



Philippine Institute for Development Studies
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Philippines-Japan Economic Partnership: Where Is the Philippines in Japan's Plan?

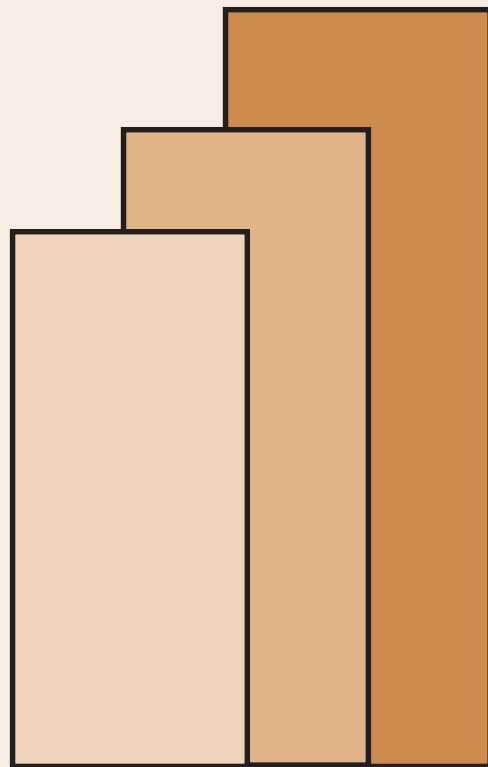
Lydia N. Yu-Jose

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**Philippines-Japan Economic Partnership: Where is
the Philippines in Japan's Plan?**

Lydia N. Yu-Jose

Paper prepared for the Japan – Philippines Economic
Partnership Research Project

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Philippines-Japan Economic Partnership: Where is the Philippines in Japan's Plan?

Lydia N. Yu-Jose

Abstract

Going by the statements of the Japan Ministry of Foreign Affairs, Japan's top priority with regards to regional and bilateral economic partnerships (EPA) is to carryout the framework of its EPA with ASEAN by 2012 or earlier. It must be stressed that Japan is economically interested in the whole Southeast Asia, and not in any single country in it. This is because the Southeast Asian market is big, but the market of a single country in it is small. Japan's next target is Mexico, since Mexico has concluded a number of EPAs with other partners, thus greatly disadvantaging Japanese enterprises. Japan has a wait and see attitude towards EPA with China, South Asia, Australia, New Zealand, and Chile. It has an open mind towards EPA with Hong Kong and Africa, but it deems EPAs with the U.S., Taiwan, and Russia a remote possibility. Official negotiations between Japan and the Philippines may speedily see successful conclusion because of several complementarities between Japanese and Philippine interests. (1) The Philippine interest in sending nurses and/or caregivers to Japan responds to the problem of increasing number of Japanese senior citizens. (2) If Filipino nurses/caregivers learn Nihongo, this will fit nicely Japan's cultural aim of spreading the use of Nihongo outside of Japan. Even if Filipino nurses do not learn Nihongo, as long as they can speak good English, this would still fit Japan's goal of further internationalization. (3) Filipino expertise in IT also meets Japan's goal of improving its IT. Japan would rather get Filipino IT professionals and experts in other fields, rather than other Southeast Asians. This is because Filipinos are perceived to be easier to train and to have better English capability than most other Southeast Asians. The Philippines has a competitive edge over other Southeast Asian countries in the area of exportation of human resources to Japan.

Keywords: regional and bilateral economic partnership, politics of an EPA, human resource, Japan-Philippines economic partnership

Executive Summary

This paper aims to clarify what Japan wants to achieve through bilateral free trade agreements (FTAs), specifically, through the proposed economic partnership agreement (EPA) with the Philippines. The paper proceeds with the assumption that national interest is still the primary driving force in international relations and that states support liberalization, the ideal of the World Trade Organization (WTO), not because it is perceived to be intrinsically good, but because it is seen as serving their national interests. National interest basically stems from domestic considerations, making foreign policy largely an extension of domestic policy.

The aims of Japan vis-à-vis economic liberalization may be gleaned through its behavior in the recent events concerning WTO conferences, as well as talks regarding FTAs with Singapore, Korea, Mexico, and the Philippines. Japan is currently conducting talks with other countries, but the talks with Korea and Mexico are the most advanced, and therefore most instructive. Furthermore, Japan has concluded the economic partnership with Singapore (hereafter JSEPA), beautifully called Economic Partnership for the New Age. As to why it was relatively easy to conclude the JSEPA would also indicate Japan's motivation. And last but not least, Japan's proposal for a Japan-ASEAN closer economic partnership, following the lead taken by China, has been a source of several theories regarding Japan's attitude towards liberalization in general, and regional trade agreements in particular.

The relevant cabinet ministries and interest groups in Japan directly say what they think should be the goals of Japan vis-à-vis liberalization through the WTO, through regional trade agreements, and through bilateral agreements. Furthermore, the consultative bodies organized by the Japanese government, mostly consisting of intellectuals and public opinion leaders have submitted their reports. A careful analysis of these statements and reports will shed light on why Japan is willing to talk about liberalization.

The goals of Japan in pursuing bilateral EPAs which include FTA may be gleaned from the way talks with Korea, Mexico, and Singapore regarding EPA proceeded. Based on the recollections of Japanese officials, talks with Korea and Mexico started way ahead of talks with Singapore. However, it was the JSEPA which was concluded first and became Japan's first EPA which includes FTA.

The speedy conclusion of JSEPA is attributed to the following: 1) Agriculture is excluded from the FTA; 2) Singapore has IT and other cutting-edge industries; 3) The Government of Singapore efficiently manages its economy; 4) The small size of Singapore reduces the threat to Japanese domestic industries; and 5) An economic agreement with Singapore can be used to show to the world that Japan is not closed and impervious to change, as commonly thought of.

On the other hand, talks with Korea and Mexico have not been concluded yet because both of them include FTA in agricultural products. It was speculated that an EPA with Mexico, if concluded, would be the first Japanese EPA with FTA in agricultural products. Unfortunately, the talks with Mexico have collapsed, because of Mexico's insistence on tariff reduction for its agricultural exports to Japan, and the latter's continued refusal.

It is very clear from the above that Japan is not interested in putting an end to its protectionist policy regarding agriculture.

In the Fifth WTO Conference held in Cancun, September 2003, Japan aggressively campaigned for the full-fledged launching of a set of trading rules concerning cross-border investment, competition, trade facilitation and government procurements. And it continued to join the ranks of the developed countries who have refused to deregulate the subsidies they give to the agricultural sector. The Cancun Conference ended without reaching any agreement.

Japanese goals in pursuing bilateral EPAs are explicitly stated by the Japanese Ministry of Foreign Affairs (JMOFA) and the Ministry of Economy, Trade and Industry (JETI). These goals are 1) To avoid isolation; 2) To complement WTO achievements in trade liberalization; 3) To increase Japan's bargaining power in the WTO; 4) To promote domestic economic reforms; 5) To use FTA as a tool to extend aid to developing countries. To read between the lines, Japan is pursuing bilateral EPAs because the EU, the U.S.A., Mexico, and Singapore to name only a few, have signed bilateral EPAs, and Japan would eventually be excluded from the world trade, if it does not also conclude bilateral EPAs. Second, Japan sees the competition that will result from liberalization as a much needed shot in the arm that would engender the much needed restructuring of its industrial, agricultural, and financial structures. Third, Japan hopes to use its ODA more effectively through the EPA. Considering Japan's use of ODA as a tool to further its investments abroad, the ultimate goal of Japan is furtherance of the foreign investment climate. And most important, Japan considers bilateral FTAs as easier to conclude than a worldwide liberalization agreement (like the one the WTO hopes to see), or a regional agreement like the one proposed with the ASEAN. This is because a bilateral FTA is more flexible and can be made to suit the national interests of the concluding parties.

The Japanese Ministry of Agriculture, Fishery and Forestry (MAFF) is, to say the least, cautious about opening Japan's agricultural sector to foreign imports.

Reports of the consultative bodies organized by the Japanese government to look into the problems facing Japan and to give recommendations for the Japan of the twenty first century have recognized Japan's aging and gradually decreasing population, and losing competitiveness in world trade, IT, quality of education, and English capability. Among the measures they recommend in order to meet these issues are: 1) Decrease or remove tariff and non-tariff barriers to trade; 2) invite more foreign investors, professors and students to Japan; 3) allow the entry of foreign nurses or caregivers; 4) empower women so that they can participate more actively in society. Being intellectuals, they

emphasize that cultural relations cannot be separated from economic relations. They recommend the promotion of Nihongo, side by side with the promotion of trade and investment.

The Keidanren also recommends liberalizing the entry of foreigners, but it is more interested in the entry of engineers and businessmen. It is quiet about the entry of foreign nurses and caregivers. On the other hand, Japanese nurses' organizations, fearing competition from foreigners, have expressed their objection to a liberal policy towards entry of foreign nurses and caregivers.

The above shows that in spite of the impression created by the aggressive stance seen in the websites and press releases of the Japanese Ministry of Foreign Affairs and the Ministry of Economy, Trade and Industry in favor of liberalization, the truth is the Japanese government has not arrived yet at a consensus regarding to what extent it would liberalize. The poor showing of the LDP, in spite of the popularity of the pro-reform and pro-liberalization (including agriculture) Prime Minister Koizumi in the last general election indicates that more time is needed to reconcile the opposing views among Japanese politicians, businessmen, intellectuals, and technocrats.

Going by the statements of the JMOFA, Japan's priority is an EPA with ASEAN, but since it is more difficult to conclude a regional agreement, it concluded a bilateral one with Singapore. Its next target is Mexico, since Mexico has concluded a number of EPAs with other partners, thus greatly disadvantaging Japanese industries. It has a wait and see attitude towards EPA with China, South Asia, Australia, New Zealand, and Chile. It has an open mind towards EPA with Hong Kong and Africa, but it deems EPAs with the U.S., Taiwan, and Russia a remote possibility.

It must be stressed, in the case of the ASEAN and the Philippines, that Japan is economically interested in the whole Southeast Asia, and not in any single country. This is because the Southeast Asian market is big, but the market of a single country in it is small.

The Philippines has proposed an EPA with Japan, and the latter has responded positively. Talks between Japan and the Philippines may speedily see successful conclusion because and if:

1. The Philippine interest in sending nurses and/or care-givers to Japan responds to one of the suggested solutions to the problems of increasing number of senior citizens: to allow entry of foreign nurses.
2. If Filipino nurses/care-givers learn Nihongo so that they can communicate with Japanese senior citizens, this will fit nicely in Japan's cultural aim of spreading the use of Nihongo. Even if Filipino nurses do not learn Nihongo, as long as they can speak good English, this would still fit in Japan's goal of further internationalization by inviting foreign investors, professors, and students. The foreign community, which, it is hoped, would increase in

number, would need English speaking nurses. It has been stressed, however, that Filipino nurses/care-givers' qualifications should meet Japanese high standard.

3. Filipino expertise in IT also fits in Japan's goal of improving its IT. Japan would rather get Filipino IT professionals and experts in other fields, rather than other Southeast Asians. This is because Filipinos are perceived as easier to train, not to mention the fact they have more English capability than most other Southeast Asians.
4. Neither Japan nor the Philippines expects much improvement in trade relations and increase of Japanese investments in the Philippines, because majority of Japanese companies in the Philippines are in the economic zones, where they enjoy many privileges even without an FTA. Moreover, Japan will measure its desire to expand its export market and investment abroad in terms of overall opportunities and conditions in the whole ASEAN. Unavoidably, the Philippine attractiveness for investment and trade will be compared with that of the ASEAN.
5. If the Philippines and Japan would not exclude agricultural products, most probably, the JPEPA might have to wait until the Japan-Mexico EPA is concluded, for this has been seen as a model for a Japan EPA that does not exclude agricultural items. If agricultural items are excluded, the speedy conclusion of a JPEPA would depend on the details about trade in services, such as the sending of nurses/care-givers and IT workers.

Philippines-Japan Economic Partnership: Where is the Philippines in Japan's Plan?

Lydia N. Yu-Jose*

Objectives

This paper aims to clarify what Japan wants to achieve through bilateral free trade agreements (FTAs), specifically, through the proposed economic partnership agreement (EPA) with the Philippines. In particular, the paper looked at the general view of Japan's foreign policy goals vis-à-vis trade liberalization and bilateral free trade agreements; the Japan's foreign policy goals vis-à-vis the U.S., the E.U., South Asia, and ASEAN; and the Philippines' position in Japan's hierarchy of valued "partners" with regards to bilateral free trade agreements.

Conceptual Framework

The paper builds on the following premises:

1. Free trade agreement is only a major component of the proposed economic cooperation. Japan, being a regional power, does not limit its foreign policy to economic goals. Equally important as its economic goals are the cultural ones: to promote Japanese culture abroad and to present to the world a positive image.
2. Japanese foreign policy, just like most other foreign policies, is rooted in domestic socio-economic conditions, problems about which are in turn usually addressed through foreign policy.
3. The Japanese Government still, and rightly so, perceives Japanese survival to be greatly dependent on foreign trade and investment. Therefore, it actively pursues trade and investment with the world, especially the states with large markets and rich natural resources.
4. Decision making in the Japanese Government is often a result of compromises among different ministries who perceive themselves as serving varied interests.

Methodology

Through a chronological analysis of how the Japan-Singapore Economic Partnership for the New Age has been concluded, and how the talks with Korea and Mexico are proceeding, Japanese goals for EPAs may be indirectly known. Statements by key ministries involved in Japan's foreign policy formulation contain Japanese general and specific objectives. These ministries are the Ministry of Foreign Affairs (MOFA), the Ministry of Economy, Trade and Industry (METI), and the Ministry of Agriculture, Forestry and Fishery (MAFF). The current state of Japan's EPAs with several countries,

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concluded as well as being negotiated, together with outright statements by these ministries will more accurately indicate Japan's goals and priorities with regards to EPAs.

Japanese intellectuals, to a certain extent, also have inputs in Japanese foreign policy. The Japanese government has commissioned several study groups to do research and make recommendations regarding Japanese society and foreign policy in the 21st century. An examination of these studies will show if there is correspondence between the recommendations and the goals stated as well as seen through Japan's on-going talks regarding EPAs.

Japanese businessmen too, especially through the Keidanren, express their opinions regarding Japanese foreign policy. In addition, Japanese corporations abroad have several channels through which they express their priorities, apprehensions, and demands. These are materials that strongly affect Japanese economic foreign policy and should therefore be carefully analyzed.

Opinions expressed by Japanese intellectuals and businessmen will also indicate domestic problems which are linked to foreign policy.

Understanding Japan's Goals Through its EPA Negotiations

This section narrates initiatives in Japan-Mexico and Japan-Korea FTA talks and the process of negotiating and concluding the Japan – Singapore Economic Partnership for the New Age (JSEPA). The aim of the brief narration is to gain an insight into the dynamics of negotiating with Japan, and to find out why the JSEPA was concluded first, although talks with Mexico and Korea started ahead of it.

The narration is based on the first hand experiences of Munata Naoko and Hatakeyama Noboru. Munata was visiting fellow (as of 2001), Center for Northeast Asian Policy Studies (CNAPS) of the Brookings Institution. She was former Director for Policy Planning, Economic Policy Unit, Minister's Secretariat, MITI (now METI). In this capacity, she served as advisor to the International Trade Policy Bureau of MITI on the JSEPA from October 1999 through October 2000. Hatakeyama is a former Vice-Minister for MITI and former Chairman and CEO of JETRO. He is currently CEO of the Japan Economic Foundation

In mid-1998 Hatakeyama, then Chairman and CEO of JETRO, had lunch with Herminio Blanco, Mexican Commerce and Industry Minister. At this lunch, Blanco extended to Hatakeyama an invitation to go to Mexico to discuss the possibility of an FTA between Japan and Mexico. Blanco had concluded in December 1997 negotiations with his EU counterpart on the framework agreement of an FTA. Then Mexican President Ernesto Zedillo was supposed to visit Japan in late 1998. Blanco's idea was to have the Mexican President and the Japanese Prime Minister Obuchi Keizo jointly declare the kick off of the negotiation on Japan-Mexico FTA.¹

In August Hatakeyama visited Mexico and met with Blanco and three vice ministers of commerce. They explained to him the framework for an FTA between Mexico and Europe. Upon his return to Japan, Blanco explained to MITI minister Yosano Kaoru the message from Mexico about a possible FTA with Japan. A study team on FTA was consequently established in MITI. The team was headed by Kanno Hidehiro, then Director General of the International Trade Policy Bureau. This team came up with a positive report on a dual track policy to pursue an FTA as well as the WTO. The report was not ready when Zedillo met with P.M. Obuchi Keizo in mid-November 1998. It would be ready only by late November. Therefore Zedillo did not bring up the matter, knowing that Obuchi was not ready to positively respond on the issue. But Zedillo disclosed the FTA in a meeting with Keidanren.² As a result, the Japan-Mexico Committee of the *keidanren* established a working group to examine the possible effects of an FTA on the Japanese industry.³

Meanwhile, in October 1998 President Kim Dae-Jung of ROK visited Japan. Forgiveness and reconciliation were stressed. Korea needs assistance from Japan; Japan needs Korea's cooperation in dealing with the North Korean threat. Before Kim's visit, hopes for renewed bilateral relations were high, and a proposal for a bilateral FTA was floated as a symbol of new relations. On Nov. 3, 1998, Trade Minister Han Duck-Soo announced Korea's decision to promote FTAs with major trade partners, Chile being the first candidate. In a separate bilateral summit on the occasion of the November 1998 APEC Leaders' Meeting, Korea and Chile reached an agreement to explore the possibility of an FTA. It was also sometime, in the fringe of this APEC Leaders' Meeting, that he proposed conducting a joint study for the future of Japan-Korea economic relations (including FTA) to Japanese MITI minister Yosano Kaoru, who responded positively. Thus, Japan's Institute for Developing Economies (IDE) and the Korean Institute for Economic Policies, both governmental think tanks, were assigned to jointly study the way to strengthen economic relationship between Japan and South Korea, including an FTA.⁴

Then in February 1999, JETRO and SECOFI, Mexico's Ministry of Commerce and Industry headed by Blanco, were assigned to carry out a study on a Japan-Mexico FTA.⁵

Both studies conducted by JETRO and its counterparts in South Korea and Mexico were in favor of FTAs. The result of both studies were announced in April 2000 for Mexico and in May of the same year for South Korea.⁶

In November 2002 Mexico and Japan began negotiations (after more than two years of preparation). The Keidanren submitted in June 2003 to the METI and the MAFF its recommendation to conclude FTA with Mexico as soon as possible. This is because the Mexican government has made it a policy to choose companies who can bid for government projects only from countries which have FTAs with it. The *Asahi* speculates that the negotiations will be concluded in October of this year. (*Asahi Shinbum*, 16 June 2003).

In the case of Korea, President Kim Dae-Jung proposed to Prime Minister Mori at a summit meeting on 23 September 2000 the establishment of the Japan-Korea FTA business forum consisting of businesspersons and scholars. Mori welcomed the proposal.

The forum was headed by Ushio Jiro, Chairman and CEO of Ushio Inc., for Japan and Park Yong-sung, chairman of the Korea Chamber of Commerce and Industry, for South Korea. On 25 January 2002, the forum submitted a joint communiqué to the effect that a Japan-Korea FTA should be concluded soon and for this purpose the consultations between the two governments should start. On March 22, at the summit meeting between Japan and South Korea, Koizumi and Kim agreed to start a government-level joint study group, including businesspersons and scholars. This study group is represented by four deputy director generals with the METI, MOFA, Finance, MAFF for Japan and by the deputy director general of the MOFA and Trade for South Korea.

Talks on the proposed Japan-Mexico and Japan-Korea FTAs proceed slowly because of the following:

The idea of a Japan-Korea FTA has yet to be widely accepted by industry or the public in either country, and it would still be premature to start negotiations. For example, Korea's trade deficit with Japan was predicted to increase further as Korea's average tariff rate on Japanese products is higher than Japan's average tariff rate on Korean products. In relation to this, Seoul has strong concerns that, in addition to the possibility that the Japanese machinery and chemical industries would dominate the Korean market, Japanese agriculture and fishery industries may not undergo sufficient liberalization, thus limiting the gains for Korea.⁷

Similar reason holds true in the case of Mexico, which hopes to improve its export of agricultural products to Japan.⁸ The Japanese government requested the Mexican government (1) to exempt pork and some other agricultural products, (2) to have tariff if imports from Mexico increased rapidly, or (3) to exempt temporarily some products until further negotiation. Japan expects the FTA with Mexico to become a model when it negotiates with Asian countries since most of the Asian countries also export agricultural products to Japan.⁹

The economic partnership with Singapore proceeded much faster.

In December 1999 Prime Minister Obuchi Keizo (died in 2000) and Singaporean Prime Minister Goh Chok Tong met. Prior to this meeting, Goh had planted in Keidanren the idea for an FTA with Japan. Goh argued that as Singapore is a small economy it could be used as a catalyst, as an experiment that would not overwhelm Japan. The term New Age FTA was also coined by Goh.¹⁰

On 22 October 2000, Prime Minister Mori Yoshiro met with Singaporean Prime Minister Goh at the official residence of the Japanese Prime Minister. They agreed to enter into formal negotiations with a view to concluding a Japan-Singapore Economic Partnership for a New Age.¹¹

Formal negotiations between the governments were carried out four times beginning January 2001, the fourth negotiations were held in Tokyo on October 10 to 12, 2001 and resulted in a substantial agreement between the two governments. After the 20 October summit meeting in Shanghai, Prime Minister Koizumi and Prime Minister Goh brought the negotiations to a successful conclusion and released a joint announcement. On 13 January 2002 Singapore and Japan signed the JSEPA in Singapore. It went in effect on 30 November 2002, barely three years after the initiative taken by Prime Minister Goh.¹²

It was easier to conclude the JSEPA because of the following:

- There are hardly any sensitive areas between the two countries, such as the agriculture, forestry and fishery sectors of Japan. Since Singapore does not have a significant agricultural industry or fishery products, an FTA could safely cover “substantially all the trade” if tariffs on almost all the industrial goods were eliminated, thus enabling the agreement to be in accord with WTO rules.¹³ The Japan-Singapore Study Group on the FTA recommended the exclusion of agriculture, as negotiations in this area are either ongoing or are expected to be ongoing within the WTO framework.¹⁴
- Singapore has IT and other cutting-edge industries and its government has the reputation of practicing state management in an efficient and strategic manner. Moreover, it is possible to explore various strategies for the economic integration because Japan and Singapore are not so different in income levels and the functions of both governments are highly developed. Besides, Singapore has systems in many areas that could provide a frame of reference for Japan. Singapore’s policy of maintaining an internationally competitive business environment would stimulate regulatory reform in Japan.¹⁵
- Singapore’s small size reduces the threat to domestic industries afraid of international competition. This could allow bold experimentation in various new elements to be incorporated in an FTA.¹⁶ In fact, the Japan-Singapore Study Group took up areas not covered by the WTO, such as expediting trade procedures, cooperation in the financial sector, and a “new age” partnership for harmonizing the legal system for e-commerce.¹⁷
- As a “sparring partner”, Singapore could help address recurring criticism from other Asian economies that the Japanese market was still closed, despite low tariffs and deregulation, and that the Japanese would never be willing to accept a different state of affairs.¹⁸

Explicit Goals for Pursuing Bilateral FTAs

Both the Japanese Ministry of Foreign Affairs (JMOFA) and the Japanese Ministry of Economy, Trade and Industry are in favor of concluding bilateral trade agreements. They are also more open to liberalizing agricultural items, than the Ministry of Agriculture, Forestry and Fishery (JMAFF). It is not surprising that statements from JMOFA and

JMETI are more straightforward than the roundabout statements of the JMAFF. Moreover, JMAFF hardly puts its statements in English websites.

The following are statements from the Japanese Ministry of Foreign Affairs:¹⁹

1. Amid the advance of economic globalization, it is important to maintain and strengthen the free trade system. FTAs offer a means of strengthening partnerships in areas not covered by the WTO and achieving liberalization beyond levels attainable under the WTO.
2. The EU and the U.S. have pursued policies oriented both toward negotiations under the WTO and the creation of large-scale regional trade frameworks. The current round of WTO negotiations could be the last multilateral trade negotiations prior to the creation of these large-scale integrated regional frameworks.

Based on the above, JMOFA sees the following specific advantages of FTAs for Japan:

1. Economic: Expansion of imports and export markets; conversion to more efficient industrial structures, improvement of the competitive environment; reduction of the likelihood of economic frictions becoming political issues; FTAs help in expanding and harmonizing existing trade-related regulations and systems.
2. Political and diplomatic: FTAs increase Japan's bargaining power in WTO negotiations, and the results of FTA negotiations could influence and speed up WTO negotiations. The deepening of economic interdependence gives rise to a sense of political trust among countries that are parties to these agreements, expanding Japan's global diplomatic influence and interests.

Japan's major trading partners are East Asia, North America, and Europe, three regions that account for 80% of Japan's trade. As is apparent from the simple average figures for tariff rates (the U.S., 3.6%; the E.U., 4.1%; China, 10%; Malaysia, 14.5%; the Republic of Korea, 16.1%; the Philippines, 25.6%; and Indonesia, 37.5%), East Asia, the region where Japanese products account for the highest percentage in trade, has the highest tariffs. Liberalization of trade with East Asia will help facilitate the activities of Japanese businesses, which are facing competition from ASEAN and China and which, in many cases, have shifted their production bases to locations in East Asia.²⁰

The 2002 Basic Policy of the Council on Economic and Fiscal Policy (CEFP) clearly presents economic partnership agreements (EPA) and free trade areas as important tools for invigorating the economy in an era of globalization. From this standpoint, Japan puts priorities on economic partnerships in East Asia and with other regions like Mexico with which Japan has close interdependent economic relations. In this regard, Japan particularly acknowledges that it is important to form an "East Asia Free business Area," through means such as concluding economic partnership agreements which will further invigorate the economy of East Asia.²¹

In the formation of an “East Asia Free Business Area,” considering past partnerships and the accumulation of assets, Japan is placing top priority on strengthening the Japan-ASEAN relationship as well as the Japan-ROK relationship. The Japan-ASEAN comprehensive Economic partnership proposed by Prime Minister Koizumi in January 2002 emphasized its relationship with ASEAN.²²

At the same time, an FTA with Mexico should be concluded expeditiously where Japanese businesses have to pay relatively high tariffs, in comparison to those of NAFTA and the European Union that have already concluded FTAs with Mexico.²³

To pursue the Japan-ASEAN comprehensive Economic Partnership along with a partnership with ASEAN as a whole, Japan is also pursuing bilateral measures aimed at accelerating this overall partnership. For example, the Japan-Thailand Summit Meeting in April agreed to set up a Working Group on Economic Cooperation between Japan and Thailand. Then at the Japan-Philippines Summit Meeting in May 2002, Philippine President Gloria Macapagal Arroyo raised the possibility of setting up a working group for Economic Partnership Agreement between Japan and the Philippines.²⁴

The Japan-ASEAN General Exchange Fund (JAGEF) was established in July 2000 in order to facilitate the effective implementation of Japanese economic cooperation with ASEAN, promote transfer of technology and inflow of Japanese investments, promote trade and exchange of personnel between Japan and ASEAN, strengthen the functioning of ASEAN-related departments in the new members of ASEAN as well as of the ASEAN Secretariat, and support other mutually agreed activities.²⁵

The JMOFA consider the following three points in promoting FTA:²⁶

1. The duties and other regulations of commerce should not be higher or more restrictive than the corresponding duties and other regulations of commerce prior to the formation of the FTA.
2. FTAs must eliminate duties and other restrictive regulations of commerce with respect to substantially all the trade; that is, countries must achieve a standard of liberalization that compares favorably to international standards in terms of trade volume (NAFTA average is 99%; average of FTA between Mexico and the EU is 97%)
3. FTAs must ensure completion of Regional Trade Agreements (RTAs) within a ten-year period, at least in principle.

Japan cannot secure the advantages of FTAs without enduring some pain arising from the opening of its markets, but this should be regarded as a process that is necessary for raising the level of Japan’s industrial structures. Various issues will emerge concerning various areas of regulatory control, including movement of natural persons, as well as the opening of markets and the implementation of structural reforms in the agricultural sector.

Unless FTAs are linked to economic reforms in Japan, Japan will not succeed in making them a means of improving the international competitiveness of Japan as a whole.²⁷

Japan is aiming at FTAs which are comprehensive, flexible, and selective: some kind of a “Singapore-plus” or a “Singapore-minus.”²⁸

Conclusion of FTAs with developing countries could also serve as a political device for promoting economic development in these countries, including those in Africa.²⁹

Below is a brief summary of JMOFA’s stand on specific FTAs, aside from those with ASEAN, Mexico, and Korea, which have been discussed above. Comments from Hatakeyama are added where they are available:

JAPAN and CHINA: For the present we should continue to closely monitor China’s fulfillment of WTO obligations, trends in China’s economy, the status of overall relations between Japan and China, and progress in the new round of WTO negotiations as well as in negotiations on concluding FTAs among other countries in Asia before determining our policy.³⁰

JAPAN and TAIWAN: Taiwan’s tariff rates are already low, so tariff reductions achieved through an FTA would not produce major benefits for both sides. It would be more appropriate to consider strengthening economic relations in specific relevant areas.³¹

Comment: (Hatakeyama, part 4, p. 4): The share of non-agricultural exports from Taiwan to Japan last year was 88.9% of Taiwan’s total exports to Japan. Therefore, if Japan can liberalize some tiny items of agriculture, it can easily clear the WTO’s 90% hurdle. This, however, will not be politically easy because of the Japanese government’s one China policy. Therefore the contacts for a possible FTA between Japan and Taiwan are being made on a private sector basis through the East Asia Business Conference consisting of Japanese and Taiwanese business executives. However, since Taiwan was admitted to the WTO as a “separate custom territory” instead of being deemed a sovereign country, Japan and Taiwan may be able to find a way to conclude a bilateral FTA by using such terminology as a “separate custom union.”

JAPAN and HONGKONG: In the context of the on-going process of expanding the relationship of economic interdependence between Japan and China, the possibility of concluding an FTA with Hong Kong should not be excluded.³²

AUSTRALIA and NEW ZEALAND: While the handling of agricultural product is a sensitive issue in relation to these two countries, Japan shares many common values and interests with them. Australia, in particular, is a major supplier of natural resources to Japan. One useful approach would be to proceed in two stages as jointly proposed by business circles of both countries, i.e. pursuing economic

partnership in areas of mutual interest over the short term while attending to the longer-term task of concluding a comprehensive FTA.³³

CHILE: In light of Chile's tariff structure, its volume of trade with Japan, and its major exports to Japan, the conclusion of an economic partnership agreement or FTA with Chile could be considered a mid to long-term task, rather than an urgent task of the highest importance.³⁴

Comment (Hatakeyama, part 4, pp. 1-2): Since the share of agricultural, fishery and forest goods that Japan imports from Chile runs as high as 50% of the total imports from that country, it would seem unlikely at first glance that Japan could forge an FTA with Chile. But that is not so. The records for 1999-2001 show that 61.4% of Japanese imports from Chile were tariff-free, while tariffs of less than 5% were imposed on 29.4% of the imports.

Adding 61.4% to 29.4% makes a total of 90.8%. Thus if Japan eliminates the tariffs of less than 5%, it can clear the 90% hurdle of the WTO. Of course, that won't be easy.

MERCOSUR: This custom union is a driving force for economic integration in Latin America, and we must pay attention to its movement toward a Free Trade Area of the Americas and negotiations on concluding an FTA with the EU.³⁵

RUSSIA: Any comprehensive move to strengthen economic relations, such as through an FTA, would be considered after the strengthening of relations through realization of individual projects.³⁶

SOUTH ASIA: We should continue to explore the best approach to partnership while watching to see how India is integrated into the international economy.³⁷

AFRICA: While it is theoretically possible to employ FTAs as a means of assisting developing countries, we must also consider whether or not there would be any advantages for Japanese businesses.³⁸

NORTH AMERICA and the EU: The conclusion of an FTA with either would be a very difficult task in light of issues such as the handling of agricultural, forestry, and marine products. An FTA between Japan and the United States would bring about a major trade conversion effect. For the present it will be beneficial to strengthen the bilateral relationship through formulating frameworks in specific areas (such as mutual recognition) and promoting dialogues in such areas as regulatory reform.³⁹

Comment: (Hatakeyama, "Japan's New Regional Trade Policy," (speech delivered at the Second Annual Whitman International Lecture, Washington, D.C., March 13, 2002, www. iie.com/publications/papers/hatakeyama0302.htm): The U.S. is the number one agricultural supplier to Japan. The Japanese agricultural industry is

weak, so there is a concern over U.S. products flowing freely into the Japanese market. On the other hand, the U.S. has tariffs as high as 25% on imported trucks for example. Also the U.S. has announced safeguard measures for steel, which exempts FTA partner countries. Although these safeguard measures for steel violate WTO rules, some Americans surely have concerns about Japanese industrial products freely entering this market. Hatakayama's suggestion is to conclude an FTA with the U.S. covering services only.

The view from the JMETI:

Among the Japanese ministries, the JMETI is the most active in explaining Japan's overall internal and external economic policy vis-à-vis FTA. It projects Japan as pursuing a three-layered external economic policy, namely, (1) cooperation with the World Trade Organization (WTO) and its goal of general and worldwide liberalization, (2) strengthening ties with selected countries and regions, such as APEC and ASEAN, and (3) pursuing bilateral FTAs.⁴⁰ The present efforts to conclude bilateral FTAs is viewed as stepping stones towards regional FTAs, specifically with ASEAN. It is further hoped that the building blocs will lead to a worldwide liberalization through the WTO.

At present, the main concerns of JMETI (as well as of JMOFA) are East Asia (which encompasses Japan, China, Korea, Taiwan, Hong Kong and ASEAN) and Mexico. It observes that "East Asia is rapidly gaining a bigger economic presence and deepening economic interdependence."⁴¹ Japan aims to use this large and growing economy towards the revitalization of the Japanese economy and to ensure security in the area. Through its leadership, it hopes to realize the economic development of the whole region, and promote structural reforms in Japan as well as in the region.

East Asia has been historically Japan's main target for economic expansion. It had unsuccessfully promoted the idea of an East Asian economic bloc in the 1930s. Taiwan and Korea were already part of its empire when it embarked on a war of aggression, expanding its empire by invading Southeast Asian countries during World War II, and creating the Greater East Asia Co-prosperity. Today, it is commonly observed, it was China's initiative to propose an FTA with ASEAN that made Japan to take steps towards establishing an economic partnership with this organization and the countries in the region.

Statements from the JMAFF

On the other hand, the following are the roundabout statements of the JMAFF, which is hesitant to open up agriculture to free trade.⁴² The five items below can actually be re-stated simply as: In concluding FTAs the Japanese Government should endeavor to protect its agriculture because Japanese food security should be shielded from the adverse natural vicissitudes of international economics. Opening up the agricultural market, should it be inevitable, should be done on a case-to-case basis, and as cautiously as possible.

- Since there is no common agreement on the interpretation of Article 24 of the WTO, some FTAs have excluded some agricultural products from liberalization. Examples: In NAFTA, dairy products, meat, eggs, sugar are excluded in the trade between Canada and Mexico. For Canada, 78 out of 1041 are excluded; for Mexico, 87 out of 1004 items. In the Korea-Chile agreement, 21 out of 1432 items are excluded on the part of Korea (rice, apple, pear); 42 out of 729 items are excluded on the part of Chile (wheat, chicken, mandarin oranges, etc.)
- Some items are for re-negotiation. Examples: EU-Mexico Agreement: agreement on several items should be re-negotiated after 2003: EU side: beef, pork, chicken, etc. (595 items out 2415, or 20%). Mexico side: rice, wheat, beef, pork, etc (310 out of 1081 items, or about 30%).
- Main points regarding agricultural and fishery products:
- Negotiations are important on all agricultural and fishery products. Japan abides by the multilateral system in the WTO and considers FTAs as the core document for negotiating economic partnerships and human resources development.
- In negotiating FTAs it is necessary to see to it that our food security and our efforts at restructuring our agriculture and fishery are not adversely affected. It is important to study carefully the agricultural items that our partner country would wish to export.
- On concluding FTAs, it is necessary to thoroughly study the mutual benefits and losses for Japan and its partner country, including agricultural products. It is very important to secure the partner country's understanding about the situation of food security in Japan.

The Link between Domestic and Foreign Policies: JMETI Elaborates

Foreign policy, especially economic policy, is an extension of domestic policy. In turn, domestic policy is the government's response to perceive social, political, and economic domestic conditions. Urata Shujiro, who may be considered one of the major voices of JMETI elaborates below on how one of the current problems of Japan – lack of competitiveness – is both a domestic and foreign concern, which may be effectively addressed through free trade agreements.

An examination of the educational attainments among developed countries reveals that the enrollment ratio in higher education is low in Japan. In particular, the enrollment ratio in graduate school is very low. Another important finding from the international comparison is that the number of students specializing in engineering and the natural sciences is low in Japan when compared to such countries as South Korea, China, Hong Kong and the U.K. These findings indicate that the good educational system with an

emphasis in engineering and the natural sciences that contributed to the creation of the competitive Japanese economy has become mediocre in recent years. In terms of average TOEFL scores, Japan has one of the lowest rankings in the world. Japan has to rebuild its educational system.⁴³

Lack of competitiveness of the Japanese financial sector is largely attributable to the worsening of the non-performing loan problem. The resolution of financial problems requires refurbishing not only of the financial sector, or the lenders, but also the corporate sector, or the borrowers.⁴⁴

Japan's ranking in internationalization dropped in the 1990s. Internationalization may be looked at from two perspectives – external and internal. External perspectives refer to outgoing activities by the Japanese, while internal perspectives refer to incoming activities by foreigners. Specifically, exports and outflow of foreign direct investment (FDI) are examples of internationalization from external perspectives, while imports and inflow of FDI are examples of internationalization from internal perspectives.⁴⁵

Despite a substantial reduction in trade and FDI barriers (largely thanks to WTO regulations, international commitment to the OECD and strong pressure from the U.S. and other foreign countries), there still remain various barriers to imports and FDI inflows to Japan. Some of them include non-tariff barriers such as regulations on product quality and safety and exclusive business practices such as tacit collusive behavior. One should realize that a lack of competitiveness in education and in the financial sector, which were discussed above, has much to do with the fact that these areas are closed to foreign competition.⁴⁶

In order to deal with these problems, deregulation and liberalization of the Japanese domestic market have to be carried out. Specifically, speedy implementation of policy reforms such as restructuring of the financial and corporate sectors, and deregulation in various areas including education, and import liberalization of goods and service markets such as agricultural goods and transportation services will have to be carried out.⁴⁷

Japan has to contribute to the economic growth and improvement of peoples' lives in East Asia, in order to become a regional leader. The formation of economic partnership agreements with developing East Asia (Northeast Asia plus southeast Asia) economies is a very effective way of achieving these objectives for Japan.⁴⁸

One of the major obstacles for Japan in forming EPAs is to remove or reduce protection in sensitive sectors, most notably agriculture. Some argue that agriculture serves many useful purposes for the Japanese economy and society such as maintaining the natural environment and traditional culture. Some also argue that domestic agricultural production is necessary for ensuring a stable supply of food, or food security. Import protection may serve these purposes, but it has to be emphasized that import protection is a very costly way of achieving these objectives.⁴⁹

To be sure, there are better policies to achieve these objectives in terms of cost and effectiveness. For example, in the case of food security, diversification of food supply sources is much more effective than import protection.⁵⁰

Finally, Urata prioritizes conclusion of FTA with South Korea, followed by ASEAN countries. With regards to China, he recommends watching its compliance with WTO regulations.⁵¹

The Link between Domestic and Foreign Policies: The Intellectuals Speak

Japan faces the challenges of globalization and the 21st century. In a desire to gather inputs on how to face these challenges, the Japanese government decided to call on its intellectuals for analysis and recommendations.

On 30 March 1999 Prime Minister Obuchi Keizo established the “Prime Minister’s Commission on Japan’s Goals in the 21st Century.” On 28 November 2002, the Task Force on Foreign Relations for the Prime Minister submitted its recommendations, this time, to the current Prime Minister, Koizumi Junichiro. The recommendations are basically the same as those submitted to Prime Minister Obuchi, only stated in stronger and clearer terms. From their reports may be culled the representative Japanese intellectuals’ views of their society and of the world. From them may be culled too their opinions as to what policies, domestic and foreign, Japan should adopt.

The mandate of the “Prime Minister’s Commission on Japan’s Goals in the 21st Century” was to paint the desirable future direction of Japan, which could encourage a broad national debate.⁵² Its chairperson was Kawai Hayao, Director-General of the International Research Center for Japanese Studies. There were fifteen members, six of whom were either university professors or established researchers and the rest were established directors of publishing houses, newspapers, a president of the Japan Pediatric Association, a science astronaut, a renowned corporate leader, and a music composer.⁵³ In addition, were members of the five sub-committees on (1) Japan’s place in the world, (2) prosperity and dynamism, (3) achieving a contented and enriching life, (4) a beautiful country and a safe society, and (5) future of the Japanese. None were politicians or bureaucrats.

Several members of the Commission visited and consulted with intellectuals in Singapore, Washington, D.C., South Korea, China, and Paris.⁵⁴ The countries they visited reflected their views of what countries in the world mattered to them. They could not, after all, visit all countries.

The Commission submitted its report on 18 January 2000. It was a comprehensive list of new ideals and challenges for Japan regarding governance, demography (falling birthrates and aging population), educational reforms, culture, and international relations.

The report observes Japan’s falling birthrates and aging population as “progressing faster in Japan than anywhere else. It is calculated that by around 2015 one Japanese in

four will be sixty-five or over, and by around the middle of the century the proportion will be one in three. The total population is expected to peak at 128 million in the year 2007, after which it is forecast to drop below 100 million in the middle of the twenty-first century and to decline by almost half by the century's end."⁵⁵

The Commission's approach to this problem is to draw "out the latent potential of Japanese society to the greatest degree possible. For example, we should systematically promote opportunities for women to be involved in society and the workplace on a major scale. Accepting the entry of non-Japanese will also be an important option."⁵⁶

Regarding reform of the educational system, it was pointed out that there was a need to make higher education internationally competitive. "Possible measures include abolition of controls on the establishment of universities, faculties, and so on; assessment of educational and research performance; the use of English as a language of teaching and research, and the active recruitment of foreign faculty members."⁵⁷

Related to education, as well as to globalization and the information-technology revolution, was the Commission's recommendation that the whole population should be equipped with a working knowledge of English. It was even open to the possibility of making English an official second language.⁵⁸

On the subject of Japan's place in the world, the sub-committee that worked on this topic bewailed the fact that "as regional integration and cooperation proceed in Europe and elsewhere, Northeast Asia is the last region to remain locked in the icy grip of the cold war."⁵⁹ Japan, therefore, to the view of the members of the sub-committee, should strive to improve relations among Japan, China, and South Korea, as it maintains the U.S.-Japan security alliance as the basic framework of regional security in Northeast Asia. The sub-committee considers the launching of negotiations for a free trade agreement with South Korea as a good indication of a growing closer relationship between Japan and South Korea.

Focus is on ASEAN +3, rather than on ASEAN alone. The report states: "Summit meetings of the ten members of ASEAN plus Japan, China, and South Korea ... are, in effect, East Asian summits."⁶⁰ The members of the commission recognize that it would not be easy to conclude a comprehensive FTA among the East Asian countries due to their diversity, but they believe that the process of trying is significant enough. In connection with FTA, they note the stalled efforts within the Asia-Pacific Economic Cooperation (APEC) to liberalize trade in the Asia-Pacific region. Thus, they point out that it is essential to supplement APEC "with other regional frameworks closer to home": the Japan-U.S. security alliance, and the development of trilateral frameworks, namely, Japan-South Korea-U.S., Japan-China-South Korea, and Japan-China-U.S. they also consider the possibility of a grouping of Japan with Australia and New Zealand.

The report expresses a mild disappointment with the process of trade liberalization within the WTO:

The 135-member (now 144) WTO makes its decision on a one-country one-vote basis, and as the 1999 Seattle Conference revealed, achieving a global consensus will likely be even more difficult in the period ahead. In this context, while keeping up efforts to secure mutual concessions aimed at reaching agreement, it will also be necessary to aim for the construction of a multilevel international trade system, moving forward with alliances and integration at the regional level through free trade agreements and the like, and making skillful use of these arrangements as a supplement to the global system.⁶¹

On 28 November 2002, the Task Force on Foreign Relations for the Prime Minister submitted its recommendations to Prime Minister Koizumi Junichiro. To quote the statements directly and indirectly related to economic partnerships:⁶²

1. “ROK (South Korea) is Japan’s most important strategic partner in the region, sharing with it the three basic systems of democracy, market economy and an alliance with the United States. The next goal for Japan-ROK relations is the signing of an FTA. This should serve as the core for the achievement of a comprehensive economic partnership, and a new sense of community that it fosters will be important. Japan and ROK can serve as the hub for an expanding network of democratic, market-economy countries in East Asia and the Pacific.
2. “Stability in ASEAN is extremely significant for Japanese security. There are, however, large disparities within the ASEAN region, and the course for Japan to take is to engage in dialogue with the ASEAN 5 first, and then seek the application of those results to the expanded ASEAN group. Economic partnership with ASEAN should be pursued in such a way that it will encourage increased integration of the region.
3. “Japan has no negative legacies in Latin America; this is a region where it can make use of its abilities and capacities without constraint. However, Japan’s presence in Latin America has been steadily declining since the nineties. Japan should expand economic cooperation for Latin America, with a view to possibly signing FTAs with MERCOSUR and other Latin American countries.
4. “Japan will be more directly influenced by Chinese economic development than any other country and has a responsibility to articulate a national economic vision under this new paradigm. The essential first steps will be to quickly dispose non-performing loans and at the same time reform the economic structure itself. The promotion of science and technology will be an absolute prerequisite to achieving this. Nor can regulatory reform be avoided. Japan must rectify high-cost structures, enhance educational facilities, and accept more foreign students, with the ultimate aim of attracting direct investment from overseas in high value-added areas such as

high technology industries and research and development. Structural reforms in the agricultural sector are also essential. Japan must study mechanisms to mitigate the impact on domestic agriculture and to ensure food security.

5. “The highest priority for the Japanese economy is East Asia, which is the growth center for the world economy. Japan should accelerate the integration of East Asia and should take the lead in this area, seeking to become the core country in a community that advances together. Japan should make strategic use of economic partnership agreements in order to achieve this. The goal should be the creation of a borderless East Asian economic sphere. When complete, the integrated East Asian economy will be a partnership that includes Japan, China, South Korea, ASEAN, Taiwan, Hong Kong, and furthermore Australia and New Zealand. Japan should pursue economic partnerships, which should serve also to balance China’s expanding sphere of influence. At the heart of this will be FTAs, first with ASEAN, where Japan has strong trade and investment ties, and also with South Korea and Taiwan.
6. ODA must be administered with greater efficiency under current tight fiscal conditions, and Japan should therefore prioritize the regions to which it provides aid and the types of aid it provides. Priority regions would include ASEAN, East Asian countries, the Indian subcontinent, the Middle East, Central Asia, and the Caspian Sea countries. Priority aid areas would include the development of basic infrastructure to promote economic integration and growth in East Asia, environment and energy, poverty eradication, peace-building, and promotion of understanding of Japan.
7. “Cultural power stands alongside economic power as an important pillar of Japanese foreign policy. It will be important to create research centers for modern Japan, American, Asia and other areas. Foreign students should be effectively accepted using close coordination among industry, government and academia.

FTA with ASEAN: Japan’s Interests

Since ideally, bilateral FTAs are only stepping stones towards an FTA with ASEAN, it may be instructive to look into the reports of study groups on the proposed Japan-ASEAN economic partnership to have a more focused idea on Japan’s interests in pursuing FTAs. Two reports are particularly useful, namely, the 2002 interim report of the Initiative Toward Japan-ASEAN Comprehensive Economic Partnership Discussion Group, and the 2003 Joint Report of the ASEAN-Japan Closer Economic Partnership Expert Group (AJCEPEG).⁶³ The relevant recommendations of the discussion group are as follows:

In negotiating free trade agreements, Japan should make no exception of sectors including agricultural and fishery goods. If the negative effects of tariff elimination are to be cited, utmost care and responsibility should go into illustrating how much and on which specific items(s) the negative effects will be felt. The crucial issue should be the

improvement of the productivity of the sectors protected so far. We should be positive about making free trade agreements while bearing in mind the options that will act as safeguards in case of actual damages inflicted by unexpected increase in imports after tariff eliminations.⁶⁴

Facilitating the free movement of people. Under globalization, a large number of countries in the world compete for highly skilled labor and devote their energies to building human capital-intensive industry. Japan is no exception. In 1999, in an effort to revitalize the national economy and society and in line with developments in the globalization of labor, the Japanese government made a cabinet resolution to promote a more positive acceptance of foreign workers with specialty and/or technical skills. However, there still remain various regulations which restrict the entry of certain types of skilled workers. For example, non-Japanese nurses who completed their nursing courses at universities in Japan and qualified for licenses in Japan are allowed to work in Japan only for a limited training period. There are a number of other areas that are in urgent need of human resources required to vitalize Japanese economy. We need to review various regulations drastically, and establish a working system which can utilize human resources from East Asia in sectors that require the infusion and expansion of labor as needed by the Japanese economy and society.⁶⁵

Liberalizing the movement of people as much as possible is of crucial importance for industrial development. For example, if industries need to go outside of Japan to obtain highly qualified engineers for their information processing needs, the industries as a whole would perforce have to relocate outside Japan. Hiring foreign skilled or expert labor should not be seen as a threat to the employment of Japanese people. On the contrary, the presence and contribution of skilled foreign workers or experts will spur industrial development, economic growth, employment, and the improvement of our living standard. Cooperative efforts at standardizing examination systems and cross-certification are partly under way among information processing engineers, technicians, and architects, and these cooperative efforts should continue to be promoted and extended to other areas. In this context, we must give due consideration to technical cooperation aimed at creating common standards of expertise among ASEAN countries and Japan. There are many specialized and/or technical forms of labor that are urgently needed in Japan, among them engineering and care managerial positions. Japan should consider developing these human resources with reference to existing systems for human resource development in Europe and Singapore as well as potential problems created by the entry of foreign labor into Japan.⁶⁶

In the Joint Report of the ASEAN-Japan Closer Economic Partnership Expert Group (AJCEPEG), the interests of Japan may be listed as follows:⁶⁷

1. Reduction of tariffs on manufactured products
2. Acceleration in customs clearance procedures
3. Prevention of smuggling
4. Increasing transparency in implementing the procedures required on foreign contractors in the commission of public work projects

5. Regarding services, Japan has expressed a particular concern for the improvement in ASEAN countries' domestic regulations and their application in the construction sector, in particular.
6. The Japanese side has stated that for Japan, the liberalization (the reduction and elimination of tariffs) of her agricultural sector is difficult because of the importance of food security and the negative impact of structural reforms in the domestic agricultural, forestry and fisheries industries.

Focus on the Proposed Japan-Philippines Economic Partnership Agreement

The Philippines is currently exploring the feasibility of establishing an economic partnership agreement with Japan (JPEPA). In this regard, a preparatory and informal consultative meeting was held between the Philippines and Japan in Tokyo on 14 August 2002.⁶⁸ A result of this meeting was the creation of a working group on the JPEPA⁶⁹

In December 2002, during President Arroyo's visit to Japan, she said "it would be beneficial for both countries that Japan accepts young Filipino nurses and care-givers since Japan is an aging society." Japan expressed difficulties on the proposal: Filipino nurses might replace Japanese nurses and the idea is not practical because of the language problem. In early 2003, the President expressed hope that Japanese senior citizens would come to the Philippines and avail of the services of Filipino caregivers.⁷⁰

During an unofficial meeting for the purpose of discussing Philippines-Japan economic partnership in April 2003, the Philippine side proposed the establishment of schools where Filipino nurses who can be sent to Japan can study Nihongo. The *Asahi Shimbun* notes the rationality of this proposal, as it comments that it is obvious that some Japanese cities seriously lack nurses. The demand for nurses in Tottori Prefecture was about three times larger than the number of nurses who looked for jobs even during the recession. The prefecture lacked about 400 nurses in 2002. However, the Association of Japanese Nurses objects to the idea. "There would be enough Japanese nurses if the working condition were better. It is not right for the Philippines, whose level of medical quality is not high to send nurses to Japan," the representatives said. On this, Philippine Ambassador Domingo Siazon commented that Japan cannot afford to waste time to solve the problem of lack of nurses, in the face of the increasing population of old people who need care.⁷¹

Where is the Philippines in Japan's Plan?

Based on the proceeding discussion of Japan's foreign policy goals vis-à-vis liberalization and foreign trade agreements, the Philippines has a place in Japan's plan because of the following reasons/factors:

1. The Philippine interest in sending nurses and/or care-givers to Japan responds to one of the suggested solutions to the problems of increasing number of senior citizens: to allow entry of foreign nurses.

2. If Filipino nurses/care-givers learn Nihongo so that they can communicate with Japanese senior citizens, this will fit nicely in Japan's cultural aim of spreading the use of Nihongo.
3. Even if Filipino nurses do not learn Nihongo, as long as they can speak good English, this would still fit in Japan's goal of further internationalization by inviting foreign investors, professors, and students. The foreign community, which, it is hoped, would increase in number, would need English speaking nurses.⁷²
4. It has been stressed, however, that Filipino nurses/care-givers' qualifications should meet Japanese high standard.⁷³
5. Filipino expertise in IT also fits in Japan's goal of improving its IT. Japan would rather get Filipino IT professionals and professionals in other fields, rather than other Southeast Asian countries.⁷⁴
6. Neither Japan nor the Philippines expects much improvement in trade relations and increase of Japanese investments in the Philippines, because majority of Japanese companies in the Philippines are in the economic zones, where they enjoy many privileges even without an FTA.
7. Even for some companies in the economic zones, however, there are areas of improvement. Some of them are mentioned in a survey done by the JCCI Tokyo. (See appendix)

If the Philippines, however, desires to improve its export of agricultural products to Japan through the proposed JPEPA, it might face a tough negotiating process with the Japanese government.

Even though the JMOFA, the JMETI, and majority of Japanese intellectuals have expressed openness on liberalizing the Japanese agricultural sector, the JMAFF has remained adamantly against it. The conclusion of JSEPA without FTA on agricultural items and the difficulty being faced by Korea and Mexico in having Japan include agricultural items in the proposed FTAs with them indicate that in the rivalry between the JMOFA and JMETI on one side and the JMAFF on the other, the latter has been winning. In fact, it seems to have scored another victory in the recent Cancun Conference, where it sent a delegation larger than the delegations sent by JMOFA and JMETI. The Cancun Conference broke down in the face of the continued protectionist stand of developed countries.

Impact on Japan and the Philippines

A. Gains and losses for the Philippines

1. If a considerable number of nurses/care-givers and IT workers are accepted in Japan, this will certainly alleviate the unemployment problem in the country. There

are disadvantages that may accompany or result from this, however, such as possible shortage of nurses and IT workers in the Philippines. Between these two types of workers, the exodus of IT workers to Japan and out of the Philippines might prove more disadvantageous for the Philippines, for while relatives may take care of the country's sick or old people, the expertise of IT workers cannot be replaced by just anyone without training.

2. The Japanese government has expressed willingness to use ODA for the teaching of Nihongo and training of IT workers and nurses/caregivers. This will remove from the Philippines the financial burden necessary to build language and training schools and hire teachers. However, there is an accompanying loss that the Philippines might bear. ODA that would be put into this would be taken from ODA that otherwise could have been used for more urgent projects directly related to poverty alleviation: creation of employment in the Philippines, improvement of health and sanitary conditions, etc.
 3. Filipino trainees will acquire Japanese language proficiency; skill in any foreign language is always a plus. On the other hand, learning Nihongo might prove a waste in terms of time, effort, and money invested, if they are not actually able to work in Japan.
 4. Japanese strict standard for agricultural imports and foreign workers is a challenge for the Philippines, and a gain, if the challenge is met.
- B. Gains for Japan (There are no perceived loss)
1. The Japanese government has consistently exerted efforts towards a wider use of Nihongo, but to date, it has not beaten the popularity of Spanish and French among Filipino students. The prospect of working in Japan as an IT expert, a nurse, or a caregiver may be a motivation for a greater number of Filipinos to learn Nihongo.
 2. By hiring Filipino IT experts Japan will improve its IT at a much lower labor cost.
 3. Conclusion of FTA with the Philippines will enhance Japan's international image. It is already presenting the JSEPA as proof that Japan is not that closed as commonly perceived. One more economic partnership agreement, whether it be with the Philippines or any country will augment this image. Moreover, if English speaking Filipino IT workers, nurses, and caregivers are actually accepted in Japan, they will increase the foreign population of Japan. The Japanese government can point to this as proof that Japan is "internationalizing."
 4. If more Filipinos are allowed to enter Japan, there may be wider spread of Japanese culture, for Filipinos tend to bring to the Philippines cultural influences of the country where they stay for a considerable period of time.

Recommendations

- A. The Philippines should wait until the Japan-Mexico EPA is finally concluded, and see how agricultural products are treated in the agreement.
- B. The Philippines should negotiate for ODA that can be used to make Philippine agricultural products pass Japanese non-tariff barriers.
- C. The Philippines should negotiate for an arrangement wherein nurses/care-givers will be given training in the Japanese language only when they have been accepted to work in Japan. This would necessitate taking the licensure examination in English, with a proviso that passing it would enable them to actually work in Japan only if they have proven Japanese language proficiency. It is not necessary to take this precaution in the case of IT workers because Japan is more keen in hiring them, and they can easily qualify in the immigration categories of the Japanese government.
- D. The Philippine Government should see to it that non-government sectors (recruiters, investors) do not go ahead recruiting Filipino nurses/caregivers before the Japanese government has decided to issue visas for this category. Otherwise, the situation might be a reprise of the present *de facto* situation wherein there are thousands of unskilled Filipino workers in Japan, in the face of the official Japanese policy of not allowing the entry of unskilled workers, except those foreigners of Japanese descent. Worse, illegal recruitment of nurses/caregivers in the absence of an official policy of allowing them might result in the illegal practice of issuing entertainment visas for those who are in reality doing a more respectable job (at least in the context of Japanese “entertainment” world) of nursing and care-giving. This would indeed be a further deterioration from an earlier situation wherein “entertainers” could present a more respectable front by carrying tourist visas, to a situation wherein respectable nurses and caregivers would be hiding in the less respectable document of entertainment visa.
- E. The Philippines should also begin talks for bilateral EPAs with its other trading partners. This would be a good balancing strategy with Japanese negotiators.
- F. The Philippines should closely observe movements of other Southeast Asian countries towards EPAs, so as to avoid isolation, and with the end in view of preserving harmonious relationship with them, especially its fellow ASEAN members.

APPENDIX

Summary of answers gathered in a survey on JPEPA by the Tokyo Japanese Chamber of Commerce and Industry (summary is dated January 29, 2003)

The member companies were asked to give comments on 27 items: (1) foreign investment rules, (2) investment rules, (3) import rules, (4) tariff (including added value), (5) non-tariff rules, (6) customs procedures, (7) activity rule in free trade and /or economic zones, (8) profit collection, (9) exchange rate control, (10) finance, (11) tax system, (12). price regulation, (13) labor, (14) movement of persons, (15) intellectual property rights, (16) mutual recognition, (17) competition policy, (18) real estate regulation, (19) environmental pollution, (20) administrative procedure, (21) transparency of legal system, (22) government procurement, (23) judicial system, (24) service trade, (25) information structure, (26) cooperation (computerize trade transactions, SME cooperation, human resource development, etc), (27) others.

It is interesting to note that there are no comments on activity rules in free trade zones and economic zones, exchange rate control, finance, tax system, price regulation, and environmental pollution.

Five companies gave four comments on liberalization:

1. Smuggled goods cause confusion in the prices of goods in the market. Since smuggling is rampant, market competition is not fair. This is the reason why Japanese companies do not want to export products that target the local market.
2. It is necessary to make clear that it is not only the abolition of tariffs which is important, but also the abolition of non-tariff barriers.
3. (Complaint about postponement of AFTA decision to reduce tariff on refrigerators without prior notice)
4. (Company is still not competitive. Tariff may be abolished gradually.)

Five companies commented on investment environment:

1. The Philippine Government should honor commitments of the BOT and BOI, even if there is a change of administration. A legal system should be set up that will protect contracts from one-sided changes. Example: PIATCO (NAIA 3) and Manila Water.
2. Liberalization of investments on retail, storage, and transportation. Japanese investors can greatly contribute to the improvement of these key areas of industry, which in turn, will attract more foreign investments.
3. Japan and the Philippines should find a way to solve quickly problems related to poor investment environment (poor security, inadequate infrastructure, labor

disputes, corruption, inefficiency). Japanese companies have submitted requests to the Philippine government, but the reaction is slow. It is necessary to have meetings about four times a year only to follow up.

4. The Constitutional provision against foreign ownership of land is a big barrier to investment in real estate development.
5. We request revision of the constitutional provision against foreign ownership of land.

Five companies commented on the movement of natural persons:

1. Positive attitude towards entry of Filipino nurses is important because as the society grows old, nursing service, which has low added value, may become expensive and beyond the reach of many. Twenty to thirty years hence there may be an acute shortage of nurses. On the other hand, even if the Philippine economy grows by 5% a year, GNP may remain around 2000 dollars only in thirty years, since the population growth is 2 to 3%. The average income in the Philippines thirty years from now will be just the same as that of present Thailand. It is also possible that China will have a higher GNP. If we consider the low income average in the Philippines and the hospitable personality of Filipinos, they are the most suitable among Southeast Asians for the nursing industry. In the long perspective, sending of Philippine nurses to Japan and of Japanese senior citizens to the Philippines may serve mutual interests. Priority should be given to this area in the negotiation for FTA.

Suggestion: Introduction of foreign nurses should be carefully planned since a homogenous society like Japan may initially feel uncomfortable with foreign nurses. It may be good to introduce them first to senior citizens who have no problems communicating in English. Japan should support (with money and human resources) the establishment of schools in the Philippines where nurses who can speak Japanese can be trained.

The concern about sending Japanese senior citizens to the Philippines is security. The present situation is not so bad for Japanese who somehow know the Philippines, but the two governments should seriously discuss the matter, in case many who has never been to the Philippines.

2. Simplification of visa procedure for those entering Japan for business purposes is being requested. Now, applicants have to go to the Japanese Embassy twice and wait for more than two hours (representatives are often not allowed. There must be a way to verify quickly passports and other documents.

3. Considering the present situation, Japanese nurses will not be enough. Philippine nurses who understand Nihongo and are trained in Japanese nursing system should be accepted.
4. There may be no more development in the FTA talks if Japan hesitates to accept Philippine nurses. Therefore, the proposal of the Japan-Philippine Economy Committee will be useless if it fails to mention this area.

Considering the government's stand on this, it seems impossible to fully accept foreign nurses and doctors. However, it is possible to find a compromise, such as (1) making special zones in Japan for foreign nurses and doctors. If this is not possible in Japan, it may be established in the Philippines. We can invite speakers from the medical field in our meetings to explain that the Philippines-Japan medical situations are complementary. (2) Limit the number of foreign nurses entering Japan. (3) Accept foreign nurses only in areas where there is shortage of nurses.

Four companies gave comments on customs procedure:

1. Especially for companies which are not in EPZA, there is a need to simplify and make smooth the customs procedure.
2. As tariffs are reduced, importation of finished products increases. Products should reach the market quickly to catch up with the fluctuating demands. Therefore, it is greatly necessary to simplify and make smooth the customs procedure. It is necessary to remove the gap between administrative rules and the actual implementation. Cases of bribery are also problematic.

Four companies gave comments regarding human resource development

1. Japanese government should support Japanese language education since it provides able IT workers to Japan.
2. Exchange of government employees is necessary to help abolish corruption.

Three companies commented on cooperation about trade promotion:

1. Aside from improving customs procedure and computerization of trade transactions, opinions of businessmen should be sought.
2. I think the foremost interest of the Philippines is to invite investments for industrialization and to obtain foreign currency through exports. It also wants to promote tourism, but because of peace and order situation, Japanese do not come. It is important to help the Philippines in these areas.

Three companies gave comments on small and medium enterprise:

1. It is important to cultivate an environment for Japanese SME technology and cooperation from the Philippines: tax incentives and support for funds.
2. It is urgent to develop support industries.

Two companies responded on the item “Others”:

1. Simplification of procedure for speedy sending of profits.
2. Technological and financial cooperation in promoting trade and investments should be included in the CEP. Both hardware and software aspects of infrastructure should also be included.

The following comments were mentioned only once:

1. Regarding origin of goods, cases where goods from a third country are classified as coming from Japan should be avoided.
2. The two countries cooperate in computerizing trade transactions.
3. Since only local companies are permitted to do business in domestic sea transportation, an abnormal situation exists where local transportation is as expensive as transportation between Japan and Manila. Domestic sea transportation should be liberalized in order to lower transportation cost. Domestic land transportation should also be liberalized.
4. It is possible for Japan to take an initiative to improve the patent procedure in the Philippines and to make it similar to Japan's.
5. The present government procurement system benefits Philippine companies, but not the consumers. Consumers may be better served if this will be liberalized. It is necessary to stop corruption and to set up a transparent system of procuring goods and services for the government.

Endnotes

¹ Hatakeyama, Part 1, pp. 3-5

² Hatakeyama, Part 1, pp. 3-5

³ Naoko Munakata, p. 17

⁴ Naoko Munata, pp. 13-19. The result was published in May 2000: Institute of Developing Economies, Japan External Trade organization and Korea Institute of International Economic Policy, "Towards Closer Japan-Korea Economic Relations: Proposal for Formulating a 21st Century Partnership (Joint communique)," May 23, 2000 (<http://www.ide.go.jp/English/Lecture/pressmenu/pressE00060601.PDF>)

⁵ Naoko Munakata, p. 16

⁶ Naoko Munakata, p. 16

⁷ Naoko Munakata, p. 16

⁸ The Chilean Government had proposed an FTA with Japan in 1999, but negotiations are not expected to begin until an FTA with Mexico, expected to be Japan's first FTA that would not exclude agriculture, is concluded. (*Japan Watch*, 22 January 2003, p. 1

⁹ *Asahi Shimbun*, 16 June 2003

¹⁰ *Asia Times*, 26 January 2001, p. 2. <http://www.atimes.com/reports>, viewed on 18 May 2003. The Japanese Ministry of Economy, Trade and Industry (METI) PDF does not mention the involvement of Keidanren. www.mofa.go.jp, viewed on 2 July 2003

¹¹ *Asia Times*, 26 January 2001, p. 1. <http://www.atimes.com/reports>, viewed on 18 May 2003

¹² METI PDF . www.mofa.go.jp, viewed on 2 July 2003.

¹³ Naoko Munakata, pp. 24-26.

¹⁴ *Asia Times*, 26 January 2001, pp. 2 -- 3. <http://www.atimes.com/reports>, viewed on 18 May 2003

¹⁵ Naoko Munakata, pp. 24-26; Eguchi Masato, "JSEPA and Future Trade Policy," *Journal of Japanese Trade and Industry*, January- February 2001, pp. 4 - 5. <http://www.jef.or.jp>, viewed on 21 May 2003

¹⁶ Naoko Munakata, pp. 24-26

¹⁷ *Asia Times*, 15 January 2002, p. 2, <http://www.atimes.com/japan>, viewed on 18 May 2003

¹⁸ Naoko Munakata, pp. 24-26

¹⁹ "Japan's FTA Strategy (Summary)," Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 1. www.mofa.go.jp, viewed on 1 July 2003.

²⁰ "Japan's FTA Strategy (summary)," Economic Affairs Bureau, October 2002, pp.2- 3. [www. Mofa.go.jp](http://www.mofa.go.jp), viewed on 1 July 2003

²¹ Joint Report of the ASEAN-Japan Closer Economic Partnership Expert Group (AJCEPEG). <http://www.aseansec.org>. viewed on 20 May 2003. "Japan's FTA Strategy (summary)" Economic Affairs Bureau, October 2002. P. 3. [www. Mofa.go.jp](http://www.mofa.go.jp), viewed on 1 July 2003

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- ²² Joint Report of the ASEAN-Japan Closer Economic Partnership Expert Group (AJCEPEG). <http://www.aseansec.org>. viewed on 20 May 2003.
- ²³ “Japan’s FTA Strategy (summary),” Economic Affairs Bureau, October 2002, p. 3. www.mofa.go.jp, viewed on 1 July 2003
- ²⁴ Joint Report of the ASEAN-Japan Closer Economic Partnership Expert Group (AJCEPEG). <http://www.aseansec.org>. viewed on 20 May 2003.
- ²⁵ Joint Report of the ASEAN-Japan Closer Economic Partnership Expert Group (AJCEPEG). <http://www.aseansec.org>. viewed on 20 May 2003.
- ²⁶ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 2. www.mofa.go.jp, viewed on 1 July 2003.
- ²⁷ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 2. www.mofa.go.jp, viewed on 1 July 2003.
- ²⁸ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 2. www.mofa.go.jp, viewed on 1 July 2003.
- ²⁹ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 2. www.mofa.go.jp, viewed on 1 July 2003.
- ³⁰ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 4. www.mofa.go.jp, viewed on 1 July 2003.
- ³¹ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 4. www.mofa.go.jp, viewed on 1 July 2003.
- ³² “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 4. www.mofa.go.jp, viewed on 1 July 2003.
- ³³ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 4. www.mofa.go.jp, viewed on 1 July 2003.
- ³⁴ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 4. www.mofa.go.jp, viewed on 1 July 2003.
- ³⁵ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 4. www.mofa.go.jp, viewed on 1 July 2003.
- ³⁶ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 4. www.mofa.go.jp, viewed on 1 July 2003.
- ³⁷ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 4. www.mofa.go.jp, viewed on 1 July 2003.

³⁸ “Japan’s FTA Strategy (Summary),” Economic Affairs Bureau, Ministry of Foreign Affairs, October 2002, p. 4. www.mofa.go.jp, viewed on 1 July 2003.

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⁴⁰ JMETI Website

⁴¹ JMETI Website

⁴² MAFF (2003 June): Various FTAs and How Japan Should React

⁴³ Urata Shujiro, “Formation of Economic Partnership Agreements,” *Journal of Japanese Trade and Industry*, Jan/Feb. 2003. www.jef.or.jp/en/jti/200301_005.html, p. 4

⁴⁴ Urata Shujiro, “Formation of Economic Partnership Agreements,” *Journal of Japanese Trade and Industry*, Jan/Feb. 2003. www.jef.or.jp/en/jti/200301_005.html, pp. 4 – 5.

⁴⁵ Urata Shujiro, “Formation of Economic Partnership Agreements,” *Journal of Japanese Trade and Industry*, Jan/Feb. 2003. www.jef.or.jp/en/jti/200301_005.html, p. 5.

⁴⁶ Urata Shujiro, “Formation of Economic Partnership Agreements,” *Journal of Japanese Trade and Industry*, Jan/Feb. 2003. www.jef.or.jp/en/jti/200301_005.html, p. 5.

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⁴⁸ Urata Shujiro, “Formation of Economic Partnership Agreements,” *Journal of Japanese Trade and Industry*, Jan/Feb. 2003. www.jef.or.jp/en/jti/200301_005.html, p. 6.

⁴⁹ Urata Shujiro, “Formation of Economic Partnership Agreements,” *Journal of Japanese Trade and Industry*, Jan/Feb. 2003. www.jef.or.jp/en/jti/200301_005.html, p. 8.

⁵⁰ Urata Shujiro, “Formation of Economic Partnership Agreements,” *Journal of Japanese Trade and Industry*, Jan/Feb. 2003. www.jef.or.jp/en/jti/200301_005.html, p. 8.

⁵¹ Urata Shujiro, “Formation of Economic Partnership Agreements,” *Journal of Japanese Trade and Industry*, Jan/Feb. 2003. www.jef.or.jp/en/jti/200301_005.html, p. 9.

⁵² “Japan’s Goals in the 21st Century: The Frontier within: Individual empowerment and Better governance in the New Millenium,” http://www.kantei.go.jp/jp21_century/report/htmls/1preface.html, p. 2, viewed on 21 May 2003.

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⁵⁷ “Japan’s Goals in the 21st Century: The Frontier within: Individual empowerment and Better governance in the New Millenium,” http://www.kantei.go.jp/jp21_century/report/htmls/2chap1.html,p. 12, viewed on 21 May 2003.

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⁶⁹ The Ministry of Foreign Affairs of Japan, “Joint Statement on the Japan-Philippines Economic Partnership,” www.mofa.go.jp/region/asia-paci/philippine/pv0212/economy.html

⁷⁰ Asahi Shimbun, 20 May 2003, p. 6.

⁷¹ Asahi Shimbun, 22 June 2003, p. 5

⁷² Conversation with JCCI (Manila) Undersecretary, NEDA Building, Makati City, 29 August 2003

⁷³ Interview with Japan Foundation Director and JICA's Takisawa

⁷⁴ Gwendolyn Tecson; Questionnaire response of Saito Kensuke.