

Toward Sustainable Growth in the Asia-Pacific Region (Summary)

– Japan's Responsibilities as Host Country for APEC 2010 –

June 15, 2010

Nippon Keidanren

1. The Asia-Pacific Region Today

(1) Position in world economy: Major economic region where sustainable growth is expected

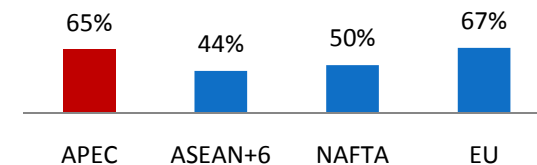
- The Asia-Pacific region is a major economic zone accounting for 54% of world GDP, 52% of global trade by value, and 41% of the world population. The regional economy is still relatively robust even after the financial and economic crisis.
- Sustainable growth in the Asia-Pacific region is essential to sustainable growth of the Japanese and global economies.



(2) Regional characteristics: Diversity and high level of complementarity

- Comprises countries and regions at diverse stages of development: Differences of up to 44-fold in economic development and 1,740-fold in economic scale. => Diversity
- Coexistence of resource-producing and resource-consuming countries, and importers/exporters of industrial goods. High level of intra-regional trade (approx. 65%). => High complementarity

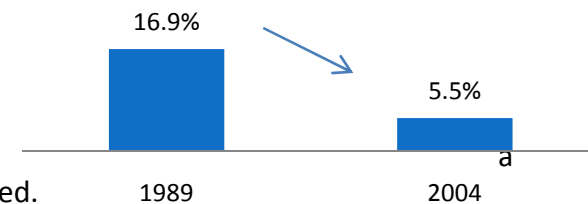
Comparison of Intra-Regional Trade (2008)



(3) Framework for Regional Economic Cooperation

- APEC has provided a forum for cooperation focusing on liberalization and facilitation of trade and investment. => Results include reduction of average applied tariffs from 16.9% to 5.5%(2004). (The final report evaluating progress toward the Bogor goals due to be compiled this year is expected to include 2008 average applied tariff figures.)
- Amid growing expectations for greater cooperation centred on APEC, vision for future activities of APEC looking ahead over the next 20 years is required.

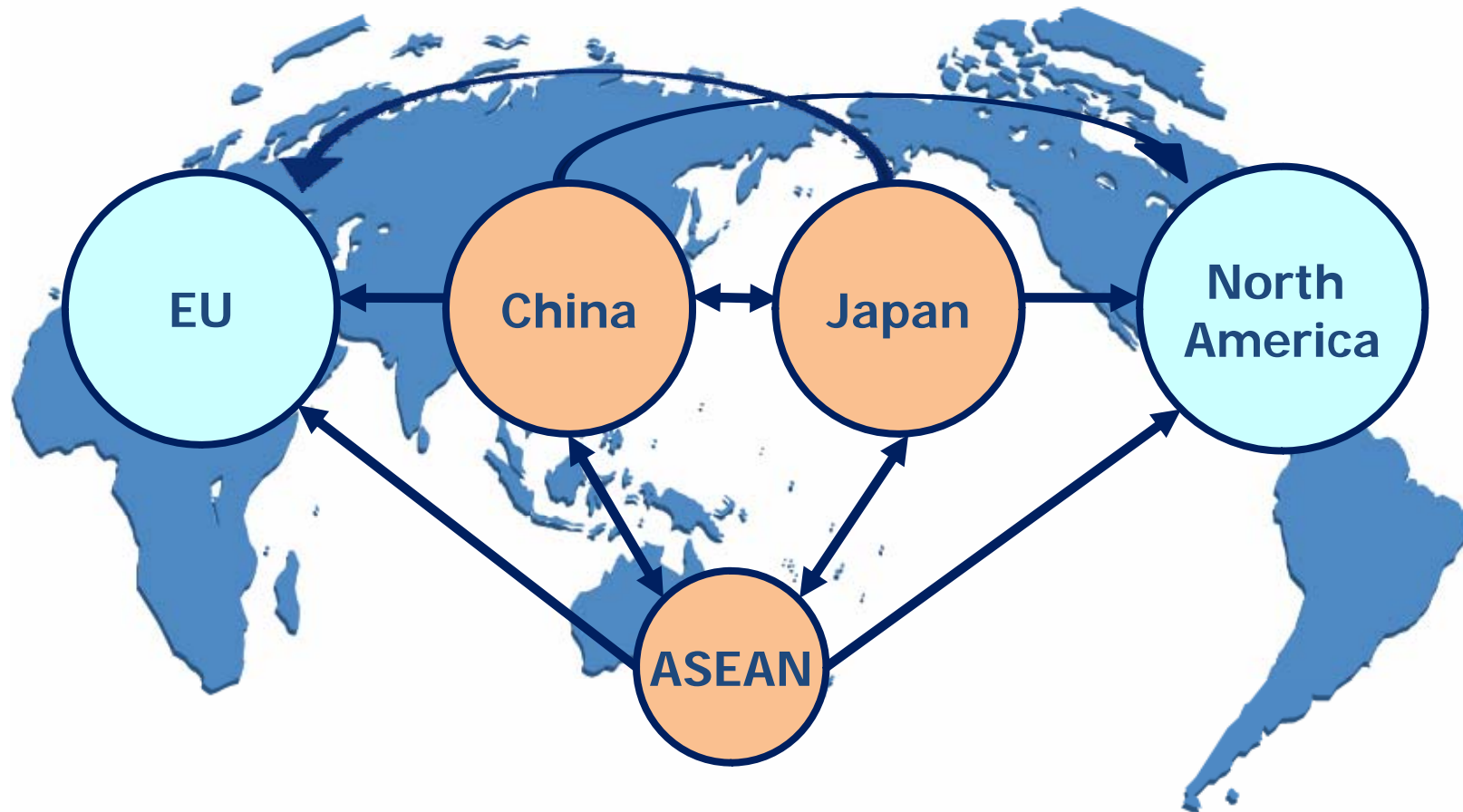
Average Applied Tariffs within APEC



2. The Significance of the Asia-Pacific Region for Japanese Companies

(1) Current state of business in the region: Supply chains extending beyond Asia

- Japanese enterprises' global supply chains extend beyond Asia to include Europe and North America as areas of final consumption.
- Ensuring connectivity with the U.S. is especially vital, since it is the world's largest economy (taking the highest proportion of intra-regional exports: 27%).

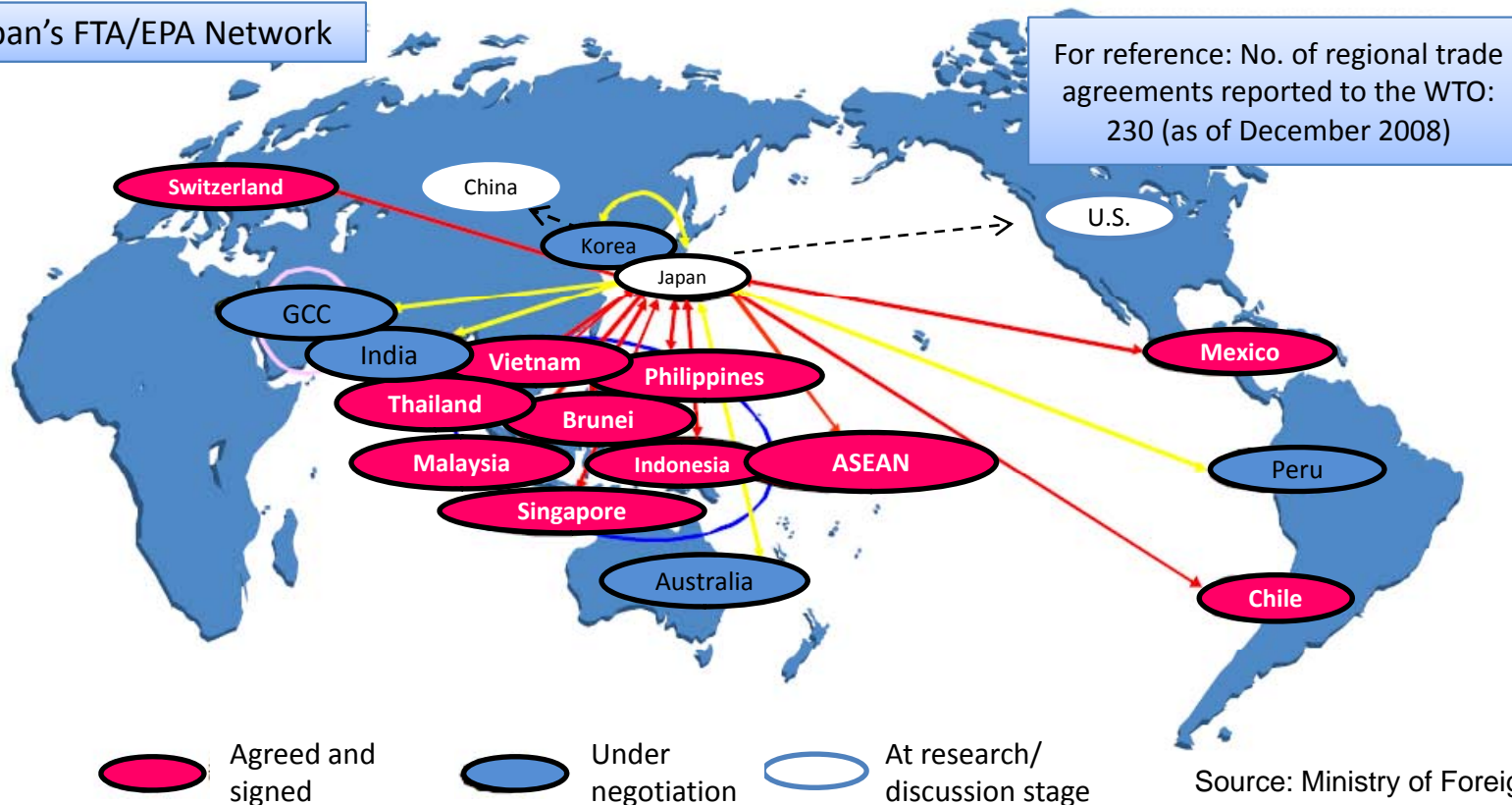


2. The Significance of the Asia-Pacific Region for Japanese Companies

(2) Current status of trade systems: Lack of infrastructure covering the entire region

- Although numerous FTAs exist in the Asia-Pacific region, there is still a lack of systematic trade infrastructure covering the region as a whole.
- Japan's FTA/EPA network so far is basically confined to Asia. A Japan-China-Korea FTA, ASEAN+6, and other broader economic partnerships are still at the research and discussion phase. No progress is being made on a framework that includes the U.S.

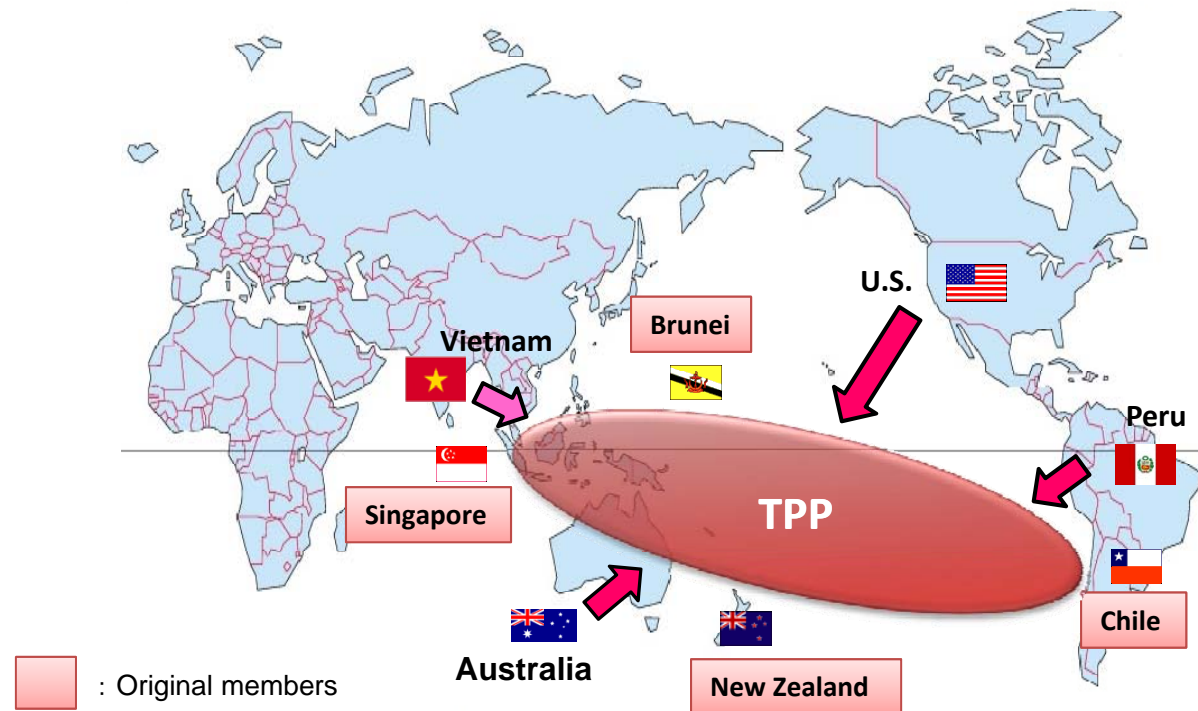
Japan's FTA/EPA Network



2. The Significance of the Asia-Pacific Region for Japanese Companies

(2) Current status of trade systems: Lack of infrastructure covering the entire region

- The U.S. regards the Trans-Pacific Partnership Agreement (TPP)* as a key step toward achieving a Free Trade Area of the Asia-Pacific (FTAAP), and is participating in negotiations.



*TPP Trans-Pacific Partnership (TPP) Agreement : An economic partnership agreement signed by Singapore, New Zealand, Chile, and Brunei that came into effect in 2006. In November 2009 President Obama announced in a speech in Tokyo that the U.S. would engage with the TPP. The first round of negotiations for a wider agreement was held in March 2010, with eight countries participating (the U.S., Australia, Peru, and Vietnam in addition to the original members Singapore, New Zealand, Chile, and Brunei).

3. Strategy for Achieving Sustainable Growth

(1) Need for growth strategy: Harness regional strengths and promote economic integration

Core strategy:

Utilize strengths of diversity/complementarity and existing FTAs to promote regional economic integration which will serve as trade system infrastructure covering the Asia-Pacific region as a whole.



At the same time, there is a need to build economic, industrial, and social infrastructure within the region and create a secure environment for economic activity.



3. Strategy for Achieving Sustainable Growth

(2) Pathways to regional economic integration (building FTAAP by 2020)

(a) Form cores for economic integration by 2015 (ASEAN+6, TPP, etc.)

Need to work toward broader economic integration (e.g., FTAAP) by forming ASEAN+6, TPP, and other cores for such integration with a target date of 2015 (completion year for AFTA)

(i) Advance economic integration centred on ASEAN

- Japan-China-Korea FTA
(swiftly open negotiations prior to completion of joint study in 2012 and reach agreement by 2015 at the latest)
- Japan-Korea EPA (recommence negotiations without delay and reach early agreement)

↳ Enable completion of **ASEAN+3** in conjunction with AFTA completion (2015)

- Japan-India EPA (reach agreement within 2010)
- Japan-Australia EPA (reach agreement by completion of Japan-China-Korea FTA joint study in 2012)

↳ Pave the way for **ASEAN+6** (completion by 2015)

(ii) Expand economic integration throughout the Pacific Rim

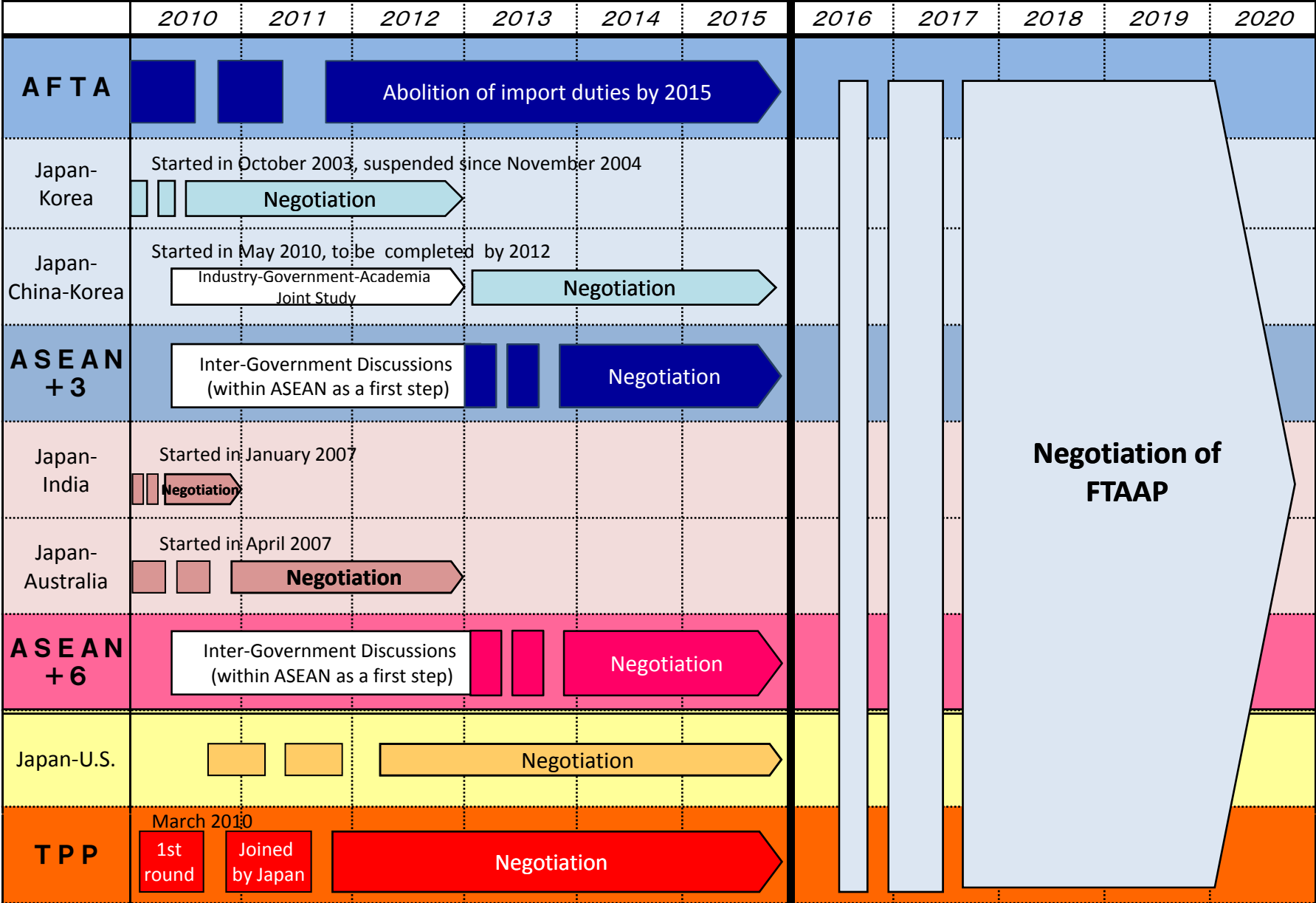
- Economic links to build bridges with the U.S.
Sign Japan-U.S. EPA, participate in TPP (completion by 2015)

↳ Complete **TPP** to form a large core for economic integration alongside ASEAN+6, etc.

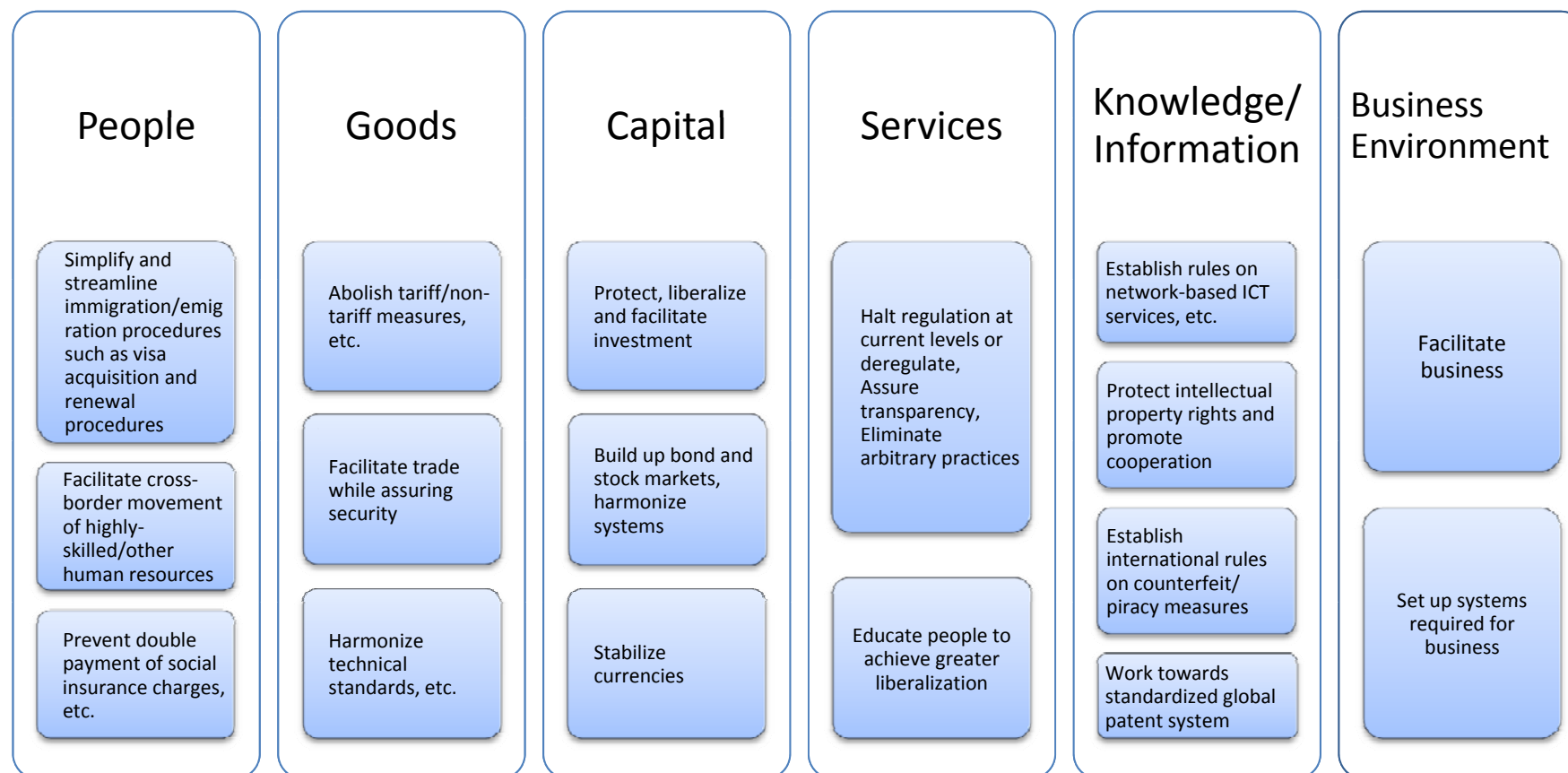
(b) Aim for high level of liberalization across a broad range of economic activity

- In order for Japan to take the lead in implementing a growth strategy with regional economic integration at its core, Japan must contribute to creating a comprehensive, sophisticated framework that aims for a high level of liberalization across a broad range of economic activity.
- In promoting the forms of cooperation set out in section 4 below, Japan must boldly review systems and rules applying both internally and at its borders, and allow no areas to be declared “off-limits” for reform.

Broadening of EPA/FTA Network toward Economic Integration throughout the Asia-Pacific Region
-Pathways to Achieving FTAAP-



4. Cooperative Efforts Aimed at Achieving Regional Economic Integration



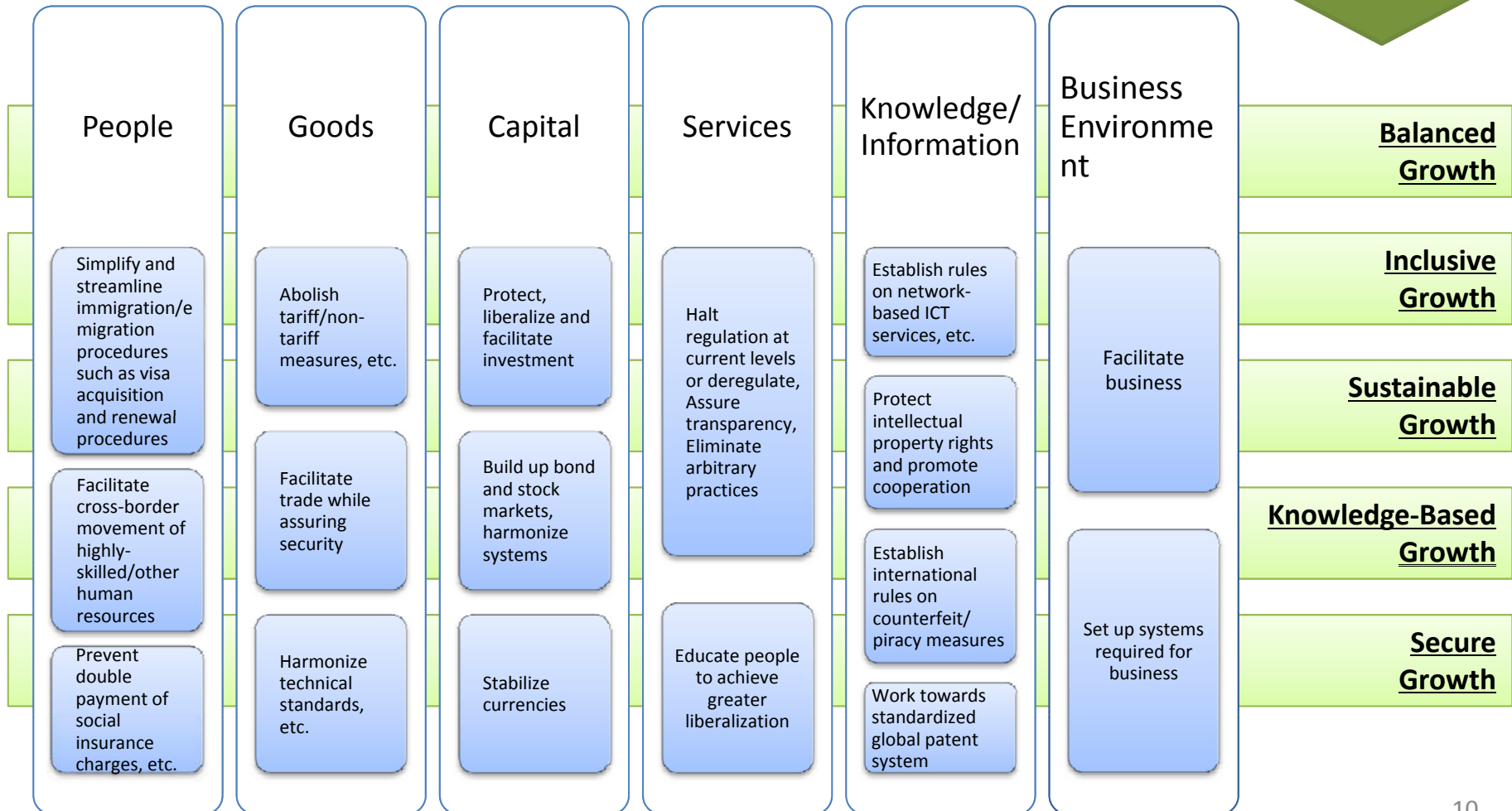
Other issues to be addressed:

- **Build economic, industrial, and social infrastructure**
(construction of tangible infrastructure, support for SMEs, vocational training, construction of healthcare safety nets, etc.)
- **Cooperate to ensure economic activities can be carried out securely**
(measures to deal with terrorism, disasters, infectious diseases, etc.)
- **Work to ensure that environmental and energy issues do not restrict growth**
(global warming countermeasures, energy conservation, waste recycling, preservation of biodiversity, energy security, etc.)

【APEC Discussions and Cooperation to Achieve Regional Economic Integration】

Direction for cooperation to achieve regional economic integration (FTAAP)

Five pillars of APEC growth strategy



5. APEC as a Forum for Cooperation

- Having been active in the region for 20 years, APEC is the most appropriate forum for actually advancing a growth strategy with regional economic integration at its core.
- There is a need to reassess APEC's activities from the perspective of promoting regional economic integration and take a more unified and strategic approach. As this year's host country, we expect Japan to take the initiative.

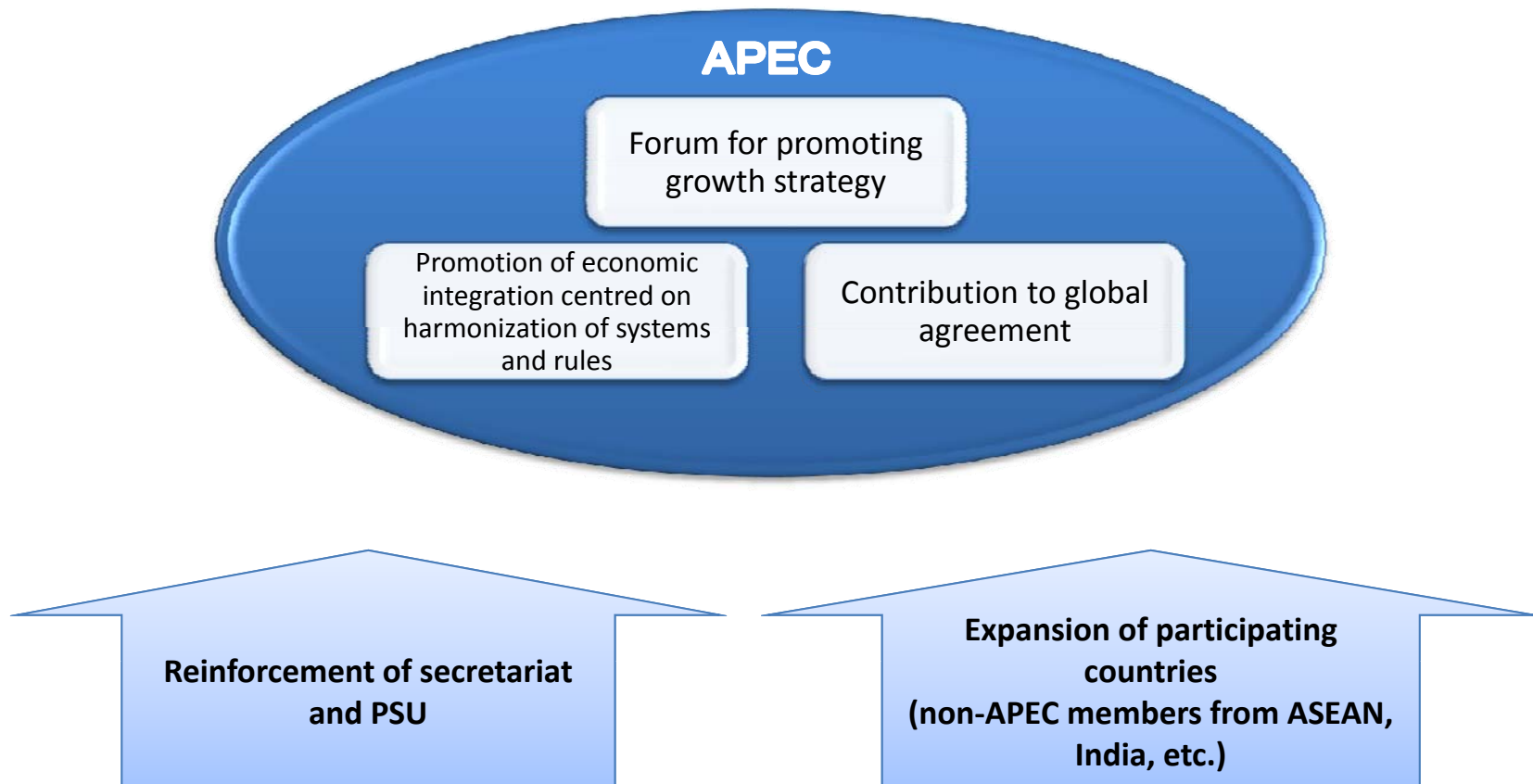
(1) Expected role and function of APEC

- (a) Promote economic integration centred on harmonization of systems and rules (Post-Bogor)
- (b) Contribute to global agreement (Utilize APEC's non-binding nature)

(2) Improve organization and expand participating countries

- (a) Reinforce secretariat and Policy Support Unit (PSU)
- (b) Establish mechanisms for improving business environment (Frameworks for submitting ongoing requests for improvements and promoting public-private sector discussion/dialogue)
- (c) Expand participating countries (Encourage engagement with and participation in APEC by non-APEC members from ASEAN, India and other countries wishing to take part)

【Expected Role and Function of APEC/Improvement of Organization and Expansion of Participating Countries】 (Image)



6. Expectation for Japan's Economic Diplomacy

- Japan should strategically utilize regional cooperation, multilateral negotiations, bilateral agreements, and ODA in a multi-layered approach to resolve the issues faced by its companies.
- For large-scale overseas projects, it is effective to propose comprehensive systems comprising facilities, equipment, and top-level technology and expertise. Close public-private sector partnerships, backed by political leadership, are essential to such initiatives.