and the Working Group on Fish and Fishery Products have been held to date.
Thailand (The Agreement between Japan and the Kingdom of Thailand for an Economic Partnership)	1 November 2007	Sub-Committee on Trade in Goods was held in November 2016. Sub-Committee on Agriculture, Forestry and Fisheries was held in June 2016. Sub-committee on enhancement of business environment was held in March 2016. Sub-Committees on Trade in Services, Rules of Origin, Small and Medium Enterprises, Paperless Trading, Enhancement of Business Environment, Customs Procedures, Tourism, Agriculture, Forestry and Fisheries, Trade in Goods, and Movement of Natural Persons have been held to date.
Indonesia (The Agreement between Japan and the Republic of Indonesia for an Economic Partnership)	1 July 2008	The fourteenth Joint Committee was held in November 2019. Sub-Committees on Rules of Origin, Trade in Goods, Trade in Services, Movement of Natural Persons, Cooperation, Investment, Intellectual Property, and Government Procurement have been held to date.
Brunei Darussalam (The Agreement between Japan and Brunei Darussalam for an Economic Partnership)	31 July 2008	- Sub-Committees on Trade in Services and Cooperation have been held to date.
ASEAN (The Agreement on Comprehensive Economic Partnership among Japan and Member States of the Association of Southeast Asian Nations)	1 December 2008 (Japan, Lao PDR, Myanmar, Singapore, Viet Nam) 1 January 2009 (Brunei Darussalam) 1 February 2009 (Malaysia) 1 June 2009 (Thailand) 1 December 2009 (Cambodia) 1 March 2010 (Indonesia) 1 July 2010 (The Philippines)	The 18th Joint Committee was held in December 2017. Sub-Committees on Rules of Origin, Trade in Services, Investment and Economic Cooperation and Standards, Technical Regulations and Conformity Assessment Procedures have been held to date. The Agreement is a legally independent agreement in relation to the bilateral EPAs between Japan and individual ASEAN Member States and thus the entry into force of the Agreement does neither nullify nor integrate those bilateral EPAs.
The Philippines (The Agreement between Japan and the Republic of the Philippines)	11 December 2008	The ninth Joint Committee was held in April 2019. Sub-Committees on Trade in Goods, Trade in Services, Rules of Origin, Investment, Movement of Natural Persons, Improvement of Business Environment, Mutual Recognition and Cooperation have been held to date.
Switzerland (The Agreement on Free Trade and Economic Partnership between Japan and the Swiss)	1 September 2009	The fourth Joint Committee was held in November 2018. Sub-Committee on Rules of Origin, Customs Procedures and Trade Facilitation has been held since February 2011.

Country	Date of the entry into force	Additional information
Viet Nam (The Agreement between Japan and the Socialist Republic of Viet Nam for an Economic Partnership)	1 October 2009	- Sub-Committees on Movement of Natural Persons have been held to date
India (Comprehensive Economic Partnership Agreement between Japan and the Republic of India)	1 August 2011	The fifth Joint Committee was held in December 2018 The sub-committee on Rules of Origin, Customs Procedures, TBT/SPS, Trade Services, Movement of Natural Persons, and Improvement of Business Environment has been held to date
Peru (The Agreement between Japan and the Republic of Peru for an Economic Partnership)	1 March 2012	- Meeting of the Commission and the Sub-Committee on Improvement of the Business Environment have been held to date
Australia (The Agreement between Japan and Australia for an Economic Partnership)	15 January 2015	The third meeting of the Joint Committee was held in Tokyo on 13 February 2019 Sub-Committee on Promotion of a Closer Economic Relationship was held in Tokyo on 8 October 2015
Mongolia (The Agreement between Japan and Mongolia for an Economic Partnership)	7 June 2016	The first Sub-Committee on Cooperation was held in Ulaanbaatar on 4 December 2018
CPTPP (Comprehensive and Progressive Agreement for Trans-Pacific Partnership)	30 December 2018	The second TPP Commission was held in Auckland in October 2019
EU (European Union)	1 February 2019	The first Joint Committee was held in Tokyo in April 2019
<b>Signed</b>		
TPP (Trans-Pacific Partnership)	Signed on 4 February 2016. (Japan participated in TPP negotiations in July 2013)	Ministerial Meeting was held in Atlanta and an agreement in principle was reached on 5 October 2015 Japan submitted the agreement to the Diet for approval on 8 March 2016
<b>Under negotiation</b>		
The Republic of Korea	Negotiation suspended (The negotiations commenced in December 2003)	Six rounds of negotiations were held Although no negotiations have been held since the end of the sixth round held in November 2004, four rounds of the working-level consultation were held by December 2009 to consider the resumption of negotiations. Director-general level consultations for the EPA were held in September 2010 and in May 2011. Several rounds of working-level consultations have been held since 2012
GCC (Gulf Cooperation Council)	Negotiation postponed (Formal negotiations commenced in September 2006)	- Two rounds of negotiations and four rounds of informal intermediate meetings were held. The latest meeting was held in March 2009
Canada	Under negotiation (The negotiations commenced in November 2012)	- Seven rounds of negotiations were held. The latest meeting was held in Tokyo in November 2014
Colombia	Under negotiation (The negotiations commenced in December 2012)	Thirteen rounds of negotiations were held. The latest meeting was held in Tokyo in September 2015
CJK (China, Japan and Republic of Korea)	Under negotiation (The negotiations commenced in March 2013)	- Sixteen rounds of negotiations were held. The latest meeting was held in Seoul in November 2019
RCEP (Regional Comprehensive Economic Partnership)	Under negotiation (The negotiations commenced in May 2013)	- Twenty-eight rounds of negotiations were held. The 3 <sup>rd</sup> RCEP Summit was held in Bangkok in November 2019



Country	Date of the entry into force	Additional information
Turkey	Under negotiation (The negotiations commenced in December 2014)	- Seventeen rounds of negotiations were held. The latest meeting was held in October 2019

## 2.4 Other Regional/Bilateral Arrangements

### 2.4.1 Asia-Pacific Economic Cooperation (APEC)

2.15. Japan remains committed to APEC's mission of regional economic integration and to the Bogor Goals of free and open trade and investment. In 2010, APEC Leaders set forth the Yokohama Vision, which is a comprehensive, forward-looking framework for achieving growth and prosperity in the Asia-Pacific region in the 21<sup>st</sup> Century. Japan has continued to take a leading role in realizing this vision in close cooperation with other member economies. Against rising protectionist movements including unfair trade practices, Japan solidifies its resolve toward the promotion of free trade.

2.16. At the APEC Economic Leaders' Meeting in 2016 in Lima, Peru, APEC economic leaders reaffirmed their pledge against protectionism by extending a standstill commitment until the end of 2020, and their commitment to rollback protectionist and trade-distorting measures, which weaken trade and slow down the progress and recovery of the international economy. The Lima Declaration remains the backbone of APEC's efforts in promoting free and open trade and investment. Against rising protectionism including unfair trade practices, Japan solidifies its resolve toward the promotion of free trade.

2.17. APEC's core mission continues to be further regional economic integration and expansion of trade in the Asia-Pacific region. The Leaders and the Ministers of APEC reiterate the commitment to build an open economy in the Asia-Pacific region at the Economic Leaders' Meetings and the Ministerial Meetings respectively by advancing regional economic integration and addressing next-generation trade and investment issues, including through the measures for achieving comprehensive and high-quality Free Trade Area of the Asia-Pacific (FTAAP). In this regard, Japan has been taking the lead in working on initiatives related to quality infrastructure, which is one of the priority issues in various fora. Japan also has been taking an initiative to implement APEC projects including competition policy in FTAs/RTAs, services, digital economy and food security.

### 2.4.2 Asia-Europe Meeting (ASEM)

2.18. Japan believes that the economic dialogue and cooperation between Asia and Europe through ASEM will promote enhanced mutual understanding between the two regions on various economic issues, which could lead to increased trade and investment between Asia and Europe, as well as to the improved coordination of world economic issues of mutual concern relating to the WTO, RTA/FTA, IPR, etc., thereby contributing to the development of the global economy.

2.19. Following the decision taken at the 12<sup>th</sup> ASEM Customs Directors-General and Commissioners Meeting in Berlin in October 2017, Japan, together with the European side's coordinator, France, has taken the initiative to compile the situations and progress on "Border Enforcement on International Postal Items" in the ASEM members. The result of the initiative was presented in the 13<sup>th</sup> ASEM Customs Directors-General and Commissioners Meeting in Ha Long, Viet Nam in October 2019.

### 2.4.3 Japan's Bilateral Activities

#### *The United States*

2.20. On the occasion of the Japan-United States Summit meeting in April 2018, the leaders of Japan and the United States decided to launch new talks for free, fair and reciprocal (FFR) trade deals. At the summit meeting in September 2018, following the two rounds of the FFR in August and in September 2018, by Minister Motegi, then Minister in charge of Economic Revitalization (currently Minister for Foreign Affairs) and Ambassador Lighthizer, United States Trade Representative, Prime Minister Abe and President Trump agreed to enter into bilateral trade negotiations. This decision was based on the view that further reinforcing economic ties between Japan and the United States would

expand bilateral trade in a stable manner and contribute to free, fair and open development of the global economy and the two leaders issued a joint statement.

2.21. Following this leaders' decision, Japan and the United States held bilateral negotiations, including eight ministerial-level negotiations between Minister Motegi and Ambassador Lighthizer in approximately five months. At the summit meeting in September 2019, the two leaders confirmed that the both sides reached final agreement on the Japan-United States Trade Agreement and the Japan-United States Digital Trade Agreement. Those agreements were signed in October and approved by the Japan's Diet in December 2019. Japan and the United States are conducting their domestic procedures respectively, aiming at the early entry into force of the agreements.

### **European Union**

2.22. The trade turnover between Japan and the EU has steadily recovered in recent years from the temporary decline in 2009 due to the world economic crisis. As the Ministry of Finance reports, the volume of mutual trade amounted to about JPY 19 trillion in 2018. Japan is the EU's seventh largest trading partner and the EU is Japan's third largest one. Regarding foreign direct investment in each other's economies, Japan invested about JPY 47 trillion and the EU invested about JPY 14 trillion in 2018. The EU is the largest investor and the second largest investee for Japan. According to a survey by the Ministry of Economy, Trade and Industry (METI), about 2,900 Japanese enterprises are operating businesses in the EU and creating more than half a million jobs.

2.23. On the occasion of the 26<sup>th</sup> Japan-EU Summit Meetings on 25 April 2019, the leaders welcomed the entry into force of the Japan-EU Economic Partnership Agreement (EPA) in February this year. They also confirmed that the Japan-EU relations underwent transition to a new dimension owing to the entry into force of the EPA, and that the Agreement has generally been implemented smoothly thereafter, along with the success of the first Joint Committee of the EPA held in April 2019, and acknowledged the importance of continuously promoting trade and investment between Japan and the EU based on the Agreement.

### **Russian Federation**

2.24. The Japan-Russian Federation trade volume in 2018 continued to record strong growth following on from the previous year. The major commodities imported to Japan from Russian Federation are oil and natural gases, and there was a significant increase in the amount of automobiles and related components exported from Japan to Russian Federation (trade volume amounted to about JPY 2.5281 trillion in 2018 statistics, marking an increase of about 13.7% over the previous year). The volume of direct investment from Japan to Russian Federation increased slightly from JPY 175.7 billion (2016) to JPY 178.0 billion (2017).

2.25. With regard to the Eight-point Cooperation Plan for Innovative Reform in the field of Industry and Economy and a favorable living environment of the Russian Federation proposed by Prime Minister Abe in May 2016, over 200 private sector projects have been established, and about half of the projects are in active status in such forms as signing contracts.

### **China**

2.26. The economic interdependence between Japan and China is growing deeper. China has been Japan's largest trading partner since 2007. The mutual trade amount in 2018 reached USD 317.5 billion. According to China's statistical data, Japan was China's second largest trading partner in 2018 and regarding foreign direct investment in China, Japan invested USD 3.81 billion in 2018. According to Japan's data, 32,349 Japanese enterprises and their branches were conducting business in China as of October 2017. Japan has bilateral economic agreements and arrangements with China in the areas of trade, air transportation, maritime transportation, trademark protection, tax, investment, fisheries and mutual customs cooperation.

2.27. In 2007, for strategic economic dialogue at the ministerial level, Japan and China decided to establish the Japan-China High-Level Economic Dialogue. The fifth meeting was held in Beijing in April 2019 and both sides exchanged views regarding a wide range of topics including trade and investment, as well as protection of IP rights. At the Japan-China Summit meeting in June 2019 at the occasions of G20 Osaka Summit, the two leaders shared the view that, based on international

standards and in the spirit of "from competition to cooperation," the two countries would enhance mutually beneficial working-level cooperation in areas that have potential, such as third country markets, innovations and protection of intellectual property, trade and investment including foods and agricultural products, finance and securities, medical and nursing care, energy conservation and environment, and tourism exchanges, as well as further develop a free and fair trading system. In addition, to promote further bilateral cooperation in the economic field, various dialogues between Japan and China have been held.

### **Republic of Korea**

2.28. The mutual trade amount of Japan and the Republic of Korea reached USD 85 billion in 2018. Japan and the Republic of Korea were each other's third largest trading partners after China and the United States in 2018. Regarding foreign direct investment in the Republic of Korea, Japan was the fourth largest investor with USD 1,301 million in 2018. Foreign direct investment from the Republic of Korea to Japan amounted to USD 1,312 million in 2018.

### **India**

2.29. Based on the "Japan-India Special Strategic and Global Partnership", established by Prime Minister Abe and Prime Minister Modi in 2014, economic activities between two countries have been steadily enhanced. The mutual trade amount in 2018 reached USD 16 billion.

2.30. To further strengthen the bilateral economic partnership, Japan and India have been engaged in wide-ranging dialogues on trade, investment promotion, and improvement of the business environment. The Ninth Japan-India Strategic Dialogue on Economic Issues as well as the fifth meeting of the Joint Committee meeting under Japan-India CEPA were held in December 2018 in New Delhi.

### **Africa**

2.31. On 28–30 August 2019, the 7<sup>th</sup> Tokyo International Conference on African Development (TICAD 7) was held in Yokohama, Japan. On that occasion, Japan positioned business at the center of themes. The number of participating private companies doubled compared with the TICAD VI. Moreover, private companies became official partners for the first time, and the Public-Private Business Dialogue between Japan and Africa was held as one of the plenary sessions. Participants discussed issues including unification of the African market as Africa's own initiatives such as the African Continental Free Trade Area (AfCFTA), economic diversification and industrialization, necessity of sound fiscal management including debt transparency and sustainability, quality infrastructure, and human resource development.

### **MERCOSUR**

2.32. In May 2017, the Fourth Dialogue to Strengthen the Economic Relationship between Mercosur and Japan was held in Buenos Aires, Argentine. In this Dialogue, both sides exchanged information on the current situations of trade and investment between Japan and Mercosur. They also exchanged their opinions over measures taken by both sides to promote free trade, and over possible measures to encourage more investment between the two parties.

## **2.5 Investment Policy**

### **2.5.1 Outlook**

2.33. In the Growth Strategy 2019 (decided by the Cabinet in June 2019), the Japanese Government stated that it will also aim to increase the amount of inward FDI stocks to JPY 35 trillion by 2020 (JPY 30.7 trillion at the end of 2018).

2.34. In March 2015, under the leadership of the Prime Minister, the Council for Promotion of Foreign Direct Investment in Japan adopted the "Five Promises for Attracting Foreign Businesses to Japan" as important items to be addressed going forward. In addition, in May 2016, this council adopted the "Policy Package for Promoting Foreign Direct Investment into Japan to Make Japan a Global Hub" to promote more FDI to make Japan an international trade and investment hub.

2.35. The Working Group for Revising Regulations and Administrative Procedures under the Council for Promotion of Foreign Direct Investment in Japan discussed issues impeding foreign investment in the economy and compiled the Final Report in 2017. In addition, the Council launched the Support Program for Regional Foreign Direct Investment in Japan in 2018 to advance regional revitalization through FDI. In 2019, the Council adopted the Program to Intensively Attract Foreign Direct Investment in Regional Japan to strengthen the Support Program and provide intensive support to priority local governments. In addition, the Japanese Government will work to further improve Japan's overall business environment. By following up the past plans and conducting those steadily, the Japanese Government aim to achieve the goal of doubling the inward FDI stocks to JPY 35 trillion by 2020.

### **2.5.2 Investment Agreements**

2.36. Japan has actively promoted the conclusion of investment agreements as they create stable, equitable, favourable and transparent conditions for greater investment through the removal of barriers to investment and provision of investor protections. In the Japan Revitalization Strategy, the Japanese Government set the goal of signing and/or achieving entry into force of investment-related agreements (investment agreements and economic partnership agreements with investment chapters) covering 100 countries/regions by 2020. As of November 2019, Japan has concluded/signed investment-related agreements with 76 countries and regions.

## **3 TRADE AND DEVELOPMENT**

### **3.1 Aid for Trade**

3.1. In order for developing countries, including LDCs, to reap further benefit from the multilateral trading system, trade liberalization alone is not sufficient. Enhancing capacities on the supply side and encouraging assistance for this purpose is indispensable. Since Aid for Trade (Aft) initiatives contribute to enhancing the trade capacities of developing countries, Japan continues to provide various measures for Aft to this end.

#### ***Japan's Development Initiatives for Trade***

3.2. Japan announced the "Development Initiative for Trade", prior to the WTO Ministerial Conference in Hong Kong, China in December 2005. This initiative featured: (a) implementation of Duty-Free and Quota Free Market Access for essentially all products originating from LDCs; (b) provision of USD 10 billion of financial assistance including trade, production, and distribution infrastructure for three years (2006-08); and (c) as part of (b), the exchange of a total of 10,000 trainees and experts in trade-related fields over the same period, the targets of which were fully achieved. During the designated period (2006-08) of the initiative, the total sum of financial assistance amounted to USD 17.66 billion, greatly exceeding the target at 177%.

3.3. Given the successful results of the above-mentioned first initiative, Japan announced a new Aft strategy, "Development Initiative for Trade 2009" in July 2009. Its main pillar was USD 12 billion of financial assistance for trade-related projects including trade, production and distribution infrastructure for 3 years from 2009 to 2011. During the designated period (2009-11) of this initiative, the total sum of financial assistance amounted to USD 23.36 billion, which reached 195% of the target, well surpassing the amount of the first initiative. Despite the fact that no additional development initiative has been launched since then, Japan has continuously expanded its assistance. Since the adoption of the Hong Kong Declaration in 2005, Japan has provided approximately USD 72 billion worth of Aid for Trade related assistance as of 2017. This is representative of Japan's strong commitment to Aft, which Japan considers as important to help beneficiary countries meet the new challenges they face in the regional and global economy.

#### ***Tokyo International Conference on African Development***

3.4. The 7<sup>th</sup> Tokyo International Conference on African Development (TICAD 7) was held in Yokohama, Japan, on 28–30 August 2019. The Initiatives announced by Japan with regard to trade and development are as follows.

1. To launch Japan Business Council for Africa (JBCA) to promote business between Japan and Africa; to organize the second Japan-Africa Public-Private Economic Forum;
2. To launch bilateral committees on improvement of business environment in seven countries; to improve the environment for trade and investment through Enhanced Private Sector Assistance for Africa (EPSA) with AfDB (EPSA4: Joint target with AfDB of USD 3.5 billion in 3 years);
3. To introduce and match African start-ups with Japanese companies through JETRO Start-up Cooperation Promotion Desk and pitch events; to collaborate with private funds for African entrepreneurs.

### ***Assistance to the One Village, One Product Movement***

3.5. The One Village, One Product (OVOP) is one of the typical approaches under Aft initiatives. OVOP is a movement that supports local economies through the development, improvement and promotion of local products (foods, beverages, textiles & garments, etc.) with the participation of locals. This movement was first initiated in a southern prefecture in Japan in the late 1970s and later spread to the other prefectures. It has been introduced in other Asian countries and has contributed to the development of local economies.

3.6. Japan continues supporting this movement, especially the exports of developing countries and least developed countries through technical cooperation such as the dispatch of experts, educational and training programmes to create competitive products, and support through international organizations. In addition, Japan held exhibitions, trade fairs, and opened OVOP shops in 2006 at some of Japan's international airports to introduce those products and encouraged consumers to buy them.

### **3.2 Generalized System of Preferences (GSP)**

3.7. In order to improve market access for developing countries, Japan introduced a preferential tariff treatment under the GSP scheme on 1 August 1971, and has re-examined it several times since then. Furthermore, under the scheme, Japan has granted special preferential treatment to LDCs since 1980, including additional products for which preferences are granted only to LDCs. Currently, 128 developing countries and 5 territories, including all LDCs, enjoy the benefits of the GSP scheme. This scheme has been vastly improved over the last several years, especially in 2007 and 2011. In the comprehensive "Development Initiative for Trade" launched on 9 December 2005, Japan announced its commitment to providing duty-free and quota-free (DFQF) market access for essentially all products originating from LDCs. Japan is fully committed to implementing the above initiative, thus, complying with the decision adopted in the Hong Kong, China Ministerial Declaration. In realization to the above-mentioned commitment, on 1 April 2007, Japan expanded the area covered by the DFQF treatment for LDCs. As a result, the number of agricultural and fishery products originating from LDCs that receive DFQF preferential treatment increased from 497 to 1,523 and that of industrial products increased from 4,185 to 4,244. Consequently, coverage rate of DFQF increased from 86% to approximately 98% as defined at the tariff line level. On 1 April 2011, Japan extended the effective period of the GSP scheme to 31 March 2021, abolished all ceiling-based schemes for certain industrial products, and revised the criteria for application of competitiveness-focused, product-by-exclusion measures. The revision was made to make the criteria more objective and transparent and to allow less competitive developing countries to benefit more from the GSP scheme.

## **4 JAPAN'S DOMESTIC POLICIES**

### **4.1 Abenomics**

4.1. Thanks to the promotion of Abenomics over the past seven years, the current Japanese economy is in the non-deflationary status and both nominal and real GDP have reached their highest level. Significantly, the employment and income environment, which are closely related to people's lives, improved as well. Japan will further sustain and expand the virtuous economic cycle brought about by the Abenomics. According to the basic policy of "Without economic revitalization, there can be no fiscal consolidation," Japan will implement the economic revitalization and fiscal consolidation in an integrated manner and aim for a realization of the nominal GDP JPY 600 trillion economy

toward around 2020 and the fiscal consolidation target in FY2025. To reach this goal, the following viewpoints are taken into consideration in promoting the initiatives.

- The first thing is to strengthen economic growth by boosting potential growth rate. Amid concerns that the growth of labor force population slows in the mid-term and long-term, it is necessary to boost potential growth rate by further stimulating human/physical investment toward the age of "Society 5.0" and dramatically improving productivity.
- The second thing is to expand the virtuous cycle of growth and distribution. It is necessary not only to strengthen the potential growth on the supply side, but also to seek to continuously expand domestic demand and acquire external demand toward the expansion of this virtuous cycle. In terms of domestic demand, it is important to expand corporate profits and seek continuous expansion of consumption through increases in wages and income of employees and in terms of external demand, it is important to take in foreign vitality from Asia and others making good use of Japan's soft power or through the economic collaboration and inbound, etc.
- The third thing is to create a society in which everyone plays an active role and feels secure. In anticipation of the arrival of an era of "100-year life spans", to build a society in which everybody including elderly people and young people can play an active role regardless of age, it is essential not only to promote "Human development revolution" to improve the quality of each person as human resource, but also to establish the social security system for all generations, with revising the conventional ways of thought and systems so that age doesn't become the constraint in working, and expanding the supporters of social security by allowing them to freely select their work-styles regardless of age.

## 4.2 Intellectual Property Rights

4.2. In June 2018, the Intellectual Property Strategy Headquarters established "The Intellectual Property Strategy Vision" as a new and mid-to long-term vision until 2030. In this vision, Japan set out a "value design society" to be realized in the future, where a variety of values that go beyond economic value are subsumed, where various individualities fully demonstrate multifaceted abilities, make good use of Japanese characteristics, make new values, and gain empathy of the world. Japan will actively and creatively design the concrete systems to achieve the above-mentioned society.

4.3. The Intellectual Property Strategy Headquarters also finalized "The Intellectual Property Strategic Program 2018" in June 2018. The new program was developed so that Japan sets the starting point for the new intellectual property strategy vision based on "pro-innovation strategy" under which Japan will not only respond promptly to changing times but also create positive changes by itself. The program see three targets which are "Cultivating human resources and business to meet future needs," "Encouraging ambitious and creative activities," and "Preparing environment and framework for innovation of new fields", taking into account the direction indicated by the Intellectual Property Strategy Vision.

## 4.3 Financial Reform

4.4. Japan has enacted the law for Partial Revision of the Payment Services Act, etc., to address the Diversification of Financial Transactions based on Advances in Information Technology (enacted on 31st May 2019). The law intends to address greater diversification on financial transaction amid the development of the digital technology, and to enhance the credibility of financial function while securing user protection. The law stipulates regulations on crypto-asset Exchange Service Providers, derivative /financing transactions using crypt-assets, and clearing a margin on OTC derivatives. The law also allows financial institutions to engage in the business of providing data held to a third party. The measures include the following:

1. Issues with crypto-asset Exchange Service Providers
  - Where private keys for customers' deposited crypto-asset are managed online, it requires service providers to maintain net assets and funds for reimbursement at the same or

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- greater amount. The funds must consist of the same kinds as the deposited crypto-assets;
  - Develop framework to entitle customers to the statutory line that secures their claim to deposited crypto-assets;
  - Prohibit service providers from advertisements/ solicitations that encourage speculative trading;
  - Regulate as a part of crypto-asset exchange services, and apply the regulations on the custody of customers' crypto-assets that currently apply to crypto-asset exchange service providers.
2. Crypto-asset CFDs, ICOs (Initial Coin Offerings), etc.
- Impose a registration requirement on service providers dealing in crypto-asset CFDs as foreign-exchange margin trading (Forex trading), and apply conduct regulations such as the prohibition of unrequested solicitation;
  - Develop the following frameworks in light of high transferability of ICO tokens and risks to investors;
    - When soliciting 50 or more investors, require the issuer to provide offering disclosure and continuous disclosure;
    - Regulate brokers/dealers of investment-type ICOs on the same level as securities companies, and require that they examine the business and financial conditions of the issuer;
    - Restrict solicitation to retail investors in the same manner as the restriction on unlisted shares;
  - Apply current unfair trading regulations.
3. Addressing based on Advances in Information Technology
- Considering the increasing use of data in society;
    - Allowing banks, insurance companies, securities companies, and investment management companies to engage in the business of providing data held to a third party;
    - Allowing insurance companies to hold subsidiary companies engaging in a wide range of business relating to data utilization;
  - Legislating that banks, insurance companies, securities companies, and investment management companies could clear non-centrally cleared OTC derivatives margin through collateral contract compatible with cross-border trade practices.
- 4.5. Japan has enacted the law for Partial Revision of the Banking Act etc, (enacted on 26 May 2017) to promote appropriate cooperation and collaboration between financial institutions and finance-related IT companies as well as to ensure user protection, in response to IT development and its impact on financial services. The law stipulates regulations on the Electronic Payment Service Provider. The measures include the following:
1. Measures for Electronic Payment Service Provider regarding establishment of a system and safe control of information
    - Establishment of a system for user protection;
    - Ensuring safe control of information;
    - Securing a sufficient financial basis.
  2. Conclusion of a contract with financial institutions
    - Conclude a contract which includes the following particulars;
      - Sharing responsibility between the Bank and the Electronic Payment Service Provider of the liability to compensate for any loss or damage to users in connection with the Electronic Payment Service;
      - Proper handling and safe control of the information on users.
  3. Measures for financial institutions regarding promotion of Open Innovation
    - Preparation and disclosure of the plans on cooperation and collaboration with Electronic Payment Service Provider;
    - Preparation and disclosure of the standards relating to the connection with Electronic Payment Service Provider;
    - Making efforts to introduce a system for Open API.

#### 4. Other measures

- Allowing foreign bank branches in Japan to choose the business year (1 April to 31 March of the following year or the same period as that of a business year of the Foreign Bank) for regulatory reporting under the Banking Act;
- Abolishing a notification requirement for Bank Agent in case of temporary change in the location of the business office.

4.6. In addition, Japan has enacted the Law for Partial Revisions of the Financial Instruments and Exchange Act etc. (enacted on 17 May 2017) to respond to environmental transformation of Japanese financial and capital markets including IT development. The law stipulates regulation on faster trading, flexibility in business scope for exchange groups and fair information disclosure by listed companies. The measures include the following:

##### 1. Responses to faster trading

- Adopt a registration system and rules to enable confirmation by authorities of high-speed trading in stocks and other products;
  - Measures related to system establishment and risk management;
    - Suitable trading system control and operation;
    - Suitable business operation framework, etc.;
  - Measures for information provision to authorities;
    - Notification of high-speed trading and trading strategy;
    - Creation and retention of trading records, etc.

##### 2. More flexibility in business scope for exchange groups

- Adjust exchange group business scope in light of diversification of exchange operations, globalization, and other changes in the operating environment
  - Consolidation of shared/overlapping group activities
    - Allow exchanges to handle group shared/overlapping activities, such as system development
  - Greater flexibility in investing in overseas exchanges
    - Allows ownership by the exchange group even for a certain period (for example, five years) even if the subsidiary of a foreign exchange, etc. in which it owns a stake exceeds defined business scope.

##### 3. Fair information disclosure by listed companies

- Establish rules on fair information disclosure by listed companies to secure fairness in information among investors (fair disclosure rules);
  - When a listed company, etc. provides pre-disclosure important information to investors, securities firms, and others:
    - Just as in the case of intentional communication;
    - It must jointly disclose the subject information on the web page in a prompt manner for unintended disclosure.

#### 4.4 Competition Policy

4.7. On 19 June 2019, the Antimonopoly Act (AMA) Amendment Bill was approved in the 198<sup>th</sup> ordinary session of the Diet, and the enacted act was promulgated on 26 June 2019. The purpose of the amended act is to deter "unreasonable restraint of trade", etc. effectively, invigorate the economy, and enhance consumer interests by fair and free competition, through increasing incentives for enterprises to cooperate in the Japan Fair Trade Commission (JFTC)'s investigation and imposing an appropriate amount of surcharges according to the nature and extent of the violation. The enacted act shall come into effect on the date specified in the Cabinet Order within one year and six months from 26 June 2019.

4.8. In accordance with the conclusion of the Trans-Pacific Partnership (TPP) agreement and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a scheme so-called "Commitment Procedures" was introduced into the Antimonopoly Act (AMA). It has been put into force since 30 December 2018. The Commitment Procedures would enable the JFTC and alleged violators to communicate with each other throughout all the procedures after the launch of the investigation. It is considered that the Commitment Procedure would facilitate early resolution of competition concerns and contribute to the effective and efficient enforcement of the AMA by



resolving more cases through cooperation between the JFTC and alleged violators. Ensuring the transparency and the predictability regarding the enforcement of the law related to Commitment Procedures, the JFTC established rules and policies such as the "Rules on Commitment Procedures by the Fair Trade Commission" and the "Policies Concerning Commitment Procedures".

4.9. The JFTC has been taking rigorous legal actions against violations of the AMA. The number of legal cases against such violations amounted to 9 in 2017 and 19 in 2018. (Please refer to Table 4.1).

**Table 4.1**

<b>Private monopolization</b>	<b>2017</b>	<b>2018</b>
Bid-rigging	7	14
Cartels (excluding bid-rigging)	1	2
Unfair trade practices	1	2
Others	0	1
Private monopolization	0	0
Total cases	9	19

4.10. The total amount of surcharge payment orders issued by the JFTC was estimated at JPY 7504.25 million in 2017 and JPY 2153.21 million in 2018.

4.11. The JFTC has adopted a proactive policy of indicting violations of the AMA and imposing criminal penalties on violators. In March 2018, the JFTC indicted one case.

#### **4.5 Current Situation and Measures for Radioactive Materials in Foods**

4.12. Japan, shortly after the accident at the Tokyo Electric Power Co. (TEPCO) Fukushima Daiichi Nuclear Power Station (NPS) in March 2011, has taken a comprehensive set of measures such as decontamination of the farm land and fruit trees, control over feeds and agricultural inputs and introduced a risk-based food monitoring scheme.

4.13. The maximum levels of radioactive caesium in food were set to meet the intervention exemption level of the Codex Alimentarius Commission (Codex), 1mSv/year, considered as safe for the public, and in consideration of the released nuclides and with highly conservative and hypothetical assumptions, including that 50% of the food intake is contaminated. Accordingly, the maximum level for food in general is set as 100 Bq/kg in Japan<sup>2</sup>, while the corresponding Codex guideline level is 1,000 Bq/kg (CXS 193-1995).

4.14. Japan's national laws mandate that food products which exceed these stringent maximum levels be recalled and disposed of, and if exceeding cases are observed in a particular product over an area, their distributions be restricted on an area basis. Japan's regulatory framework thus ensures that food products exceeding the maximum level are neither distributed in domestic market nor exported to third countries.

4.15. As a result of these comprehensive approaches, food products drastically exceeding the Japanese maximum level decreased in a few years after the accident and the detection rate has been remaining low and stable for many years. The sampling is purposive to detect the contamination or to remove the restrictions and the majority of detections is limited to wild harvests monitored in areas where the distribution has already been restricted.

4.16. Since early 2013 (the last case in April), none of the farm products and fishery harvests have ever exceeded the Codex guideline level defined as safe for human consumption, and even the wild edible fungi, fern sprout and leaf buds have not exceeded the level for food with small consumption, similarly for almost six years<sup>3</sup> (the last case in May 2013). The only harvests which still exceed the level is certain game meat, although the detection rate is very low, and those detected are neither distributed nor exported.

<sup>2</sup> Provisionally 500 Bq/kg before April 2012.

<sup>3</sup> None of them have exceeded the guideline level since the last case in September 2016.

4.17. Above all, Japan needs to look at the dose in terms of human health. While food regulation is operationalized through maximum levels in food, what matters is overall annual dose exposure from food. The biannual market basket surveys which have been conducted since September 2011 at plural study sites including Fukushima show that the estimated annual effective dose from radioactive caesium in food has been digits smaller than the intervention exemption level of 1 mSv/year and is currently only detected at micro level.<sup>4</sup> The effect is significantly lower for consumers in foreign countries, considering the committed share of Japanese food imports in the total food consumption.

4.18. The Joint FAO/IAEA Division stated on 6 September 2019, Japan's "measures to monitor and respond to issues regarding radionuclide contamination of food are appropriate", and "the food supply chain is controlled effectively by the relevant authorities".

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<sup>4</sup> Maximum 0.0011 mSv/year in Sep. - Oct. 2018, 1/1,000 of the intervention exemption level.