



## **TRADE POLICY DEVELOPMENTS PAPER NO. 19**

### **REPORT ON JAPAN**

**(for the period January – March 2012)**

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## **List of Abbreviations**

ACTA- Anti-Counterfeiting Trade Agreement

AD- Antidumping

AJA- Association of Japanese Animations

AMA- Anti-Monopoly Act

APP- Asia-Pacific Partnership on Clean Development and Climate

ASEAN- Association of South East Asian Nations

Bn- Billion

BOJ- Bank of Japan

CEM- Clean Energy Ministerial

CEPEA- Comprehensive Economic Partnership in East Asia

CEPEA- Comprehensive Economic Partnership in East Asia

CV- Countervailing

CVD- Countervailing Duty

DFC- Dedicated Freight Corridor

DI- Diffusion index

DMIC- Delhi-Mumbai Industrial Corridor

EAFTA- East Asian Free Trade Agreement

EPA- Economic Partnership Agreement

ERIA- Economic Research Institute for ASEAN

ESCI- Energy-Smart Communities Initiative

EU- European Union

FDI- Foreign Direct Investment

FIT: feed-in tariff

FTA- Free Trade Agreement

FY- Financial Year

GATT- General Agreement on Tariff and Trade

GSEP- Global Superior Energy Performance Partnership

ICT- Information and Communication Technologies

IPEEC- International Partnership for Energy Efficiency Cooperation

IPR- Intellectual Property Rights

JETRO- Japan External Trade Organization

JFTC- Japan Free Trade Commission

JPEPA- Japan Philippines Economic Partnership Agreement

JVA- Japan Video Software Association

KWh- Kilo Watt hour

M & A- Mergers and Acquisitions

METI- Ministry of Economy, Trade, and Industry

MLIT- Ministry of Land, Infrastructure, Transport and Tourism

MoF- Ministry of Finance

MPA- Metropolitan Priority Area for Investment and Industry

MW- Mega Watts

ODA- Official Development Assistance

ONEP- Office National de l'Eau Potable

PM- Prime Minister

PPP- Public-Private Partnership

R&D- Research and Development

ROK- Republic of Korea

SME- Small and Medium Enterprise

SMEA- Small and Medium Enterprise Agency

TEPCO- Tokyo Electric Power Company

TICAD- Tokyo International Conference on African Development

TPP- Trans-Pacific Partnership

US- United States

USD- US Dollar

## EXECUTIVE SUMMARY

- The economic development in Japan has been picking up during the review quarter and future predictions for 2012 include expansion of industrial production and Japan's export base.
- Japan has raised concerns before the DG of WTO concerning other countries' continuing import and export restrictions on Japanese goods post nuclear accident in Japan. The DG agreed to provide all support to Japan in this regard.
- Japan concluded trade meetings and negotiations with several developing and developed countries including countries from the Middle East. Energy dialogues were successfully concluded with UK, France, Abu-Dhabi and Saudi Arabia.
- Japan was also involved in key international negotiations such as ACTA and TPP. The details of these negotiations and Japan's role have been elaborated in the US review quarter report.
- Aid for trade activities continued with major initiatives taken with countries including: India, Vietnam, Peru, Sri-Lanka etc., during the review quarter.
- The export promotion activities are continuing with an increased momentum from the previous quarters. Japan launched another project titled 'Tokyo Spring' under the Creative Tokyo project.
- Japan continues to support its industries especially SMEs as the supplementary budget entails provisions for subsidies for several projects.
- With respect to intellectual property, the quarter witnessed increased collaboration of JPO with other international offices on one hand, whereas concerns were also raised against Malaysia for certain copyright violations.
- There were however no major developments in the sectoral policies affecting international trade or trade remedies front.

#### **AGENDA FOR FUTURE REPORT**

- The results of consultations raised by Japan against China in the rare earth matter shall be followed up in the future reports.
- The next quarterly report shall examine in depth Japan's initiatives for export promotion.
- The developments in the negotiation of various free trade agreements involving Japan will be closely tracked and reported.
- The next quarterly report will examine the discussions taking place to include Japan in the TPP negotiations
- The next report will briefly examine Japan's compliance with various WTO commitments and the areas where its compliance is less than satisfactory.

## PART I- ECONOMIC OVERVIEW

On March 15, 2012, Bank of Japan published the *Monthly Report of Recent Economic and Financial Developments*.<sup>1</sup>The report revealed that over the early quarters of 2012, Japan's economic activity has remained more or less flat, although it has shown some signs of picking up. Exports and production have not grown, mainly due to the developments in overseas economies and the yen's appreciation. As for domestic demand, business fixed investment has moderately increased aided by the restoration of disaster-stricken facilities. Private consumption has firmed up due in part to the effects of measures to stimulate demand for automobiles. Housing investment has generally been picking up and public investment has stopped declining. Meanwhile, production and public investment have begun to show signs of a possible pick-up in the coming period.

With regard to future outlook, Japan's economy is expected to gradually emerge from the current phase of flat growth and return to a moderate recovery path as the pace of recovery in overseas economies picks up, led by emerging and commodity-exporting economies and reconstruction-related demand after the earthquake disaster gradually strengthens. Exports are expected to increase moderately. Business fixed investment is projected to continue a moderate increasing trend, partly due to efforts by firms to restore and reconstruct disaster-stricken facilities. Housing investment and public investment are expected to increase gradually, mainly due to the materialization of reconstruction-related demand. Private consumption is expected to remain firm as the employment situation gradually heads toward improvement. With these developments in demand both at home and abroad, production is expected to increase moderately.

On the price front, the three-month rate of change in domestic corporate goods prices has been more or less flat. The year-on-year rate of change in consumer prices (all items less fresh food) is currently around 0 percent.<sup>2</sup>

Domestic corporate goods prices are expected to move slightly upward for the time being, mainly reflecting movements in international commodity prices. The year-on-year rate of change in consumer prices is expected to remain at around 0 percent for the time being.

The weighted average of the overnight call rate has been below the 0.1 percent level, and interest rates on term instruments have been more or less unchanged. Meanwhile, compared with last month, stock prices

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<sup>1</sup>Monthly Report of Recent Economic and Financial Developments, March 2012, Bank of Japan, March 15, 2012. At The report is based on data and information available at the time of the Bank of Japan Monetary Policy Meeting held on March 12 and 13, 2012.

<sup>2</sup>*Ibid*

have risen, while the value of the yen against the U.S. dollar has fallen. Long-term interest rates have remained at more or less the same level as last month.<sup>3</sup>

### **Trade Analysis: Country wise- Trends and outlook**

#### **Recent trends**

On a monthly basis, exports picked up from their November bottom as the effects of the flooding in Thailand eased, but their level in January was lower than the most recent peak in September. On a quarterly basis, their rate of change in January compared with the fourth quarter stayed at 0 percent, after having registered a decrease in the fourth quarter. In sum, exports are considered to have remained more or less flat on average.<sup>4</sup>

Looking at exports in January relative to the fourth quarter by region, those to the United States rose, mainly in consumer goods (digital cameras) for which supply constraints caused by the flooding in Thailand eased. Exports to the EU have plunged recently in light of the stagnant European economy stemming from its debt problem, but they picked up slightly in January since consumer goods (digital cameras) as well as ships, which show large fluctuations moved up. Exports to China and NIEs fell, chiefly in intermediate goods (chemicals; iron and steel), affected mainly by the Chinese New Year holidays. Exports to ASEAN and others rose, mainly in motor vehicles and their related goods.

Of those exports made to ASEAN, exports to Thailand registered a sizable increase of over 20 percent in January on a month-on-month basis, following growth of slightly above 10 percent in December. Looking at exports in January relative to the fourth quarter by good, exports of consumer goods (digital cameras) rose sharply since supply constraints caused by the flooding in Thailand eased. Exports of capital goods and parts increased as well, mainly in ships. Exports of IT-related goods and of motor vehicles and their related goods were roughly flat. Those of intermediate goods have remained somewhat weak.<sup>5</sup>

Real imports have trended upward. Imports recorded quarter-on-quarter increases through the fourth quarter (for three consecutive quarters) and continued to move up in January compared with the fourth quarter. Looking at imports in January relative to the fourth quarter by goods, those of raw materials expanded, primarily in mineral fuels used for thermal power generation; those of foodstuffs continued to rise. Imports of capital goods and parts exhibited high growth, assisted partly by an increase in imports of aircraft. Those

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<sup>3</sup>Monthly Report of Recent Economic and Financial Developments, Feb 17, 2003, at: [www.boj.or.jp/en/mopo/gp\\_2012/gp1203b.pdf](http://www.boj.or.jp/en/mopo/gp_2012/gp1203b.pdf)

<sup>4</sup> *Ibid.*

<sup>5</sup>*Supra* note 3, Monthly Report of Recent Economic and Financial Developments.

of consumer goods increased, chiefly in apparel and motor vehicles. On the other hand, imports of IT-related goods fell back from the rise in the previous quarter. Looking at imports in January relative to the fourth quarter by region, a distinctive feature is that imports from Thailand, which had fallen sharply turned to an increase, while imports from other regions were mixed. <sup>6</sup>

Net exports in terms of the real trade balance have shown somewhat weak movements as a reflection of the aforementioned developments in exports and imports. The seasonally adjusted figures show that the nominal goods and services balance increased its deficit in January, mainly because the trade balance also did so. As a result, the nominal current account balance decreased its surplus in January

## **Outlook**

With regard to the future outlook, exports are expected to gradually emerge from the current phase of flat growth and increase moderately, mainly reflecting a pick-up in the pace of recovery in overseas economies. Imports are projected to trend gradually upward, assisted by firm domestic demand, the yen's appreciation, and an increase in thermal power generation. As a reflection of these developments in exports and imports, net exports are projected to remain more or less flat for the time being and eventually increase at a moderate pace. Overseas economies are expected to gradually emerge from their current deceleration phase, led by emerging and commodity-exporting economies, although uncertainty in this regard remains high

As for the exchange rate, the yen has been depreciating slightly against the U.S. dollar of late. Although the yen's appreciation is considered to exert some restraint on exports for the time being, such downward pressure on exports is expected to wane as the yen's depreciates in the future. With regard to the effects of the flooding in Thailand, the ongoing recovery there is projected to exert upward pressure on exports from Japan for the time being, mainly due to the removal of supply constraints and heightened restoration demand in Thailand.<sup>7</sup>

## **Japan-China trade analysis**

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Japan and China are key trading partners of several goods and services at an international level. On February 23, 2012, an analysis of '*Japan-China Trade in 2011 and Outlook for 2012*' was published as a JETRO Survey. The highlights of the survey are:<sup>8</sup>

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<sup>6</sup>*Ibid*

<sup>7</sup>*Supra* note 3, Monthly Report of Recent Economic and Financial Developments.

<sup>8</sup> JETRO Survey : Analysis of Japan-China Trade in 2011 and Outlook for 2012, JETRO Press, February 23, 2012 at: <http://www.jetro.go.jp/en/news/releases/20120223142-news>

## EXPORTS :

As a result of the natural disaster in Japan, car exports declined, exports of semiconductors and other electronic components shrank sharply. The growth rate in exports to China dropped to single-digits in April and May, 2011.

Following restoration of production bases, the rate recovered almost to double-digits from June to September, 2011 but fell again after October for three consecutive months due to the downturn in the Chinese economy and Europe's debt crisis.

By product, Japanese shipments of chemical products and general machinery such as metal processing/textile machinery increased, while raw materials and electric equipment including electric circuits almost leveled off, and automobiles were down.

Breakdown by product category :

- A sharp rise was seen in the exports of metal processing/textile machinery, manufacturing equipment for semiconductors and other devices and industrial robots, backed by China's expanding industrial production, rising labor cost and manpower shortage.
- A decline was noted in exports of nonferrous metal products including automobiles and refined copper, due to the shortage of parts caused by supply chain disruptions from factories damaged by the Japan disaster. Meanwhile exports of semiconductors and other electronic components and car parts leveled off.
- Exports of construction/mining machinery, which rose sharply in the previous year, showed a decline in 2011 due to a decrease of real estate investments reflecting the impact of the Chinese government's tight monetary policies.
- Food exports also dropped significantly due to China's tightening regulations on food imports from Japan following the nuclear accident.

## IMPORTS:

A steady increase was noted in Japanese imports from China in 2012. In addition to imports of electric equipment such as communications devices, clothing and accessories, general machinery, raw materials and foods also showed double-digit growth. Imports of items such as electric fans and batteries shot up as a result of demand to conserve energy following the natural disaster in Japan.<sup>9</sup>

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<sup>9</sup>Supra note 8, JETRO Survey : Analysis of Japan-China Trade in 2011 and Outlook for 2012

Breakdown by product category :

- Imports of smart phones surged with their increase in popularity. As for chemical products, imports of rare earths and rare metals declined in terms of number, while sharply rising in terms of value, backed by their soaring prices.
- Imports of clothing and clothing accessories were up by nearly 20%, despite the recent trend for makers to shift production from China to other Asian countries seeking lower production cost. The growth was fueled by rising import unit value caused by high value added products manufactured in China and an increase in the imports of functional clothing designed to help conserve energy. Food imports rose by nearly 20%, backed by fading concern for Chinese food safety, and rising domestic demand for low price products.
- Imports of electric fans, power generators, batteries, flashlights and portable radios soared, reflecting increased needs which have arisen from the electricity shortage and nation-wide power saving measures as well as demand for emergency supplies following the March 11 disaster.<sup>10</sup>

The pace of increase in Japan's trade with China grew by 14.3%, which was less than that of Japan's overall trade, 14.7%. As a result, China accounted for 20.6% of all Japanese trade, dipping 0.1 point from the year earlier. This is the first such decline since 1990. While Japan's share of exports to China grew to 19.7%, a record high, its share of imports from China decreased to 21.5%, a drop for two consecutive years reflecting significant expansion of imports from resource-rich countries. China, however, remains Japan's largest trading partner in terms of import, export and total trade value.<sup>11</sup>

### **Outlook for Trade with China 2012 :**

Although a slowdown, or even a decrease, in growth of exports from Japan is predicted, the total trade value with China will possibly exceed US\$350 billion, setting a record high for three running years with a modest rise, backed by steady imports from China. In the trade balance between the two countries, there is a strong possibility that the degree of Japan's deficit will increase for a second year in a row, amid the continuing signs of sluggish export growth.

On the back of further slow growth in China's economy triggered by factors such as the EU debt crisis, the Chinese government has announced plans to slightly loosen its monetary policies, which until now have steadily grown more stringent. Its growth rate for real GDP this year will likely decline and the falling

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<sup>10</sup>*Supra* note 8, JETRO Survey : Analysis of Japan-China Trade in 2011 and Outlook for 2012

<sup>11</sup>*Ibid*

economic growth may slow Japanese exports to China. Moreover, if Japanese firms affected by the natural disaster in Japan continue shifting their manufacturing bases outside of Japan in efforts to restructure supply chains and cope with the strong yen, Japan's exports will suffer further. While the growth rate of imports from China is forecasted to continuously exceed that of exports to China, this is attributed to projected improvement in Japan's economy partly due to demand related to post-disaster recovery efforts, and expanding overseas production by Japanese companies.<sup>12</sup>

<b>Exports</b>	<b>Imports</b>
<ul style="list-style-type: none"> <li>• Exports of industrial facility equipment, parts and raw materials to China are predicted to continue growing thanks to expansion of Japanese firms' industrial production in China, in spite of increased local procurement of these same items.</li> <li>• Manufacturing production of cars and components, semiconductors and other electric components which were affected by the March disaster has already recovered. However, reflecting post-quake adjustment of the supply chain network and increase in overseas production in response to the strong yen, exports to China are predicted to either see a decrease or a modest rise at best.</li> <li>• If Europe's debt crisis grows more strained, the growth in China's exports of finished products to Europe will slow down, and that in turn may further impact on Japan's exports of high value added raw materials and parts to China.<sup>13</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Imports of communications devices will likely see continuous growth with increasing domestic demand for smart phones.</li> <li>• With more Japanese firms transferring production sites for high value added products to China, a rise is foreseen in imports of electric equipment, car components, clothing and accessories, boosted by the increased import amount of higher value added products and growing production costs in China.</li> <li>• Imports of car components and semiconductors and other electric parts affected by the Japan disaster are expected to recover with the restoration of domestic production facilities of manufacturers of finished goods.</li> <li>• Reduced import costs induced by further appreciation of the yen may facilitate an even greater increase in imports from China.</li> <li>• Imports of chemical products will likely see sluggish growth as soaring costs of rare earths and rare metals show signs of losing steam<sup>14</sup></li> </ul>

<sup>12</sup>*Supra* note 8, JETRO Survey : Analysis of Japan-China Trade in 2011 and Outlook for 2012

<sup>13</sup>*Ibid*

<sup>14</sup>*Ibid*

## **PART II- TRADE POLICY AND AGREEMENTS**

### **Japan and the WTO**

On March 16, Mr. Koichiro Gemba, Minister for Foreign Affairs, held a meeting with Mr. Pascal Lamy, Director General of the WTO. The overview of the meeting included:

#### ***Japan's Role in the World Trade Organization***

1) Minister Gemba's remarks are summarized below:

(A) The WTO is facing difficulties such as the impasse of the Doha Development Agenda (DDA). Nevertheless, the importance of the organization remains unchanged and Japan will continue to play a leading role in the WTO.<sup>15</sup>

(B) The economic partnerships which Japan is promoting allow emerging countries to be involved in the system and complement liberalization of trade in multilateral trading system while they provide basis for its development.

2) In response, Director General Lamy's remarks are summarized below:

(A) Japan's role in the WTO system is highly appreciated and there is strong expectation from it.

(B) Japan, which is promoting economic partnerships with broad range of countries in Europe, the Americas, and Asia, is a strong actor in the establishment of rules concerning international trade. Therefore, Japan's actions are drawing great attention.<sup>16</sup>

#### ***Promotion of the Doha Development Agenda (DDA)***

1) Minister Gemba stated as follows:

(A) Concerning further liberalization and establishment of rules in line with the DDA, it is necessary to strengthen the "Different Negotiating Approaches" by which willing countries will advance the processes.

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<sup>15</sup> Meeting between Mr. Koichiro Gemba, Minister for Foreign Affairs and H.E. Mr. Pascal Lamy, Director General of the WTO, May 16, 2012 at: [http://www.mofa.go.jp/announce/announce/2012/3/0316\\_02.html](http://www.mofa.go.jp/announce/announce/2012/3/0316_02.html)

<sup>16</sup> *Supra* note 15

(B) At the same time, all the WTO members should persistently make efforts for the maintenance and strengthening of the WTO system, such as resisting protectionism.

(C) Responsibilities of emerging countries, including the reform of current systems, should be discussed so that these countries with more of a voice in the WTO will bear commensurate responsibilities.

2) In response, Director General Lamy stated as follows:

(A) Efforts by willing countries which are being made in the WTO such as China's accession to the Agreement on Government Procurement (GPA), negotiations on trade services as well as the Information Technology Agreement (ITA) are promising and there are high expectations for such efforts.<sup>17</sup>

(B) Although the emerging countries admit that they should share certain responsibilities, the WTO members have not yet reached agreement on how exactly to balance the responsibilities and this led to the impasse in the DDA.

### ***Reputational Damage***

1) Minister Gemba stated that even after a year since the nuclear power station accident, some countries still maintain travel restrictions and import restrictions on foods from Japan. Minister Gemba stated that Japan sufficiently ensures safety on the basis of scientific evidence and therefore requested the WTO to play its role for fair treatment based on the rules.

2) In response, Director General Lamy stated that the WTO is exactly the organization to solve such problems, and that he therefore wants Japan to actively utilize the tools of the organization for this purpose.

### **Trade negotiations and meetings**

#### **Japan-Peru**

On January 6, 2012, the cabinet of Japan passed an ordinance to partially amend the order for enforcement of the act on issuance of certificates of origin pursuant to the economic partnership agreement with Peru. The

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<sup>17</sup>*Ibid*

Cabinet Ordinance provides for the necessary measures, including defining the Japan-Peru EPA as an economic partnership agreement for which certificates of origin may be issued under this scheme. The agreement promotes liberalization and facilitation of trade in goods and services between Japan and the Republic of Peru, thereby enhancing bilateral partnership regarding economic activities, while also strengthening cooperation in various areas including competition and intellectual property. The Cabinet Ordinance:

1. defines the Japan-Peru EPA as an economic partnership agreement covered by the Act on Issuance of Certificates of Origin ;
2. adds the Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership as an economic partnership agreement for which certified exporters may issue certificates of origin; and
3. provides for necessary amendments, including the establishment of the period during which applications and other materials submitted by the applicants for certificates of origin should be retained by the Minister of Economy, Trade and Industry pursuant to the Japan-Peru EPA.<sup>18</sup>

### **Japan-United Mexican States**

On March 30, 2012 it was published that the Protocol Amending the Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership (Amending Protocol) would enter into force on April 1, 2012. Based on the Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership, which entered into force in April 2005, the Amending Protocol provides for further improvement of market access conditions related to trade in goods, revision of the procedures for certification of origin through introduction of a system for declaration of origin by approved exporters and so on. At the same time, in order to improve convenience, the rules of origin by goods for some products, including automobile components and iron & steel will be amended corresponding to the actual situation of the industry.<sup>19</sup>

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<sup>18</sup>Cabinet Ordinance to Partially Amend the Order for Enforcement of the Act on Issuance of Certificates of Origin Pursuant to the Economic Partnership Agreement, METI press, Jan 6, 2012 at: [http://www.meti.go.jp/english/press/2012/0106\\_01.html](http://www.meti.go.jp/english/press/2012/0106_01.html)

<sup>19</sup>Entry into Force of the Protocol Amending the Agreement between Japan and the United Mexican States for the Strengthening of the Economic Partnership, METI press, March 30, 2012 at: [http://www.meti.go.jp/english/press/2012/0330\\_02.html](http://www.meti.go.jp/english/press/2012/0330_02.html)

## **Japan-Columbia**

During February 21-23, the second meeting of the Joint Study for an Economic Partnership Agreement (EPA) between Japan and the Republic of Colombia was held in Tokyo. The two nations exchanged views on topics such as bilateral economic relations between the two countries and the possible items to be included in the EPA.<sup>20</sup>

## **Japan-France**

On February 20, 2012, Japan and France conducted the first ministerial-level "Japan-France Energy Policy Dialogue" at METI. Japan and France held these policy dialogue sessions in accordance with the 'Joint Declaration on Nuclear Power and Energy Policy' announced by Japanese Prime Minister Yoshihiko Noda and French Prime Minister François Fillon on October 23, 2011.<sup>21</sup>

## **Japan-UK**

On February 17, 2012, the Fourth Japan-UK Energy Dialogue was held in London, UK. The bilateral dialogue has been held since 2006 between METI and DECC, UK. The third dialogue was held in Japan in September 2009.

In this dialogue, METI explained the situations of reviewing on energy policies in Japan. Furthermore, the two countries exchanged their views in a variety of energy-related areas including policies for nuclear energy, energy efficiency and renewable energy. In addition to the conventional dialogue between governments, public and private dialogue was also held this time with attendants from industry. The countries also exchanged views on cooperation in the smart community and the nuclear industry in the UK.<sup>22</sup>

## **Japan- Australia**

During February 14-17, 2012 the 14<sup>th</sup> round of negotiations on the Japan-Australia, EPA was conducted in Tokyo. Discussions were held in a variety of areas including trade in goods and services, investment, energy and mineral resources and food supply. The main highlights of the negotiations included:

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<sup>20</sup>The 2nd Joint Study for an Economic Partnership Agreement between Japan and the Republic of Colombia, METI press, Feb 23, 2012 at: [http://www.meti.go.jp/english/press/2012/0223\\_01.html](http://www.meti.go.jp/english/press/2012/0223_01.html)

<sup>21</sup>Outline of the First "Japan-France Energy Policy Dialogue, METI press, Feb 21, 2012 at: [http://www.meti.go.jp/english/press/2012/0221\\_02.html](http://www.meti.go.jp/english/press/2012/0221_02.html)

<sup>22</sup>Summary of the Fourth Japan-UK Energy Dialogue, METI press, Feb 20, 2012 at: [http://www.meti.go.jp/english/press/2012/0220\\_01.html](http://www.meti.go.jp/english/press/2012/0220_01.html)

- In respect of market access of trade in goods, matters of mutual concern regarding agricultural, forestry and fishery products and industrial products were discussed in light of negotiations so far.
- For trade in services and investment, negotiations were continued on requests from both countries and a draft agreement was discussed.
- In the area of energy and mineral resources, possible measures for stable supply of energy and mineral resources were examined and a draft agreement was discussed.
- In respect of food supply, possible measures for stable food supply were examined and a draft agreement was discussed.<sup>23</sup>

### **Japan-Saudi Arabia**

The Japanese-Saudi Business Opportunities Forum was held from February 1 to February 2. Participants from private companies and relevant governments of Japan and Saudi Arabia discussed actively bilateral cooperation in a wide range of fields including water, renewable energy and smart community in addition to conventional issues such as promotion of Japanese enterprises' investment in Saudi Arabian projects, support of local human resources development and support of policies for small and medium enterprises.<sup>24</sup>

### **Japan-US**

In May 2010, METI and the U.S. Department of State established a bilateral dialogue aimed at fostering the Japan-U.S. partnership and creating new jobs through support for innovation, entrepreneurship and the promotion of investment by both countries.<sup>25</sup> During January 25-26, METI and the U.S. Department of State held a third meeting of the U.S.-Japan Dialogue to Promote Innovation, Entrepreneurship and Jobs.

### **Investment related negotiations**

#### **Japan-Abu Dhabi**

On February 7, 2012, the Second Abu Dhabi Investment Forum was held in Tokyo. The Forum brought together government officials and business executives from both Japan and the Abu Dhabi Emirate to engage

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<sup>23</sup>Results of the 14th Round of Negotiations on the Japan-Australia Economic Partnership Agreement, METI press, Feb 17, 2012 at: [http://www.meti.go.jp/english/press/2012/0217\\_02.html](http://www.meti.go.jp/english/press/2012/0217_02.html)

<sup>24</sup>Summary of METI Minister Edano's Meeting with Saudi Arabian Minister of Commerce and Industry Tawfiq and KACARE President Yamani, as well as Results of the Japanese-Saudi Business Opportunities Forum, METI press, Feb 2, 2012 at: [http://www.meti.go.jp/english/press/2012/0202\\_02.html](http://www.meti.go.jp/english/press/2012/0202_02.html)

<sup>25</sup>U.S.-Japan Dialogue to Promote Innovation, Entrepreneurship and Job Creation - Launch of U.S.-Japan Innovation and Entrepreneurship Council -, METI office, Jan 30, 2012 at: [http://www.meti.go.jp/english/press/2012/0130\\_01.html](http://www.meti.go.jp/english/press/2012/0130_01.html)

in lively discussions toward enhancing bilateral cooperation in wide-ranging areas, including industrial development, energy, infrastructure and finance and investment, with the goal of promoting investment in both directions.<sup>26</sup>

### **Aid for trade**

**Japan-Vietnam-** On March 30, 2012, the Japan International Cooperation Agency (JICA) signed ODA loan agreements with the government of the Socialist Republic of Vietnam up to a total of 136.447 billion yen for assistance for eight projects. So far in fiscal 2011, ODA loan agreements up to 40.946 billion yen for two projects were signed on June 15, and on November 2 loan agreements up to 92.645 billion yen for six projects have been signed. Combined, total ODA loan packages in fiscal 2011 amounted 270.038 billion yen for 16 projects.<sup>27</sup>

**Japan- Philippines-** On March 30, JICA signed loan agreements with the Republic of the Philippines to provide loans of up to 68.263 billion yen for seven projects. Furthermore, JICA supports the improvement of agricultural productivity and income of small scale farmers through provision of small scale agricultural infrastructure and agricultural/organizational capacity building in the Mindanao region, which has a rich agricultural potential with vast land area and stable climate (Mindanao Sustainable Agrarian and Agriculture Development Project).<sup>28</sup>

**Japan-Peru-** On March 30, JICA signed Japanese ODA loan agreements with the Government of the Republic of Peru in Lima, to provide loans of up to 3.21 billion yen for the Rural Amazonia Water Supply and Sanitation Project and up to 4.406 billion yen for the Sierra Small and Medium Irrigation Project.<sup>29</sup>

**Japan-India-** On March 29, JICA signed agreements with the Government of India to provide loans of up to a total of 134.288 billion yen for assistance for two Japanese ODA loan projects in India.<sup>30</sup>

**Japan-Sri-lanka-** On March 28, JICA signed loan agreements with the Democratic Socialist Republic of Sri Lanka to provide loans of up to a total of 42.477 billion yen for three projects. The ODA loans signed would

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<sup>26</sup>Results of meeting between the Minister of Economy, Trade and Industry Edano and Chairman Alsowaidi of the Department of Economic Development, the Emirate of Abu Dhabi, United Arab Emirates; and Second Abu Dhabi Investment Forum, METI press, Feb 7, 2012 at: [http://www.meti.go.jp/english/press/2012/0207\\_03.html](http://www.meti.go.jp/english/press/2012/0207_03.html)

<sup>27</sup>Signing of Japanese ODA Loan with the Socialist Republic of Vietnam, JICA Press, March 30, 2012 at: [http://www.jica.go.jp/english/news/press/2011/120330\\_03.html](http://www.jica.go.jp/english/news/press/2011/120330_03.html)

<sup>28</sup>Signing of ODA Loan Agreements with the Republic of the Philippines, JICA Press, March 30, 2012 at: [http://www.jica.go.jp/english/news/press/2011/120330\\_02.html](http://www.jica.go.jp/english/news/press/2011/120330_02.html)

<sup>29</sup>Signing of Japanese ODA Loan Agreements with the Republic of Peru, JICA Press, March 30, 2012 at: [http://www.jica.go.jp/english/news/press/2011/120330\\_01.html](http://www.jica.go.jp/english/news/press/2011/120330_01.html)

<sup>30</sup>Signing of Japanese ODA Loan Agreements with the Government of India, JICA Press, March 30, 2012 at: [http://www.jica.go.jp/english/news/press/2011/120329\\_01.html](http://www.jica.go.jp/english/news/press/2011/120329_01.html)

allow for Japanese technology to be used in support of such endeavors as expanding the capital's airport to further develop the nation's tourism industry and strengthen Sri Lanka's position as a hub for the South Asian region. It will also be used for installing a low loss transmission line conductor to strengthen the grid system as well as for improving health and medical systems to contribute to the enhancement of non-communicable diseases (NCD) management.<sup>31</sup>

**Japan-Egypt-** On March 19, JICA signed the agreement with the government of Arab Republic of Egypt for a Japanese ODA loan of up to 32.717 billion yen for “Greater Cairo Metro Line No.4 Phase 1 Project”. The purpose of this project is to contribute to the improvement of Egyptian economy by constructing a metro which connects the center of Cairo and the pyramid district (16 stations, about 17 kilometers) to respond to the increasing traffic demand and to reduce the worsening traffic congestion.<sup>32</sup>

**Japan-Uzbekistan-** On February 27, JICA signed an agreement with the Government of the Republic of Uzbekistan to provide a loan of up to 18.067 billion yen for assistance for the Karshi-Termez Railway Electrification Project. The objective of the project is to address the demand for freight transportation (which is expected to increase) and to make freight transportation more efficient by electrifying the interval between Karshi and Termez (a total of 325 kilometers) along the rail line in the southern part of the Republic of Uzbekistan toward Afghanistan. This project will also contribute to socioeconomic development in Uzbekistan and neighboring countries including Afghanistan. Financing for this project will be allocated to the procurement and installation of equipment and materials for constructing transformer substations and laying overhead and transmission lines. Funds will also be allocated to expenses for consulting services (basic and detailed design for equipment and material procurement and installation, tender assistance and work monitoring).<sup>33</sup>

**Japan-Brazil-** On February 23, JICA signed a Japanese ODA loan agreement with Companhia de Saneamento Básico do Estado de São Paulo (SABESP or the Basic Sanitation Company of the State of São Paulo) of Brazil to provide a loan of up to 33.584 billion yen for the Non Revenue Water Control Project in São Paulo State. This loan will provide the funding necessary for improvements to water infrastructure and consulting services with the aim of meeting the water demand in a stable manner through the efficient use of existing water resources over the entire state of São Paulo in Brazil. The funds from this Japanese ODA

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<sup>31</sup>Signing of ODA Loan Agreements with the Democratic Socialist Republic, JICA Press, March 28, 2012 at: <http://www.jica.go.jp/english/news/press/2011/120328.html>

<sup>32</sup>Signing of a Japanese ODA Loan Agreement with Arab Republic of Egypt, JICA Press, March 19, 2012 at: [http://www.jica.go.jp/english/news/press/2011/120319\\_01.html](http://www.jica.go.jp/english/news/press/2011/120319_01.html)

<sup>33</sup>Signing of Japanese ODA Loan with the Republic of Uzbekistan, JICA Press, February 27, 2012 at: [http://www.jica.go.jp/english/news/press/2011/120227\\_02.html](http://www.jica.go.jp/english/news/press/2011/120227_02.html)

loan will be allocated to the replacement of water pipes and measures for leaks in the target region, as well as to consulting services.<sup>34</sup>

### **PART III TRADE REMEDIES**

There were no trade remedies measures initiated by Japan during the review quarter.

### **PART IV MEASURES AFFECTING EXPORTS**

#### **Export promotion**

- (i) On February 8, 2012, the METI inaugurated TOKYO SPRING. As a concrete plan which stems out of the CREATIVE TOKYO project, TOKYO SPRING is a platform seeking to provide detailed information about the creative events taking place in Tokyo throughout the season. The project includes new collaborative schemes such as joint projects by the fashion, food and art industries, art festivals involving a diverse range of city districts, and a cooperative project under the theme of 'Japan-Denim'. A diverse range of influential figures will take part in the program, and certain city districts will unite in order to activate related wards in Tokyo, to increase domestic consumption, and to convey to the international community just how fascinating Tokyo is as a crucial hub of networks for creative industries worldwide.<sup>35</sup>
- (ii) On January 9, 2012, METI launched “Cool Japan Daily,” a web portal to deliver information on Cool Japan. This is one part of several measures to introduce the fascination of Cool Japan to the world from various viewpoints. By describing basic policies in the government’s Cool Japan Strategy and ongoing relevant projects in Japan and abroad, the “Cool Japan Daily” portal provides access to information on Cool Japan, including related efforts and the latest news. To widely communicate the virtues of Japanese culture to the world, prominent or cultural figures representing fields such as food, fashion, design and content will contribute articles about real Cool Japan from their unique viewpoints.<sup>36</sup>

### **PART V- MEASURES AFFECTING PRODUCTION AND TRADE**

#### **Subsidies**

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<sup>34</sup>Signing of Japanese ODA Loan with Federative Republic of Brazil, JICA Press, February 23, 2012 at: <http://www.jica.go.jp/english/news/press/2011/120223.html>

<sup>35</sup>“TOKYO SPRING” to be launched by the Cool Japan Strategy Program, METI press, Feb 8, 2012 at: [http://www.meti.go.jp/english/press/2012/0208\\_05.html](http://www.meti.go.jp/english/press/2012/0208_05.html)

<sup>36</sup>Web portal to provide information on Cool Japan, “Cool Japan Daily,” launched on Monday, January 9, 2012!, METI Press, Jan 10 at: [http://www.meti.go.jp/english/press/2012/0110\\_02.html](http://www.meti.go.jp/english/press/2012/0110_02.html)

- (i) On February 3, 2012, 245 projects were adopted under the “Subsidy for Domestic Location Promotion Projects” prepared in the FY 2011 third supplementary budget. This system is expected to prime the pump for investment in plant and equipment of 1.26 trillion yen, about six times the subsidy amount. It is estimated that a demand of about 4.9 trillion yen would be created for supporting industries. Further, the creation of employment for about 200,000 people (including those of supporting industries) is expected.<sup>37</sup>
  
- (ii) In order to foster overseas business by Japanese companies, the METI launched a new package of measures to support market development through trans-boundary e-commerce mainly by small and medium enterprises (SMEs) under the FY 2011 third supplementary budget. Under a subsidy financed by the FY 2011 third supplementary budget, the following support will be provided to subsidy recipients.
  - a. Support for the creation of e-commerce sites aimed at overseas markets  
In cooperation with trans-boundary e-commerce malls or other parties, this project assists companies in areas affected by the Great East Japan Earthquake and companies dealing with products from those areas in creating and operating e-commerce sites aimed at overseas markets.
  - b. Assistance in overseas public relations activities- The project focuses on assisting public relations activities contributing to sales promotion, for example, by helping to improve the awareness of a newly built overseas EC site among overseas consumers.
  - c. Dissemination of successful models of trans-boundary e-commerce- This is a project to first analyze information (e.g., successful models) gained through assistance to companies and then supply helpful information over the Internet and run an awareness raising campaign for Japanese companies on trans-boundary e-commerce through seminars.<sup>38</sup>

## **Intellectual Property Rights**

### **(i) Probe into copyright violations in Malaysia**

On Feb 17, 2012, the Office of Intellectual Property Protection investigated the case regarding pirated products in Malaysia in collaboration and cooperation with other ministries and agencies concerned, as requested by the Association of Japanese Animations (AJA) and the Japan Video Software Association (JVA)

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<sup>37</sup>Projects Adopted for the First Invitation to FY 2011 “Subsidy for Domestic Location Promotion Projects”, METI press, Feb 3, 2012 at: [http://www.meti.go.jp/english/press/2012/0203\\_02.html](http://www.meti.go.jp/english/press/2012/0203_02.html)

<sup>38</sup>Announcement of new package of measures to support trans-boundary e-commerce, METI press, Feb 3, 2012 at: [http://www.meti.go.jp/english/press/2012/0203\\_01.html](http://www.meti.go.jp/english/press/2012/0203_01.html)

under the Investigation System for Intellectual Property Rights Violations Abroad. As a result, on February 17, the government judged that there was a problem with the system operating in Malaysia. The government decided to request the government of Malaysia to take appropriate measures promptly and forwarded the results of the investigation to the above associations through its Office of Intellectual Property Protection.

Background- On July 8, 2011, AJA and JVA filed a petition under the above system, and the Office of Intellectual Property Protection notified both associations on August 4 of the decision to conduct the investigation. The petition claims as follows: In Malaysia, numerous DVDs containing pirated video content from Japan are sold on the market. Since these pirated DVDs bear hologram stickers pursuant to the nation's "Trade Descriptions (Optical Disc Label) Order 2010," they mislead consumers into believing that they are legitimate products.

The government carried out necessary investigations and found that DVDs infringing the copyright of Japanese copyright holders were sold at shops in Malaysia. It was also revealed that, in the examination in response to application for optical disc labels, it was not checked sufficiently whether the applicant was the copyright holder or licensed by the copyright holder. The government judged that there was a problem with the system operating in Malaysia and decided to request the government of Malaysia to take appropriate measures promptly.<sup>39</sup>

#### **(ii) JPO and ASEAN IPO collaboration**

On February 8, 2012, the Japan Patent Office (JPO) and the Intellectual Property Offices of the Member States of the Association of Southeast Asian Nations (ASEAN) held the First Heads of Intellectual Property Offices (IPOs) meeting in Tokyo.

In accordance with the 'Tokyo IP Statement', the JPO would set specific actions and cooperate with ASEAN countries on facilitation of their accession to treaties, improvement of their examination and administrative capabilities and their awareness-raising activities. The JPO would effectively use the framework for dialogue with ASEAN IPOs in the hope of facilitating Japanese companies' operations in ASEAN. The two offices would also conduct needs-based cooperative activities based on continuous dialogue, directly or through concerned institutions such as the World Intellectual Property Organization, taking into account the diverse needs and varying economic levels of the Partners.<sup>40</sup>

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<sup>39</sup>Result of Investigation under the Investigation System for Intellectual Property Rights Violations Abroad (Malaysia), METI office, Feb 2012, at: [http://www.meti.go.jp/english/press/2012/0217\\_03.html](http://www.meti.go.jp/english/press/2012/0217_03.html)

<sup>40</sup>Results of the First ASEAN-JAPAN Heads of Intellectual Property Offices Meeting held in Tokyo METI press, Feb 8, 2012 at: [http://www.meti.go.jp/english/press/2012/0208\\_04.html](http://www.meti.go.jp/english/press/2012/0208_04.html)

## WTO DISPUTE SETTLEMENT UPDATE

During the review quarter, Japan initiated a consultation at the WTO level. Japan was also involved in a few key decisions at the WTO level involving United States as a party to the dispute. The same have been covered in the review report of United States under the chapter of dispute settlement updates.

Complainant	Respondent	Provisions involved	Disputed Matter	Current Status
Japan	China	Inconsistency with- Articles VII, VIII, X and XI of the GATT 1994; and paragraphs 2(A)2, 2(C)1, 5.1, 5.2, 7.2, 8.2 and 11.3 of Part I of China's Protocol of Accession, as well as China's obligations under paragraph 1.2 of Part I of the Protocol of Accession.	On 13 March 2012, Japan requested consultations with China with respect to China's restrictions on the export of various forms of rare earths, tungsten and molybdenum. The request refers to materials falling under but not limited to 212 eight-digit Chinese Customs Commodity Codes and over 30 measures. The request also refers to a number of Chinese published as well as unpublished measures that, operating separately or collectively, allegedly impose and administer export restrictions. These restrictions include export duties, export quotas, minimum export price requirements, export licensing requirements and additional requirements and procedures in connection with the administration of the quantitative restrictions.	On 22 March 2012, the European Union and the United States requested to join the consultations. On 26 March 2012, Canada requested to join the consultations. Subsequently, China informed the DSB that it had accepted the requests of Canada, the European Union and the United States to join the consultations.