

**JAPAN-INDONESIA  
ECONOMIC PARTNERSHIP  
AGREEMENT**



**JOINT STUDY GROUP  
REPORT**

**May 2005**

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## **I. BACKGROUND**

1. During the APEC Summit Meeting in November 2004, President Susilo Bambang Yudhoyono of the Republic of Indonesia addressed to Prime Minister Junichiro Koizumi of Japan the importance of Economic Partnership Agreement (EPA) as a means to further promote the close economic relationship between the two countries.
2. On December 16, 2004, Minister of Economy, Trade and Industry Shoichi Nakagawa of Japan and Minister of Trade Mari Elka Pangestu of the Republic of Indonesia shared the view on the need to launch the Joint Study Group to explore the future of the economic partnership between the two countries.
3. On January 6, 2005, Minister for Foreign Affairs Nobutaka Machimura of Japan and Vice President H. Muhammad Jusuf Kalla of the Republic of Indonesia decided to hold three rounds of meetings by April 2005 in order to produce recommendations on issues including whether to commence negotiations on a bilateral EPA.
4. The first round of the meeting was held in Jakarta on January 31 and February 1, 2005. The second round was in Bali on March 4 and 5. The third round was in Tokyo on April 11 and 12.
5. The meetings were conducted between the representatives of relevant ministries and agencies of both Governments, and involved representatives of academic and private sectors from the two countries. A wide range of areas was covered by the discussions throughout the meetings.

## **II. OVERVIEW**

1. Japan and Indonesia have established a close economic relationship in a wide range of areas.
2. In the field of trade in goods, Japan is the largest trade partner in both export and import for Indonesia. According to the Indonesian trade statistics issued by the BPS Statistics Indonesia, its trade with Japan accounts for 19.06% of export and 13.07% of import in 2004. Japan's trade with Indonesia accounts for 1.60% of export and 4.11% of import in 2004 according to the trade statistics issued by the Ministry of Finance,

Japan. It is also observed that Indonesia is an important energy supplier to Japan.

3. In the field of investment, the private direct investment from Japan to Indonesia has been declining due to the stagnation of Indonesian economy after the crisis in Asian economies in the year of 1997. Although solid recovery has not yet been observed, Japan has always been one of the top investors for Indonesia. According to the Indonesian statistics, from 1967 to 2004, cumulative foreign direct investment from Japan to Indonesia accounts for 19.47 % of the total foreign direct investment to the country, which makes Japan the largest investor for Indonesia. It is also noted that the number of Japanese enterprises operating in Indonesia is approximately 1,000 and that of Indonesian workers employed by those Japanese enterprises is over 200,000.
4. In addition, Japan is the largest provider of Official Development Assistance (ODA) to Indonesia.
5. The close economic relationship mentioned above, however, will not be maintained for perpetuity without continuous efforts by the two countries. In the Joint Study Group, the researchers of both sides indicated that the bilateral EPA between the two countries could significantly benefit both sides.
6. Taking these circumstances into consideration, detailed discussions were conducted in each area by the Joint Study Group, as introduced below, with a view to further strengthening the economic partnership between the two countries.

### **III. SUMMARY OF DISCUSSIONS**

#### **1. Trade in Goods**

Both sides shared the view that the Japan-Indonesia EPA should include elements of free trade agreement consistent with Article XXIV of the General Agreement on Tariffs and Trade, given that improvement of market access for trade in goods including tariff elimination and reduction is an important element to strengthen the economic partnership between the two countries. The Indonesian side expressed interests in reduction or elimination of tariffs, especially in tariff peaks or in tariff escalation as well as in non-tariff barriers, particularly of products of interests between the two countries.

## **(1) Industrial Goods**

- a. Both sides emphasized that one of the main purposes of the Japan-Indonesia EPA is to pursue expansion of investment from Japan to Indonesia through the improvement of investment climate in Indonesia. The Japanese side stated that the improvement of market access should be discussed together with improvement of investment climate in Indonesia. On the basis of such understanding, and also recognizing the complementary nature of the industrial structure of Japan and Indonesia, the Japanese side expressed the view that immediate tariff elimination of substantially-all goods is the basic principle, and that both sides should aim at the tariff elimination ahead of the AFTA schedule. The Japanese side also expressed its particular interest in the elimination of tariffs on goods such as auto and auto-parts, electrical and electronics, steels, and textiles, where the Indonesian side maintains relatively high tariffs.
- b. The Japanese auto and auto-parts industries stated that immediate tariff elimination in principle is necessary in order to strengthen its cooperation with Indonesia's local partners through business partnership in a form of investment as well as complemented division of labor system on auto-parts. The Japanese steel industry emphasized that the export of steel from Japan is supplying high quality steel products to user industries including auto and electrical and electronics industries, and that it is in a complementary relationship with the Indonesian steel industry. In addition, the Japanese textile industry proposed that immediate tariff elimination for all textile products should be pursued on the basis of the agreement between concerned private sectors of both countries that staging schedule for tariff elimination should be in accordance with the reciprocity principle, and that unified rules of origin (in particular, the criterion of change in tariff classification) consistent with those under the ASEAN-Japan Comprehensive Economic Partnership Agreement (CEP) should be formulated.
- c. The Indonesian side expressed its interests in tariff elimination on various organic chemicals, plastic bags, glass products, textiles and footwear where Japan maintains tariffs including significant specific duties on some products. The Japanese side stressed that footwear,

leather, leather products are sensitive historically and socially for Japan.

- d. The Indonesian side expressed the view that there remain sensitive products in Indonesia, and that it needs to conduct further study on individual sectors. However, both sides decided to aim for trade liberalization to be consistent with the WTO.
- e. The Indonesian industry groups stated that it has considered industrial promotion rather than industrial protection as its basic position and that it aimed at strengthening Indonesia's competitiveness of domestic industries. In this regard, the Indonesian Chamber of Commerce (KADIN) stated that, taking development gap between the two countries into account, cooperation and trade facilitation in addition to liberalization of trade in goods is important. KADIN requested cooperation from Japan for the following issues: (a) transfer of science technology, (b) reinforcement of business partnership between local supporting industries in Indonesia and Japanese manufacturers, (c) enhancement of competitiveness of Indonesia's SMEs, (d) human resource development, and (e) the planning of Indonesia's industrial strategies to be provided as input to the government in relation to the Japan-Indonesia EPA
- f. The Indonesian auto and auto-parts industries requested the wide range of cooperation for supporting industries from the Japanese side, indicating the potential for expansion of the Indonesian auto market. The Indonesian electrical and electronics industry showed its interest in promotion of parts industry, and requested the Japanese side for assistance in technology transfer, human resource development and standards and conformity assessment. In addition, the Indonesian side pointed out that Indonesian textile products, which are labor-intensive commodities, are not competing with imports from Japan, and also indicated that it is prepared to join a dialogue between industries of both countries, as proposed by the Japanese textile industry.
- g. Both sides emphasized that, with a view to building win-win relationship between the two countries, it is important to promote Indonesian supporting industries and also to strengthen their business partnership with Japanese enterprises operating in Indonesia. The Japanese side pointed out that, in order to achieve these goals, the

Indonesian side should have well-coordinated industrial strategies by sectors, and suggested that it is prepared to further strengthen the existing cooperative relationship through active utilization of Joint Forum on Investment which was launched in December 2004 and the first meeting was held on March 14, 2005.

## **(2) Agriculture, Forestry and Fisheries**

- a. The Indonesian side was of the view that the EPA could contribute to the improvement of development and trade in agriculture, forestry and fishery areas for both sides and expressed its willingness to continue the discussions on the improvement of market access in these areas.
- b. Both sides explained that there are special and/or sensitive products in the areas of agriculture, forestry and fisheries for both countries. The Japanese side referred to sensitive products such as rice and rice products, barley, wheat and their products, meat, pineapples, bananas, starch, sugar and sugar products, dairy products, wood panel, tunas including skipjack tuna, IQ and IQ-related fishery products, certain oils and fats and processed foods. The Indonesian side referred to special products such as rice, corn, soybeans and sugar. Both sides confirmed that they will conduct negotiations on the EPA flexibly with considerations on special and/or sensitive products. Flexibility across products, including exclusion of products from the coverage of trade liberalization under the EPA, will be determined by considering sensitivities of products of both sides.
- c. The Japanese side requested that export subsidies, export duties and export restrictions by the Indonesian Government in the area of agriculture, forestry and fisheries should be eliminated. A Japanese agricultural organization emphasized, among others, that benefits of the EPA should be shared by all economic sectors, that the EPA should be in line with the efforts for food security and improvement in rates of self-sufficiency, and that it should pay attention to the multifunctionality of agriculture. The Indonesian side shared the view on these matters due to their concerns on rural development and improvement of rural livelihood.
- d. The Indonesian side insisted on the necessity of technical cooperation in the quarantine area. The Indonesian side pointed out that an EPA should not hurt small-scale farmers in Indonesia as well as those in



Japan. In this respect, the Indonesian side requested for cooperation by the Japanese side regarding activities of agricultural cooperatives and farmers organizations.

- e. The Indonesian side urged that the Japanese Government should recognize Indonesia as free from Foot-and-Mouth Disease (FMD) and lift the bans on imports of Sugar Cane Top due to FMD. The Japanese side pointed out in general that it is not appropriate to deal with individual SPS-related issues under EPA negotiations where trade liberalization and preferential treatments are to be discussed; thus, these issues should be discussed between specialists through existing channels based on scientific evidences. The Indonesian side emphasized that SPS issues have to be covered under the EPA negotiations.
- f. In the area of forestry, the Japanese side expressed the sensitivity of the wood panel manufacturing sector. Japanese organizations representing the interest of plywood, glued laminated timber, particle board and fiber board manufacturers expressed their concern on the current situation where competitiveness of domestic productions of plywood, glued laminated timber, particle board and fiber board is declining due to reductions in tariffs. The Japanese side requested the Indonesian Government to take further activities against illegal logging and discussed the importance of protection of tropical forest. The Indonesian side stated that serious and consistent efforts are being made in combating illegal logging. The Indonesian side also pointed out that illegal international trade in this sector must be addressed simultaneously.
- g. The Indonesian side, for the time being, recognized the tariff structure of Japan, and pointed out that tariff rates of plywood differ among wood species and requested the improvement so as not to misuse the tariff categories and requested to apply tariff rate correctly. The Japanese side explained that plywood made of certain kinds are differentiated by specifications so as not to compete with major domestic products, and that certain kinds of species are more important than others in view point of protecting tropical forest. The Japanese side recognized that the tariffs on tropical timber contribute to protecting the tropical forest. In addition, the Japanese side insisted that discussions on tariffs on wood panel should be packaged with

discussions on export duties, restrictions on logs, and on illegal logging. While recognizing the importance of combating illegal logging, the Indonesian side insisted that it should not be linked to market access. The Indonesian side welcomed Japan's offer for technical assistance on this issue.

- h. In the area of fisheries, both sides expressed their concern that trade liberalization could threaten sustainable utilization of fishery resources and affect negatively on the fishery resources management, and suggested that it would be more beneficial for the economic partnership of the two countries to further strengthen existing cooperative relations regarding the fishery resources management. While Japanese fishery industry groups pointed out that the fishing industries of the two countries are competing on fishery resources including tunas and skipjack tuna, both sides recognized the importance of taking further steps towards organized fishery resources management, specially to eliminate Illegal, Unregulated and Unreported (IUU) fishing around Indonesian waters. They also suggested that it would be more desirable under the EPA to study the possibility of promotion of cooperation in a wide range of the fishery field than to incline only to trade liberalization of fishery products.
- i. The Indonesian side requested, among others, technical support to eliminate IUU fishing vessels that had operated around Indonesian waters and to develop local shrimp broodstock. Both sides recognized the importance of cooperation to investigate fishery resources in Indonesian waters as a future business opportunity in Indonesia.

### **(3) Rules of Origin**

Both sides shared the view that it would be highly desirable that the rules of origin under the ASEAN-Japan Comprehensive Economic Partnership Agreement and those under the bilateral EPA are harmonized with each other.

## **2. Customs Procedures**

- ( 1 ) The Japanese side pointed out that balance between trade facilitation and ensuring security is important in the field of customs procedures. The Japanese industry requested to enhance predictability of customs procedures through further improvement of transparency in the procedures, facilitation of the procedures, uniform application of the

regulations, and so on. Based on these opinions, the Japanese side emphasized that with regard to customs procedures, the EPA should include the followings: (a) ensuring transparency, (b) cooperation and exchange of information between the customs authorities for the purpose of facilitating trade through simplification and harmonization of their customs procedures, and ensuring effective enforcement against illicit trafficking of goods, and (c) establishment of proper follow-up mechanism. The Indonesian side provided information concerning its customs procedures that have been simplified. In addition, the Indonesian side emphasized that Indonesia was making efforts to continuously improve its customs procedures.

- ( 2 ) The Indonesian side shared the views on the importance of cooperation between both customs authorities in the areas above.

### **3. Intellectual Property**

- ( 1 ) The Japanese side stated that Japanese investors regarded the protection of intellectual property (IP) as an important element to select their investment destinations, and that it is necessary to improve Indonesia's environment for protection of IP in order to promote investment by Japanese enterprises. The Japanese side also emphasized the following points in particular: (a) improvement of IP protection system, (b) accession to international agreements, (c) streamlining and enhancing transparency of administrative procedures, (d) enhancement of public awareness on IP protection, and (e) enhancement of enforcement.

- ( 2 ) The Indonesian side explained that, in view of the importance of efforts in IP sector in Japan-Indonesia EPA, it has proceeded with the preparation to enact new laws to comply with international agreements such as the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement), and that it is determined to take action. The Indonesian side shared the view on the significance of efforts in five areas proposed by the Japanese side. The Indonesia side referred to the domestic efforts, such as the expansion of the scope of protection for foreign well-known trademarks, the consideration for accession to Madrid Protocol, and the establishment of National Taskforce to enhance enforcement. In addition, expressing the gratitude for the past cooperation by Japan, the Indonesian side requested the Japanese side to continue its assistance to strengthen IP

systems, including capacity building for IP-related officials and exchange of information.

- ( 3 ) Both sides shared the view on the need to reinforce the existing cooperation in IP sector and to promote the establishment of adequate and effective system for IP protection.
- ( 4 ) The Japanese side requested for appropriate protection for the rights of breeders of new varieties of plants in agriculture, forestry and fisheries in accordance with UPOV91 Convention.

#### **4. Competition Policy**

- ( 1 ) Both sides shared the view on the importance of efforts in competition policy under the Japan-Indonesia EPA.
- ( 2 ) The Japanese side emphasized that the purpose of discussions on competition policy under the EPA is to prevent anticompetitive activities in the territories of both countries from hindering the benefits of liberalization in trade and investment, while pointing out that efforts in the area of competition policy will be a soft infrastructure for investment by Japanese enterprises. On top of these, the Japanese side suggested that efforts of a high standard including both enforcement cooperation and technical cooperation should be conducted under the EPA between the two countries, as Indonesia is one of the most advanced countries among the ASEAN countries in terms of efforts in competition policy. The Japanese side emphasized that notification, cooperation, coordination, and positive and negative comity in particular should be discussed in the field of enforcement cooperation.
- ( 3 ) The Indonesian side shared the view on an importance of enforcement cooperation under the EPA, while stating that the first step would be their effective application of competition laws of the two countries. The Indonesian side proposed that the focus of cooperation in this area should include: (i) exchange of information, and (ii) capacity building. The Indonesian side emphasized that those activities may include: a) reviewing competition policy and law; b) developing competition policy and law tools; c) capacity building for law enforcement agencies; d) increasing multi-stakeholders' support and awareness; and e) developing infrastructure capacity.

## **5. Standards and Conformance/Mutual Recognition (MRA)**

- ( 1 ) The Indonesian side showed its interest in, among others, mutual recognition of vocational qualifications and other issues.
- ( 2 ) The Japanese side explained that, without prejudice to the future negotiations on mutual recognition, in principle, mutual recognition under EPA should be for the verification and certification of product safety and such mutual recognition of vocational qualifications raised by the Indonesia side is different in nature from the mutual recognition which the Japanese side considers suitable under the EPA. The Japanese side explained that, in order to examine the possibility of mutual recognition, areas for such mutual recognition must be specified and the systematic and technical equivalence of both countries needs to be assured.
- ( 3 ) Both sides confirmed that the two countries would identify the areas of concern for the mutual recognition for the verification and certification of product safety, and have further examination by experts in order to specify the problems of relevant areas without prejudice to the necessity of such mutual recognition.
- ( 4 ) The Indonesian side expressed interest in obtaining by its relevant conformity assessment bodies of the status of Registered Foreign Certification Organization (RFCO) as well as Conformity Assessment bodies (CAB) in Japan for other products within the competence of the Ministry of Agriculture, Forestry and Fisheries (MAFF) and the Ministry of Economy, Trade and Industry (METI) of Japan, respectively.

## **6. Investment/Trade in Services**

- ( 1 ) The Japanese side stressed that it places the greatest importance on the field of investment/trade in services under the bilateral EPA, and that it would be very important to improve business environment where foreign companies can continue to stably operate under free and fair competition with the principle of non-discrimination between domestic and foreign capital, particularly in order for Indonesia to realize economic development by encouraging foreign investment.

- ( 2 ) The Japanese side expressed that, in the area of investment, it is interested especially in national treatment in both pre-establishment and post-establishment stages, most favored nation treatment and prohibition of performance requirements as well as of restrictive measures on market access, that it will be important to provide as core elements in the Agreement, among others, expropriation and compensation, freedom of transfers and procedures of international arbitration between a Party and an investor of the other Party, and that introduction of standstill obligations and ensuring transparency regarding regulations are important.
- ( 3 ) The representative of the Indonesian Chamber of Commerce and Industry (KADIN) explained that national treatment in the steady process of liberalization and further liberalization is under consideration through the new upcoming Investment Law which is currently being amended; that the national treatment at the post-establishment stage is a policy in principle, but there is no discriminatory regulations even at the pre-establishment stage other than foreign capital restriction; that the new upcoming Investment Law, however, is a general law and specific law related to individual services provide for certain restrictions on foreign capitals in some cases; that the new upcoming Investment Law aims at simplification of investment-related procedures including shift from license system to registration system, and certain other arrangements including adoption of one-roof services are also planned to be prepared; and that there is no problem on the inclusion in the agreement of expropriation and compensation, freedom of transfers and the international arbitration between a Party and an investor of the other Party. The Indonesian side provided clarification regarding the existing laws and regulations of investment. (See the attachment)
- ( 4 ) The Japanese side expressed its interests in liberalization of service sectors including manufacturing-related services, construction services, information and communications services, transportation and tourism services, distribution services, financial services, and legal services. The Japanese side explained that Japanese construction services could contribute to the improvement of infrastructure in Indonesia, and that manufacturing-related services are essential to manufacturing industries in which the Japanese investors are among the largest contributors to Indonesian economy. The Indonesian side also

expressed its interest in services sector liberalization, including tourism, information and communication services, maritime transport, construction, education and health-related services.

- ( 5 ) The Indonesian side also explained certain progress of further liberalization beyond the levels already committed under WTO in trade in construction and financial services. As far as distribution services are concerned, the Indonesian side explained that this area has been opened for foreign participation.

## **7. Mineral Resources/Energy**

- ( 1 ) The Japanese side stated that the areas of mineral resources and energy, that are important areas for Japan, should be discussed within the Japan-Indonesia EPA, in particular the following issues: (a) deregulation of the market participation restriction on Japanese enterprises, (b) improvement of investment environment, and (c) securing stable supply of mineral resources and energy in emergency. In addition, the Japanese side referred to Indonesian efforts in the improvement of investment environment, and particularly emphasized the importance of mineral resources and energy areas in this context.
- ( 2 ) The Indonesian side pointed out that the area of energy is one of the most important pillars of the Japan-Indonesia EPA, and that it is willing to maintain constructive discussions through the negotiations of the Japan-Indonesia EPA.

## **8. Movement of Natural Persons**

- ( 1 ) The Indonesian side expressed its interest in mutual recognition of qualifications in tourism and hotel services, spa services, food- and beverage-related services, caregivers, seafarers and nurses. The Indonesian side requested: (a) acceptance of skilled workers or professional workers in areas such as nursing, caregiving, hotel and tourism industries, and (b) recognition of certified seafarers on Japanese tuna fishing vessels and allowing Indonesian officers to be officers in Japanese tuna fishing vessels. The Japanese tuna fishing industry expressed its expectation for further employment of Indonesian seafarers on Japanese tuna fishing vessels.
- ( 2 ) The Japanese side explained that Japan accepts professional or technical workers to enter into Japan as the Government's policy

while it is difficult to accept unskilled workers. A Japanese labor organization pointed out that discussions should be limited to acceptance of professional or technical workers. In addition, the Japanese side pointed out that the scheme under the Japan-Philippines EPA will be applied only to Filipino nurses and certified careworkers and that, if another country has any request for the acceptance of nurses and careworkers, it should be fully examined on a country-by-country basis; and that, while there is the voice expressed by the related industry above, the issue of seafarers is unsuitable for the discussions on the movement of natural persons which deals with the entry into and stay in Japan.

- ( 3 ) The Japanese side expressed its interest in the exemption of payment by short-term visitors to the funds for the development of skills, treatment on the short-term visa equivalent to the ASEAN countries, approval for concurrently serving as directors for both a local Japanese company and a local joint venture, unification of procedures for work permits, exemption of fiscal tax (departure tax), and elimination of the nationality requirements on a manager for personnel divisions of a local Japanese company. Responding to the Japanese requests, the Indonesian side provided the following clarification: (i) the request to exempt the so-called “fiscal tax” cannot be accommodated, since it is a method of installment of income tax for all residents going abroad and is treated as a tax credit for related persons, and (ii) the nationality requirement on a manager of personnel division is based on Law No. 13/2003.

## **9. Government Procurement**

- ( 1 ) The Japanese side stressed that it is important to discuss transparency of procedures for government procurement as well as market access based on principle of non-discrimination between domestic and foreign suppliers under negotiations on the Japan-Indonesia EPA in accordance with the international framework regarding government procurement, recognizing that government procurement under transparent and competitive environment will benefit the two countries and their citizens by enabling fair and efficient implementation of budget as well as strengthening competitiveness of their economies.



- ( 2 ) The Indonesian side explained that in the context of reform of the government procurement system, the enactment in 2003 and steady implementation of the Presidential Decree No. 80/2003, which beyond certain threshold allows market participation of foreign companies, are currently in progress.

## **10. Improvement of Business Environment**

- ( 1 ) The Japanese side noted that there is strong correlation between the improvement of business environment and the improvement of investment environment in Indonesia and emphasized the importance to build a stable mechanism under the Japan-Indonesia EPA to discuss relevant issues, which occur through daily business activities, such as customs clearance, taxation and labor, as well as the importance to develop investment rules and administrative procedures, for the promotion of investment to Indonesia by Japanese enterprises.
- ( 2 ) The Japanese industry enumerated the following issues as particularly important and urgent in view of the improvement of investment environment: (a) customs clearance, (b) taxation, (c) labor, (d) promotion of investment/development of supporting industries, and (e) infrastructure. The Japanese industry emphasized the necessity to establish a mechanism, which consists of public and private sectors from Japan and Indonesia, in order to find problems and solutions to such problems. The Japanese industry also proposed the active utilization of Joint Forum on Investment, whose establishment was decided in December 2004.
- ( 3 ) The Indonesian side emphasized that the improvement of business environment is important for the two countries, and that it is important to discuss broad spectrum of issues between public and private sectors in parallel with preparations by the government for legislation of taxation laws and labor laws. The Indonesian side stated that in its efforts to improve business environment, Indonesia has proposed: (i) an amendment of tax law which is aimed at improving transparency, predictability, simplicity and equality; and, (ii) the issuance of implementing regulation on tax facilities.

## **11. Cooperation**

- ( 1 ) The Indonesian side requested technical cooperation and capacity building from the Japanese side in wide range of areas covered under

the EPA. In response, the Japanese side requested the Indonesian side to specify and prioritize issues of interest in the area of cooperation.

- ( 2 ) In the field of agriculture, forestry and fisheries, the Indonesian side requested cooperation from the Japanese side in the following areas: technical support and development of human resources towards improvement of the management system of fishery resources including patrol for combating IUU fishing vessels, development of organic farming and agricultural cooperatives, empowerment of small-scale farmers, technical assistance on fruit flies handling and its facilities, development of non-timber forest products particularly on charcoal and agarwood, and cooperation on preservation of mangrove forest.
- ( 3 ) The Japanese side expressed its view that balance between cooperation and market access is important in the field of agriculture, forestry and fishery, and that it is hard to positively respond to the request of cooperation which would have or may have a negative impact on Japan's food security and its ongoing efforts towards structural reforms of domestic agricultural sectors. Instead, the Japanese side explained that cooperation which would directly benefit the well-being of the people who are engaged in agriculture, forestry and fishery in a small scale would be appropriate.
- ( 4 ) In the field of industry, the Indonesian side requested technical cooperation, development of human resources, assistance on standards and conformance, support for SMEs etc, for various industries including steel and nonferrous metal, ship-building, textiles, automotive, electronics, eye-glasses and jewelries.
- ( 5 ) The Japanese side indicated that, in the field of industry, development of supporting industries in Indonesia and their business matching with Japanese companies are necessary and expressed its view that Indonesia's clear strategy on industry is required for effective implementation of cooperation.
- ( 6 ) With regard to the training and internship schemes, the Indonesian side requested: (a) improvement of working conditions, (b) expansion of covered areas, and (c) employment after internship. The Japanese side responded that the training and internship schemes are not for

employment and have clear objectives of technology transfer to the developing countries. The Japanese side also indicated that ways to improve the implementation of the schemes be discussed. In this connection, a Japanese labour organization pointed out that there are problems regarding the schemes.

#### **IV. RECOMMENDATIONS OF THE JOINT STUDY GROUP**

1. Based on the detailed discussions on each sector above, including economic analyses on the Japan-Indonesia EPA by scholars of both sides, and convinced that the Japan-Indonesia bilateral EPA covering a broad range of areas will contribute to further development of close economic relationship between Japan and Indonesia, the Joint Study Group for the Japan-Indonesia EPA decided to recommend to the Leaders of both countries that the two countries should launch negotiations on the Japan-Indonesia bilateral EPA, in parallel with negotiations on the ASEAN-Japan Comprehensive Economic Partnership Agreement which will start in April 2005.
2. Both sides confirmed that the negotiations will be conducted based on the following principles:
  - (1) For enhancement of economic partnership between the two countries, it is necessary to discuss a broad range of areas and to promote liberalization, improvement of rules and cooperation in accordance with the specific features of economic relations between the two countries. In this respect, in case it is more effective in bringing about high-level liberalization and rule-making, future discussions should include elements of cooperation in each area, which is designed to achieve the highest possible level of liberalization and rule-making. Both countries will conduct the negotiations constructively, positively and with flexibility, recognizing the existence of sensitive sectors in both countries.
  - (2) The two countries will take into account the progress of negotiations on the ASEAN-Japan Comprehensive Economic Partnership Agreement.

#### **V. SCOPE AND MODALITY FOR NEGOTIATIONS ON THE JAPAN-INDONESIA ECONOMIC PARTNERSHIP AGREEMENT**

1. Based on the discussions in the Joint Study Group, both sides provisionally concluded that the scope of bilateral EPA negotiations based on the recommendations by this Group should be as follows:
  - a. Trade in Goods
    - Tariffs and Non-tariff measures, Rules of Origin, Trade Remedies
  - b. Customs Procedures
  - c. Trade in Services
  - d. Investment
  - e. Movement of Natural Persons
  - f. Government Procurement
  - g. Intellectual Property Rights
  - h. Competition Policy
  - i. Standard and Conformance
  - j. Improvement of Business Environment
  - k. Cooperation
  - l. Dispute Avoidance and Settlement
2. The issue of energy and minerals will be discussed under this EPA.
3. Modality for negotiation should be discussed at the 1<sup>st</sup> meeting.
4. Both sides shared the view that two countries should start the EPA negotiations as soon as possible and conclude them within a reasonable period of time.

– END –

## ATTACHMENT

1. The Indonesia adopts a negative list system, which always minimizes, from time to time, the number of closed business sectors to foreign direct investment. Now besides eleven business fields closed absolutely for investment, there are also eight business fields closed to foreign direct investment.
2. Indonesia applies national treatment in the post establishment and full most-favoured-nations treatment. There is still a regulatory reason not to apply full national treatment.
3. Indonesia applies the ten days process to finish any new investment and expansion of investment.
4. Indonesia attaches importance to direct investment protection such as freedom of transfer, subrogation and dispute settlement between state and investor. Law No.1 of 1967 governs some important issues such as the right of transfer, nationalization and compensation as well as repatriation. Therefore, Indonesia gives consideration to dispute settlement on investment between state and investors. Indonesia, as a member of Convention on the Settlement of Investment Disputes between States and National of other States (ICSID), has already ratified this convention by: Law No. 5 of 1968.
5. Indonesia still adopts a divestment program. 100% foreign owned company shall sell a part of its shares to Indonesian citizens and/or Indonesian legal entities within a maximum of fifteen years after the commencement of commercial operation, by way of direct ownership and/or through the domestic stock exchange.
6. Indonesia government is in the process of revising the existing investment law. It is hoped that the upcoming investment law will accommodate internationally recognized standard, practice and principles of investment. The law, as an example, will ensure that equal treatment will be accorded to investors irrespective of their nationalities (based on the most favored nation's principle). Moreover, the government of Indonesia, through this law, also attaches importance to the protection from nationalization and expropriation. When it happens, the government will offer compensation. Therefore, the government also guarantees a right to transfer and repatriate, in term of acceptable foreign currencies. In addition going to international arbitration in order to settle investment disputes is a part of the new investment law.

Lampiran 2: Dokumen *Joint Study Report ASEAN Comprehensive Economic Partnership Agreement: Vision and Task Ahead*

## **Joint Study Report**



# **ASEAN-JAPAN COMPREHENSIVE ECONOMIC PARTNERSHIP: VISION AND TASKS AHEAD**

**ASEAN-Japan Research Institute Meeting**

**Institute of Developing Economies  
Japan External Trade Organization**

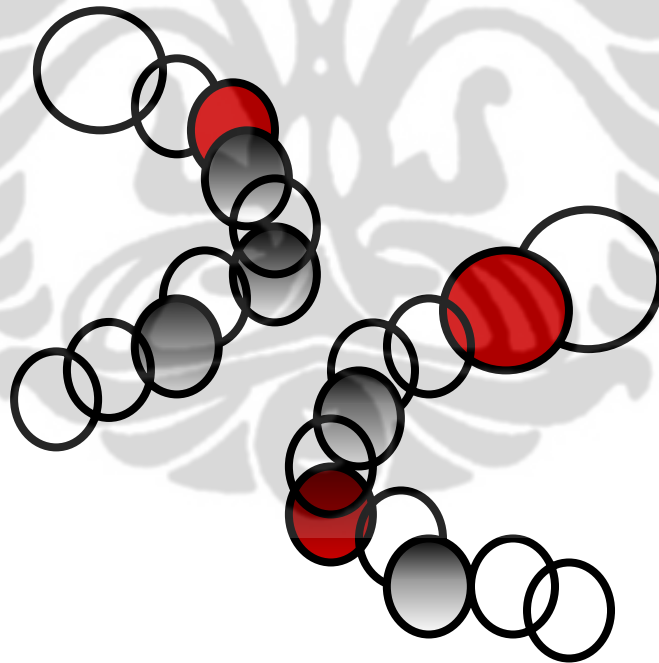
for

**ASEAN-Japan Research Institute Meeting  
July 22, 2003**



# Joint Study Report

## ASEAN-JAPAN COMPREHENSIVE ECONOMIC PARTNERSHIP: *VISION AND TASKS AHEAD*



**ASEAN-Japan Research Institute Meeting**

**Joint Study Report**

**ASEAN-JAPAN  
COMPREHENSIVE ECONOMIC PARTNERSHIP:  
VISION AND TASKS AHEAD**

**ASEAN-Japan Research Institute Meeting**



**Institute of Developing Economies  
Japan External Trade Organization**  
*for*  
***ASEAN-Japan Research Institute Meeting***

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# ASEAN-Japan Research Institute Meeting\*

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Kan Zaw

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\* The first ASEAN-Japan Research Institute Meeting was held in Bangkok on October 25, 2002.  
The second ASEAN-Japan Research Institute Meeting was held in Tokyo on July 22, 2003.

## **1. Renewed Initiative for ASEAN-Japan Cooperation**

In January 2002, Prime Minister Junichiro Koizumi visited Singapore and signed the Japan-Singapore Economic Partnership Agreement. He went on to stress the need for strengthening a sincere and open partnership between Japan and ASEAN and proposed an Initiative for ASEAN-Japan Comprehensive Economic Partnership (AJCEP).

In September 2002, ASEAN Economic Ministers and Ministers of Economy, Trade, and Industry met in Brunei (AEM-METI) and jointly recommended the Leaders to 'commence consideration of a framework that would provide a basis for concrete plans and elements towards realizing the AJCEP in accordance with guiding principles, such as the comprehensiveness of countries and sectors. The framework should be developed and its outcome presented to the Leaders in the year 2003 for their consideration. The implementation of measures for the realization of the partnership, including elements of a possible FTA, should be completed as soon as possible within ten years while according due consideration to the economic levels and sensitive sectors of each country'. The Leaders met in Cambodia last November and signed a joint declaration. A committee of senior economic officials of ASEAN and Japan has been established to build a framework of AJCEP since March 2003.

In support of this AJCEP initiative at the governmental level, the Institute of Developing Economies/JETRO (IDE-JETRO) of Japan and research institutes of five ASEAN member countries last year began a new joint study program on the AJCEP and its underlying strategy for enhancing international competitiveness. The five ASEAN research institutes are the Centre for Strategic and International Studies of Indonesia, the Malaysian Institute of Economic Research, the Philippine Institute for Development Studies, the Singapore Institute of International Affairs, and the Thailand Development Research Institute. This program also attempts to address the Japan-ASEAN Leaders' suggestion for 'strengthening the network that links research institutions on Japan and ASEAN countries'. The ASEAN-Japan Research Institute Meeting (AJRIM) met for the first time in Bangkok in October 25, 2002. In July 22, 2003, during the ASEAN-Japan Exchange Year, representatives from ten research institutes including those from University of Brunei Darussalam, Cambodian Institute for Cooperation and Peace, National Economic Research Institute, CPC (Lao PDR), Yangon Institute of Economics, and Central Institute for Economic Management (Vietnam) met in Tokyo. AJRIM came to an agreement to submit the results of the joint study to AEM-METI in September 2003 and publish the same later for wider dissemination.

## **2. ASEAN-Japan Relationship: Overview**

New initiatives have been frequently made to strengthen the ASEAN-Japan relationship. Japan and ASEAN member economies have been close economic

partners for more than three decades. ASEAN members accelerated their development in the 1970s and from 1987 to 1996 achieved a decade-long period of 'miraculous growth'. Japanese firms participated in this achievement through active direct investments and through imports. They have established business networks throughout the region, and the accumulated stock of their direct investment in manufacturing in ASEAN (Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam) is now 3.4 times larger than that in China. The ASEAN member economies, however, suffered a severe setback from the Asian financial crisis of 1997-98, an event that also severely affected the Japanese economy. Though they have recovered from the crisis more quickly than anticipated, their structural deficiencies still need to be addressed decisively.

The recent advance of the Chinese economy and of Chinese firms has caused a feeling of uneasiness and is often seen as a threat to the rest of East Asia. However, the majority view that China's dynamism could serve as a strong engine supporting East Asian development. In the short run, there are regional economies, sectors and firms that will be directly affected by competition with China. A major economic policy issue shared by many ASEAN member economies is how to promote upgrading of their industrial structure and enhance the international competitiveness of their industries.

This year, the six original ASEAN members will complete the AFTA liberalization on schedule, reducing tariffs below 5% except for a limited number of sensitive items. New ASEAN members will follow this in turn. The completion of AFTA will achieve a single integrated ASEAN market and will enable existing firms, both indigenous and foreign, to achieve more efficient intra-ASEAN specialization, thus strengthening the competitiveness of ASEAN as a whole. It will also encourage more foreign firms to invest within ASEAN.

Meanwhile, the Japanese economy has matured and its decade-long stagnation has continued. The domestic base for manufacturing has weakened and many Japanese firms have been shifting production capacity abroad. In ASEAN, Japanese firms are developing strategies and business networks aimed at the whole ASEAN market. Together with cross-border advancement of indigenous ASEAN firms, this will help strengthen the competitive edge of both Japan and ASEAN. AJCEP provides a framework for these moves.

### **3. Vision of ASEAN-Japan Comprehensive Economic Partnership**

What is the vision of AJCEP? In parallel with the AJCEP initiative at governmental level, AJCEP has been discussed by businessmen and academics at various international conferences in the region. However, while various regional cooperation schemes have been proposed in the region, few people so far share a clear vision for the future, or an understanding of the concrete tasks that lie ahead.

The six elements below should be incorporated in the vision of AJCEP:

First, AJCEP aims at an FTA between Japan and ASEAN as a whole contrary to the traditional pattern of bilateral cooperation between Japan and individual ASEAN member states. Completion of AFTA would achieve a single ASEAN market, and an FTA between Japan and the integrated ASEAN would generate new business opportunities for both Japanese and ASEAN firms. For example, a bilateral FTA between Japan and an ASEAN member will not induce Japanese firms to invest in the country for the sake of its segmented market. However, an ASEAN-Japan FTA will provide a favorable incentive for investment in production using each country's comparative advantage and aiming at the whole ASEAN market. The completion of AFTA will provide a core base for new investments.

Second, ASEAN member governments must change their trade, investment, and industrial policies from the traditional pattern based on import restriction and export subsidy to a pattern of greater market competition within a single ASEAN market. They have to convert cheap labor assembly production of low value-added goods, based on imported parts and materials, to upgraded production based on their own comparative advantage and on domestic supporting industries. The Competitive Strategy Report, compiled by IDE-JETRO and the research institutes of five ASEAN countries and Vietnam, aims to encourage each ASEAN member to identify its own comparative advantage. The promotion of trade and investment liberalization and domestic structural reform is inevitable in order to enhance trade and cross-border investment among member economies. Liberalization and structural reform basically depend on self-help efforts but they tend to make little headway due to resistance from entrenched domestic interests. Joint implementation of liberalization and reform in a comprehensive FTA framework will help individual governments to persuade their nationals of the usefulness of external commitments.

Third, Japan, for its part, has to convey to its ASEAN counterparts how its on-going reform of industry and corporate structure affect trade and FDI relationships with neighboring economies. What will be the effect of the ASEAN-Japan FTA, once it is completed, on Japanese investment in ASEAN? Japan should also respond positively to the expectation of ASEAN members concerning the expansion of agricultural exports and labor movement in ways that will bring long-term benefits to both ASEAN and Japan.

Fourth, in the single integrated ASEAN there still remain big differences in living standards and in stages of industrial development between the six original member states and Cambodia, Laos, Myanmar, and Vietnam (CLMV). The specific and differential treatment of just allowing a longer period of implementation is not sufficient to make up the difference, and ASEAN needs a regional program and an institutional process so as to enable the late-starters to overcome their handicaps. On the other hand, Japan is currently increasing bilateral technical cooperation to CLMV, while decreasing the total amount of ODA. When combined with the human and physical resources and experience of the original ASEAN members, this approach will be enlarged to become an ASEAN-wide assistance program. It will encourage

CLMV to participate in AJCEP and strengthen the solidarity within ASEAN toward an integrated and single ASEAN market.

Fifth, AJCEP will be a comprehensive program incorporating not only trade and investment liberalization but also facilitation and economic and technical cooperation so that the afore-mentioned objectives can be achieved. For the smooth and effective implementation of those efforts, development of capital markets and various kinds of economic cooperation are inevitable. Effective utilization of existing initiatives by larger regional groups such as APEC will be useful. Without the provision of these regional public goods, regional integration will be very difficult to achieve.

Sixth, AJCEP can co-exist with other bilateral or subregional FTAs promoted either by ASEAN or Japan or other countries in the region. Indeed, the AJCEP may well be viewed as a building block of a broader East Asian Economic Community. It is important for all East Asian economies to promote bilateral and subregional FTAs in parallel, while sharing the ultimate goal of an East Asian FTA.

#### **4. Tasks Ahead for the ASEAN-Japan Comprehensive Economic Partnership**

Accordingly, the following actions will be on the agenda for AJCEP.

##### **Task 1: Reduction of Barriers to Trade, Services, and Investment**

What impact can be expected from a complete reduction of barriers to trade, services, and investment between ASEAN and Japan? A “forward looking” Applied General Equilibrium model of global trade developed by IDE-JETRO provides analysis over time of the announcement effects of FTA prior to implementation and the effects after the implementation. The simulation results show significant welfare gain when barriers to trade and investment are completely removed by liberalization and facilitation.

One of the major characteristics of an ASEAN-Japan FTA is its huge and long lasting impact of its investment effect on the ASEAN economies. This is because ASEAN has a closer and complementary trade relationship with Japan, whose economic size is very large. The reduction of barriers between ASEAN and Japan will increase the expected rates of return on investment in ASEAN and thus will lead to an expansion of investments in ASEAN until they become equal to that of investments in other regions.

On the other hand, the Japanese economy would also benefit from the ASEAN-Japan FTA. When Japan agrees to reduce barriers mutually with ASEAN as one of its major trading partners, the expected rates of return on investment in Japan also will increase, and investments will expand through large capital inflows into Japan. Therefore, the ASEAN-Japan FTA would be mutually beneficial to ASEAN and Japan by expanding

trade and investments, and would therefore contribute to the economic growth of both ASEAN and Japan.

In reality, the ASEAN-China FTA goes ahead before the ASEAN-Japan FTA. What impact can be expected if ASEAN and Japan were to agree on an ASEAN-Japan FTA after an ASEAN-China FTA? In this case, ASEAN economies would enjoy combined benefits from the two FTAs. This is because ASEAN would be a hub connecting Japan and China, attracting capital from the world. This suggests that concluding an FTA with Japan, a huge trading country, has great impact in East Asia. At the same time, Japan would also gain from the ASEAN-Japan FTA. The magnitude of the effects would be considerable for a Japanese economy that has stagnated for a long period of time.

However, the huge effects of removal of barriers to trade, services and investment between ASEAN and Japan can be realized only in an environment where each firm can maximize its profits. In fact, because of financial constraints, some firms cannot invest in ASEAN even if it were otherwise reasonable to do so. Also, in reality, complicated administrative procedures for investment have to be taken into account. For instance, certificates of product origin and customs clearance procedures may be more time-consuming and costly than before implementation. If that is the case, the investment-increasing effect of the AJCEP will be lessened. Therefore, AJCEP's expected huge effect greatly depends upon further improvement of the investment environment. Among other improvements, saving time and cost in customs clearance would be a breakthrough for ASEAN in its attempt to attract more investments.

## **Task 2: Completion of a Single ASEAN Market**

In order to maximize the effects of AJCEP, ASEAN must commit itself not only to trade liberalization within the region, but also to formation of a single ASEAN market by promoting the facilitation of business activities within the region.

ASEAN has been operating the Common Effective Preferential Tariff (CEPT) scheme, which reduces regional tariffs below 5%. The six original ASEAN members will complete the CEPT scheme within 2003, except for sensitive items such as agricultural products and items included in the temporary exclusion list (TEL) for purposes of protecting domestic industries. New ASEAN members will follow suit: Vietnam by 2006, Laos and Myanmar by 2008, and Cambodia by 2010. In addition, the original ASEAN members are to start reducing tariffs of items in the TEL by 2005. In order to enhance the effect of the AJCEP, ASEAN will have to complete this CEPT scheme on schedule.

In addition, regional liberalization of services and of investment and facilitation in the region are vital for ASEAN to arrive at a single ASEAN market. One example illustrates this. Transportation services on land between Thailand and Malaysia have not been mutually agreed and containers on the trucks cannot cross the border without changing vehicles. This not only causes a rise in transaction costs but also



slows down the speed of business. In the middle of July 2003, ASEAN Economic Ministers discussed how to enhance intra-ASEAN trade and investment. They noticed significant market segmentation and high transaction cost within ASEAN due to a variety of non-tariff measures such as complicated customs procedures, divergent product standards, and technical regulations. They discussed how to harmonize these measures between ASEAN members and agreed to strengthen economic integration beyond AFTA. We fully support this initiative as it is consistent with the task of AJCEP.

In the course of industrial upgrading, Japanese firms will introduce advanced production systems that cannot be replaced by automation and other labor saving techniques. However, due to the diminishing number of children and the ageing of its population, it may be difficult to cover all those processes. Japanese companies will require overseas production bases for manufacturing goods in ASEAN, and they will choose the region because they have invested there for a long time, accumulated production know-how, and employed numerous local technicians. This will bring about an international division of labor between ASEAN and Japan, contrasting with the traditional bilateral relationship between Japan and each ASEAN country, and will create ASEAN-wide relationships, in which parts and materials are transferred across borders within the region. In order to respond to this new international division of labor, each ASEAN country must abolish barriers to trade, services, and investment and make efforts to form a single market where firms are able to enjoy the speedy and less costly conduct of business.

In this respect, the time has come for ASEAN to deepen and to accelerate its economic integration. The idea of an ASEAN Economic Community (AEC) is seen as a logical extension of the various initiatives taken and implemented by ASEAN thus far towards greater economic integration. This next step, however, requires a strong and firm commitment by ASEAN members to move forward in a credible and timely manner. For accelerating economic integration of ASEAN, major institutional changes at the ASEAN Secretariat must be undertaken to provide a more consistent and effective way of implementing policy towards individual ASEAN members. Specifically, the ASEAN Secretariat must be transformed from being a structure for inter-governmental co-operation into a regional institution. This process will be gradual but a strategic introduction of "regional units" into its existing structure can bring about significant results.

### **Task 3: Industrial Structural Reform in ASEAN Economies**

In the interest of creating a single market, the ASEAN economies must emphasize a competitiveness-enhancing policy. Its main pillar would have capacity building such as human resource development and the enhancement of facility to raise the level of technology and skills, in order to create new locational advantages. This shift in focus enables the adjustment to a rapidly changing economic environment and the establishment of complementary trade relations within ASEAN countries and with China. Completion of AFTA and ASEAN-Japan FTA (and ASEAN-China FTA) will inject more principles of market mechanism into the industrial policies of ASEAN

economies. Summarizing the competitive strategy reports from the research institutes of the six ASEAN members, IDE-JETRO is attempting to quantify fundamentals for industrial upgrading in order to prioritize areas for policy intervention.

Because of ASEAN's industrialization and the emergence of China, the original ASEAN members have lost the advantage that they once enjoyed in factor endowment with respect to abundant unskilled labor. Even so, the technological capability of indigenous firms remains low. For further development and competitiveness, ASEAN must create a new factor endowment by developing human resources and by forming technology and skills, so as to climb up the technological ladder. The low level of technology and skills of indigenous firms stems from (1) the lack of a policy framework that is conducive to the development of technology and skills, (2) the manufacturing of products only for small domestic markets, and (3) the high cost of intermediate goods resulting from protection of specific industries. However, if ASEAN countries change their industrial policies from protecting specific industries to adopting more competitive policies, and if indigenous firms in ASEAN succeed in manufacturing on an ASEAN-wide or an East Asia-wide basis, they might be able to climb up the technological ladder in the same way as Japanese SMEs climbed it by specialization. Eventually, this will attract foreign direct investment in more advanced fields and enable both foreign and indigenous firms to develop together, strengthening the linkages amongst them.

Efforts to strengthen competitiveness should be basically dependent on self-help and should be carried out at national level. Singapore, Malaysia, and Thailand have a clear vision of moving from a production-based economy to a knowledge-based economy. Singapore is now trying to be a hub of education in East Asia by inviting talents from the region and is advancing toward a knowledge-based economy. Malaysia's strategy is to nurture indigenous technology by providing fiscal incentives for R&D to be commercialized, by establishing science parks with quality control laboratories and modern prototype production centers, by increasing the number of science and technology students to meet market demand, and by strengthening a linkage between industry and education. As for Thailand, a taskforce for technology formation and skill formation has just been set up under the Ninth Five Year Plan starting in 2002. Accordingly, some government agencies are now assigned the responsibilities to implement the competitiveness policies. For example, since October 2002, the BOI has reoriented its main function from the promotion of overall investment towards the promotion of skilled and technological intensive industries and provision of comprehensive services of trade and investment to investors.

Indonesia has not developed comprehensive plans for strengthening its technology base due to financial constraints in the aftermath of the Asian financial crisis. The focus of the policy agenda in Indonesia is currently on macro-economic stability and economic recovery from the crisis. The real challenge for Indonesia is to develop a comprehensive and competition-based trade, investment and industrial policy to meet growing competition in a global economy. As regards the Philippines, in the process of strengthening the country's hitherto backward technology base, its educated and highly trainable human resources have remained largely untapped and unexploited.

This is due to the absence of well-coordinated plans for industrial policy and technology, very limited budgets for research and development (R&D), and poor private sector participation in R&D owing to lack of appropriate incentives. Vietnam has yet to take measures to improve institutions, administrative capabilities, and the investment environment.

#### **Task 4: Industrial Structural Reform in Japan**

Japan has continued to suffer from a decade-long recession caused by the maturing of its economy and society, the fall in the birth rate and the ageing of the population, the aftermath of the rapid appreciation of the yen in the late 1980s, and the bursting of the bubble economy in the early 1990s. Japan has implemented a variety of reforms in public institutions and regulations and drastic changes are under way in her industrial and corporate structure. In June 2002, the Fiscal and Economic Advisory Council adopted drastic reform programs including tax policy and government expenditures on public infrastructure, social welfare, and local governments. In April this year it enacted laws for Industry Revitalization and Special Districts for Structural Reform. Japan must complete these reform efforts as soon as possible on a sustained basis, otherwise the AJCEP will lose its momentum.

Dynamism also emanates from groups of competitive firms establishing business networks conducive to the creation of a new division of labor in East Asia. By and large, the Japanese structure of production and trade does not compete with, but is complementary to those of ASEAN and China, of which Japanese firms try hard to take the best advantage. In these circumstances, both ASEAN and China are Japan's major partners and, while Japanese firms are now establishing production networks in China, they are restructuring and strengthening their networks in ASEAN conducive to the completion of AFTA. The AJCEP aims to provide a favorable policy environment for this development.

ASEAN and Japan would also enjoy significant potential economic gain from agricultural trade liberalization. Several ASEAN economies are the world major exporters of many agricultural products, e.g., Thailand is the largest exporter of rice, rubber and shrimp; Vietnam the major exporter of rice and coffee. But more important, the new ASEAN economies, the CLMV, which have strong comparative advantage in agriculture, will be able to have access to the large Japanese market. The Japanese consumers will also gain substantially from lower food prices and tax savings that are used in protecting the Japanese agriculture. However, this requires a sizable adjustment to Japanese agriculture.

Some ASEAN members are interested in an increase of cross-border labor mobility. Labor mobility is a sensitive issue in almost every country, but, while being on the agenda of WTO's services trade negotiations, it will increasingly be given attention in future. Mutual recognition of engineering qualifications is one example of the facilitation of labor mobility. Currently, the IT qualifications of Japan are mutually recognized by Myanmar, the Philippines, Singapore, Thailand, and Vietnam. Mutual recognition of more qualifications should be included in AJCEP.

An FTA has the function of serving as a laboratory for experimenting with liberalization on a limited scale. The AJCEP can perform the role better by combining liberalization with facilitation and economic and technical cooperation and should tackle these tasks rather than excluding them.

### **Task 5: Joint Arrangement of Policy Environment**

The AJCEP needs to formulate a wide variety of policy environments that facilitate business activities. In this regard, the principal aim should be to attract as many firms as possible, both indigenous and foreign, and to achieve economic prosperity in the region. Not only trade and investment liberalization are needed but various supplementary measures are required to facilitate cross-border business activities. Customs procedures in ASEAN are still costly and time-consuming, and discourage firms from pursuing cross-border business activities. As described in Task 1, realization of cost-free customs procedures would be a breakthrough for inviting more investments in ASEAN. It is essential for the governments of ASEAN and the Japanese government to jointly improve customs procedures, standards and conformance, intellectual property rights, competition policy, and transportation and communications regulations so as to create competitive and 'seamless' investment environments in the region. Improvement of infrastructure such as building an ASEAN-wide transportation system will realize smooth business activities.

Also, Japan has to be ready to provide technical assistance to ASEAN as a whole and collaborate with ASEAN to develop technology and skills. Again, through automation and labor saving, Japanese firms will continue to develop advanced production processes and these will require more highly skilled labor. Japan is likely to encounter a shortage of skilled labor in the future due to the drop in its birth rate and the aging of its population. Japan and ASEAN members also need to cooperate closely in business-matching of small and medium firms, reform of legal systems, and improvement of administrative capability in individual ASEAN member governments. Furthermore, technical cooperation such as testing centers and pilot manufacturing plants should be enhanced so as to nurture the technical competence of indigenous firms. AEM-METI Economic and Industrial Cooperation Committee (AMEICC) started Centers of Excellence Comprehensive Program in 2000 which aimed to strengthen the function of human resource development-related institutes.

These facilitation and technical assistance measures need be promoted with the close and greater cooperation of all participating countries. This partly overlaps the approach by APEC, a wider cooperation group than AJCEP. APEC has been successful in promoting facilitation and Ecotech among members by introducing and disseminating effective systems and rules and best practices. ASEAN and Japan, both active members of APEC, can take advantage of successful APEC practices in these areas. Facilitation, capacity building, and improvement of infrastructure will enhance the competitiveness of ASEAN as a whole.

## **Task 6: Capital Markets and Financial Cooperation**

The 1997 financial crisis provided a stimulus for much greater financial cooperation within the region. Prior to the crisis, the financial position of the East Asian region as a whole was fairly strong, with a combined current account surplus (saving surplus) of about \$150 billion per year and combined foreign reserves of about \$600 billion. However, while the financial position of the region as a whole was strong, many individual countries in the region were in highly vulnerable financial positions. Countries such as Thailand, Indonesia and South Korea had to rely on short-term foreign borrowing to finance their current account deficits. The ratio of short-term foreign debt to official reserves in these countries increased rapidly and reached between 110-190% prior to the crisis. Thailand used up almost the entire amount of its foreign reserves in a futile attempt to defend its currency, ending up insolvent and with almost no foreign reserves left to meet its foreign currency obligations, and it was this that precipitated the crisis. As the liquidity positions of foreign currencies in various countries in the region came under scrutiny, the vulnerabilities of Indonesia and South Korea became very clear, and they followed Thailand into crisis, requiring IMF assistance to prop up their foreign currency liquidity positions.

As a result of the crisis, diverse parties within the region realized the need for East Asia to achieve better leverage on its financial strengths and to develop new approaches and mechanisms to better protect itself from risks and volatile developments of the kind that led to the financial crisis. It was recognized that there was a need to ensure a more stable economic development environment for the region in the future. In fact, significant progress has been made in financial cooperation within the region. Modes of cooperation range from surveillance and early warning mechanisms such as the ASEAN surveillance process under the Manila Framework, and the formation of the ASEAN+3 group leading to the development of a regional financing facility (the Chiang Mai Initiative) involving an expansion of the ASEAN swap arrangements and a series of bilateral swap arrangements between ASEAN member countries and each member of the Plus Three group. The fact that the ASEAN+3 group was formed, and the fact that the first substantive cooperation initiative of the group, the Chiang Mai initiative, was in the area of financial cooperation, both indicate the importance attached to the deepening of financial cooperation within the region. Therefore, it is not surprising that many of the ASEAN countries' reports on the AJCEP suggest that financial cooperation between Japan and ASEAN countries should be an important part of the AJCEP.

Much more can be done on financial cooperation within the region, and concrete measures can be included as part of the AJCEP framework. Current initiatives on the development of an Asian Bond Market need to be supported by many additional measures so as to harmonize capital market rules and regulations, and trading and clearing mechanisms, as well as the development of regional credit rating institutions and standards. Technical cooperation on these issues can be carried out within the framework of the AJCEP and would be a catalyst for expansion and application to the whole of the East Asia region. An active and efficient Asian Bond Market could be an important mechanism for recycling surplus savings within the region and would

become a source of long-term development financing for countries that may have saving deficits. This would ensure that deficit countries would not need to rely as much on short-term external borrowing as in the period prior to the 1997 crisis, and this would contribute to much greater financial stability in the region in the future.

Other aspects of financial and monetary cooperation can also be included, such as stronger mutual economic surveillance mechanisms, greater macroeconomic policy coordination, and the promotion of the yen to become a more important international currency within ASEAN. Some form of exchange rate coordination may also be possible particularly if there were to be more stability in the exchange rates of the major currencies (i.e. dollar, yen, euro). Clearly, there are many aspects of financial and monetary cooperation that could be included within the AJCEP framework. This would also make the AJCEP stand out from the China-ASEAN FTA where financial cooperation is not a significant issue, and contribute to laying the ground for a broader framework of East Asian financial cooperation.

### **Task 7: Support to New ASEAN Members**

New ASEAN members have much lower per capita income than the original members, and are handicapped in infrastructure, human resources, technology, and capital endowments. Though CLMV have comparative advantage in agriculture and agro-based industries, they have not developed to a satisfactory level. Nor does industrialization go well on its own. In order to overcome these handicaps, CLMV need a specific and differential treatment by allowing them a longer period of implementation of liberalization reforms. They also need to incorporate a variety of technical assistance programs and economic cooperation.

Since November 2000, ASEAN leaders have established an Initiative for ASEAN Integration (IAI) in which original ASEAN members extended technical assistance to new members in human resource development. Also, Japan has extended assistance to human resource development to CLMV; in Cambodia, for example, a center to teach how to use industrial sewing machines for workers in apparel industry was set up with the purpose of training technicians.

As regards infrastructure, the Greater Mekong Subregion (GMS) projects aim to develop the Mekong basin, involving Cambodia, Myanmar, Laos, Thailand, Vietnam, and China. Effective utilization of water resources could supply cheap electricity to neighboring countries. Furthermore, road projects in the Mekong Delta such as the East-West Corridor could improve logistics in the region. These projects could not only enhance the competitiveness of ASEAN as a whole, but could also develop agriculture and agro-based industries and create job opportunities.

During the 1980s, Japan provided the original ASEAN members with bilateral ODA. These ASEAN members have outgrown this stage, while Japan is constrained severely by reduced ODA spending brought about by its prolonged recession. However, throughout the 1990s, Japan has been increasing its ODA to CLMV and has been reinforcing its support of the GMS projects. It is possible to develop Japanese

ODA to CLMV, both in infrastructure and in technical assistance, into broader aid involving greater ASEAN participation, and incorporating human resources, training facilities, skills, and the experiences of the original ASEAN members. This would strengthen the solidarity of ASEAN. AMEICC is implementing this type of assistance combining Japanese funds with human and physical resources of other ASEAN members on a small scale. The AJCEP could include a framework for facilitating and systematizing assistance of richer ASEAN members to CLMV.

### **Task 8: Way towards AJCEP**

For its part, the Japanese government, having agreed on the Japan-Singapore Economic Partnership Agreement, has started consultation on bilateral FTA with Thailand, Philippines, and Malaysia. Bilateral FTA is a pragmatic approach, taking advantage of increased momentum for achieving higher integration among interested countries. However, bilateral FTA is subject to a limited gain from scale economies. It is necessary to promote AJCEP in parallel with the bilateral FTA negotiations. Non-participating countries will feel the pressure to participate in AJCEP so as to avoid being left behind.

Though FTA may be accepted as a realistic approach, what will happen to the future of East Asia? Will East Asia be able to achieve sufficient prosperity to qualify as one pole among three, alongside Europe and America? The FTA plans at bilateral, multilateral, and East Asian scales are complex. Among them, the competitive liberalization that China and Japan are negotiating with ASEAN, through the formation of an FTA, is remarkable. However, whilst both Japan and China pursue FTA negotiations with ASEAN, neither of these countries has proposed a Japan-China FTA. Furthermore, although the prime ministers agreed that trilateral cooperation between Japan-China-Korea is desirable, it is still at the stage of study amongst experts.

In the future, an East Asian community that includes ASEAN+3 and also Hong Kong and Taiwan, is desirable. As such, the region would be able to form an economic pole that is equivalent to the European and American continents. This development would be consistent with economic rationale. However in reality, the rapid achievement of this goal is hindered by economic gaps, remaining differences between the economic systems, a lack of experience in integration and a historical hangover from the first half of the twentieth century between Japan, China and Korea. There is no way forward other than to begin with feasible objectives, regardless of whether these are bilateral or multilateral arrangements. If a particular FTA arrangement goes far ahead of the others, it will tend to distort trade and investment within East Asia and may become a stumbling block for the development of East Asia as a whole. It is important for all East Asian economies to promote individual and sub-regional FTAs in parallel, while sharing the ultimate goal of an East Asian FTA embracing all the sub-regional FTAs. Positioned in between bilateral FTAs and ASEAN+3, AJCEP can play the role of a catalyst in achieving the East Asian community of the future.

Lampiran 3: Dokumen *Japan-Indonesia Joint Statement*  
*"Strategic Partnership for Peaceful and Prosperous Future"*

**Japan-Indonesia Joint Statement**  
**"Strategic Partnership for Peaceful and Prosperous Future"**

On the occasion of the State Visit of President Susilo Bambang Yudhoyono to Japan from 26 to 29 November 2006, as the first State Guest after the establishment of the new cabinet of Japan, Prime Minister Shinzo Abe and President Yudhoyono held a Summit meeting on 28 November 2006.

The Summit proceeded in a cordial and productive atmosphere. The two leaders were satisfied with the excellent ties between the two countries and peoples which had been well nurtured since the establishment of diplomatic relations in 1958. They reaffirmed the long-standing bilateral friendship.

Both leaders exchanged views on wide-ranging issues and resolved to work together to create a promising future for the regional and global peace and prosperity. To this end, the two leaders were determined to further elevate the bilateral relations between Japan and Indonesia to a higher plane under the "Strategic Partnership for Peaceful and Prosperous Future" while addressing steadily new challenges in bilateral, regional and global issues based on the Japan-Indonesia Joint Statement "Partners for New Challenges" signed in June 2005.

In particular, the two leaders confirmed with great pleasure the agreement in principle on major elements of the Japan-Indonesia Economic Partnership Agreement as described in the separate Joint Press Statement.

The two leaders underlined that the strategic partnership between Indonesia and Japan would be a significant means to deepen and expand mutually beneficial bilateral ties and also for exploring new opportunities to promote concrete bilateral cooperation in various areas. It shall contribute to international peace, stability and prosperity in the region and beyond and also be in accordance with the principles stipulated in the UN Charter, the Treaty of Amity and Cooperation in Southeast Asia, and other universally recognized norms of international law. It should also foster closer partnership to address new challenges and non-traditional security threats such as the danger of infectious diseases including avian influenza, terrorism, natural disasters and transnational crimes. The two leaders acknowledged that human security should be addressed by the international community, in due compliance with international laws, in tackling regional and global challenges.

Prime Minister Abe emphasized that Japan had been consistently following the path of a peaceful nation more than 60 years since the end of World War II, and would continue to follow this path. President Yudhoyono highly appreciated this



peaceful commitment. Prime Minister Abe expressed to President Yudhoyono his appreciation for Indonesia's independent and active foreign policy. The two leaders pledged their commitment to intensify mutually beneficial bilateral economic cooperation. President Yudhoyono expressed his sincere appreciation for the assistance and cooperation in the development of Indonesia that have been extended to date by the people and the Government of Japan, including through ODA and investment, and that the Government of Japan is committed to further strengthen on a mutually beneficial basis.

## **1. Progress in Bilateral Cooperation since Last Year**

### **(1) Economic Partnership Agreement (EPA)**

The two leaders emphasized that this agreement will mark a new era for Japan-Indonesia partnership, by forging closer economic relations through cooperation for capacity building, liberalization, promotion and facilitation of trade and investment between the two countries. They reconfirmed their commitment to continue exercising their leadership so that the JIEPA would be concluded as soon as possible.

The two leaders also welcomed the cooperation of private sectors in promoting JIEPA, including capacity building of SMEs in Indonesia and expanding and developing activities aimed at promoting trade and investment between Japan and Indonesia, through the new initiative signed between Japan's External Trade Organization (JETRO) and Indonesian Chamber of Commerce and Industry (KADIN).

### **(2) Strategic Investment Action Plan (SIAP)**

The two leaders welcomed the Progress Report prepared by the Planning and Coordination Committee of the High Level Public/Private Sector Joint Forum on Investment, in which a significant progress was achieved on 70 % of the total 118 action items under SIAP. Both leaders requested the Forum to continue its intensive efforts to improve the investment climate in Indonesia immediately.

### **(3) Maritime Affairs**

Prime Minister Abe recognized that the Government of Japan fully respects the sovereignty and sovereign rights of the Republic of Indonesia over its territorial sea and exclusive economic zone (EEZ) within the Straits of Malacca and Singapore which is a strait used for international navigation. President Yudhoyono reaffirmed and underlined the commitment of the Government of Indonesia to continue its efforts to ensure security in the Straits of Malacca and Singapore. In

this regard, President Yudhoyono expressed his appreciation for the Japanese grant aid for the project on the construction of patrol vessels. The two leaders also expressed the commitment to promote cooperation in capacity building and the importance of seeking a new cooperation mechanism between littoral States and user States for enhancement of safety, security and environmental protection.

#### **(4) Disaster Reduction**

The two leaders welcomed the report prepared by the Joint Committee on Disaster Reduction in July 2006, which suggested a comprehensive and effective means for disaster mitigation and preparedness. The two leaders were committed to promote the disaster reduction and to further cooperate between the two countries in this field, taking account on the said report. In connection with the recent earthquakes and tsunamis, the two leaders were pleased to observe that the Japanese financed projects, including "Urgent Recovery of the West Coast Road to Achieve Temporary Connection between Banda Aceh and Meulaboh", have contributed to the steady progress of the local rehabilitation and reconstruction.

The two leaders welcomed the regional cooperation for disaster reduction such as database and research network building that had been commenced in the areas prone to earthquakes in Asia, and shared the view that the regional cooperation including that involving both countries' space organizations, would contribute to the disaster reduction.

## **2. Cooperation under "Strategic Partnership for Peaceful and Prosperous Future"**

### **(1) Toward Further Strengthening Strategic Partnership**

The two leaders reconfirmed that Japan and Indonesia share such basic values as freedom, democracy, human rights and rule of law and also shared commitment to stability and development of the Asia Pacific region. They also affirmed that they would strengthen the strategic relationship in addressing political and security issues, as well as reinforced the long-standing economic relations.

Both leaders emphasized the importance of holding summit meetings between them as frequently as possible and agreed to intensify high-level consultations taking advantage of opportunities at regional and multilateral meetings. Furthermore, the two leaders were of the view that regular consultations between the foreign ministers of both countries are also conducive to promoting further bilateral cooperation.

The Eminent Persons' Group (EPG) can be established as necessary to provide the leaders with studies and recommendations on means to further broaden and deepen the bilateral relations within the context of the strategic partnership, through

developing new initiatives in the areas including politics, economy, culture, science and technology, education and tourism.

Prime Minister Abe highly valued vigorous measures by President Yudhoyono in promoting democracy as well as economic reforms. Prime Minister Abe applauded President Yudhoyono's efforts to find a peaceful solution to the Aceh issue which resulted in the Aceh Peace Agreement in August 2005 and the enforcement of Law on the Governance of Aceh in August 2006. Prime Minister Abe also expressed his strong hope that the scheduled elections of heads of local governments in Aceh on 11 December 2006 would proceed in a fair and smooth manner. In this regard, Prime Minister Abe expressed the willingness of the Japanese Government to dispatch a monitoring mission for the said elections. Prime Minister Abe also pledged to extend Japan's assistance in promoting the self-reliance of the local community in Aceh in the aftermath of the earthquake and tsunami, with a view to contributing to the consolidation of sustainable peace in Aceh.

The two leaders highly appreciated the fruitful discussion on the first human rights dialogue between the two countries, held in July 2006. They shared the view that the two countries have to enhance their cooperative relationship in the area of human rights both bilaterally and multilaterally.

Prime Minister Abe reconfirmed Japan's continued support for the attainment of the ASEAN Community and the central role of ASEAN efforts towards open, transparent and inclusive East Asia community building. For the long-term peace, stability and prosperity in East Asia, the two leaders reiterated their intention to enhance regional cooperation that would produce tangible benefits to address the region's common challenges, with a view to promoting regional integration in East Asia, under a variety of frameworks including the East Asia Summit and ASEAN Plus Three. In this regard, the two leaders shared the importance of a track two process to promote Economic Partnership in ASEAN, Australia, China, India, Japan, Republic of Korea and New Zealand as well as the Economic Research Institute for ASEAN and East Asia (ERIA) as proposed by Japan.

The two leaders reiterated their strong commitment to the principles and the objectives of the NPT. They expressed their grave concern about the recent missile launches and the nuclear test conducted by the DPRK that have created more tension. They urged the DPRK to implement fully the UN Security Council Resolution 1695 and 1718. They welcomed the recent progress on resuming the Six Party Talks. They also urged the DPRK to respond to other security and humanitarian concerns of the international community, including the abduction issue.

The two leaders shared the view that the threat of terrorism remains a regional and global security concern and reaffirmed their determination to prevent, suppress and eliminate all forms of terrorism. To this end, the two countries will cooperate closely in information exchange, Counter-Terrorism capacity building, addressing the root causes of terrorism, empowering the moderates, interfaith dialogues, ASEAN-Japan Counter-Terrorism Dialogue and other regional approaches.

Prime Minister Abe congratulated President Yudhoyono on Indonesia's election to the seat of the UN Security Council and looked forward to Indonesia's positive contribution during its tenure. The two leaders also resolved to work together for achieving early reform of the Security Council through expanding its membership in both permanent and non-permanent categories. President Yudhoyono appreciated Japan's active role in maintaining international peace and security and, in the context of the reform of the Security Council, expressed Indonesia's support for Japan's permanent membership in the Council.

Following the current challenges which the NPT regime is facing, the two leaders expressed their intention to enhance further the bilateral collaboration with a view to maintaining and strengthening the international nuclear disarmament and non-proliferation regime based on the NPT as the cornerstone. Both leaders also shared the need of the early entry into force of the CTBT.

## **(2) Strengthening of the Mutually Beneficial Relationship**

The two leaders reaffirmed that the bilateral economic relations have developed as multiple-layered interactions, including in the field of trade and investment.

The two leaders also discussed the bilateral as well as international energy situations. They also welcomed the planned Japanese investments in the oil and gas fields as well as power generation. Prime Minister Abe expressed Japan's strong interest in ensuring the stable supply of energy from Indonesia, notably Liquefied Natural Gas (LNG), to Japan. With full understanding of the remarks made by Prime Minister Abe, President Yudhoyono pledged to honor the existing contracts which would expire in 2010 and 2011. The two leaders pledged to develop a closer relationship in order to better maintain cooperative relations to enhance the energy security in both countries regarding this issue. President Yudhoyono encouraged Japan to promote its energy exploration and exploitation activities in Indonesia especially for the purpose of discovering new oil and gas fields. President Yudhoyono also invited Japan to promote bilateral cooperative activities and mutually beneficial investment relating to the joint development, including capacity building, of sustainable and renewable energy, such as bio-fuels and bio-mass. The two leaders also welcomed the promotion of Biomass energy projects based on the framework signed between the Ministry of Energy and Mineral Resources of Indonesia and Japan Bank for International Cooperation.

The two leaders shared the view that it is important to pursue further development of energy and mineral resources cooperation between the two countries including the cooperation under the JIEPA. Prime Minister Abe expressed the intention to cooperate, through the human resources development such as dispatch of experts, on (i) promotion of clean coal use including commercialization of coal liquefaction, (ii) improvement of energy efficiency, and (iii) institutional assistance for introduction of nuclear power generation, stressing the necessity of nuclear safety, security and non-proliferation in this regard. The two leaders welcomed the signing of the Joint Statement between the Ministry of Economy, Trade and

Industry of Japan and the Ministry of Energy and Mineral Resources of the Republic of Indonesia.

### **(3) Strengthening Partnership through Specific Cooperation**

President Yudhoyono expressed his sincere gratitude for Japan's cooperation to the Engineering Services for Jakarta Mass Rapid Transit System Project by providing a yen loan. The two leaders shared the recognition that this cooperation would contribute not only to alleviating Jakarta's traffic situation but also to enhancing investment climate in Indonesia through economic infrastructure development.

The two leaders shared a need, with a view to further promoting bilateral trade and investment, for a preliminary meeting between competent authorities of both countries with respect to considering the possibility of mutually agreed revision of the 1982 Japan-RI Agreement on the Avoidance of Double Taxation.

The two leaders affirmed the need for a closer cooperation between the two countries in the fields of education as well as science and technological researches especially between Japanese and Indonesian universities.

Prime Minister Abe pledged to provide the assistance for the study on Disaster Management in Indonesia with a view to improving the capacity of the Indonesian Government in effective disaster reduction. In addition, the two leaders welcomed the assistance of the Japanese Government for the rehabilitation and reconstruction currently underway in the fields of rebuilding schools, health services and other public infrastructures as well as dissemination of know-how on earthquake-proof buildings after recent earthquakes and tsunamis.

The two leaders shared the concerns of the expanding avian influenza in the Asia region including Indonesia. They reaffirmed that the two countries should further intensify exchanges of information in a prompt manner, with a view to constantly exercising precautions against the evolving situation of the avian influenza. President Yudhoyono expressed the strong commitment of the Indonesian Government to tackle this issue as a high priority and valued Japan's enhanced assistance in the areas of capacity building to prevent and contain an emerging avian influenza pandemic, surveillance and early intervention in response to outbreaks.

### **(4) Building Bridge for the Future**

#### **(i) The 50th Anniversary of the Establishment of Bilateral Diplomatic Relations**

Mindful of Year 2008 that celebrates the 50th anniversary of the establishment of diplomatic relations between the two countries, the two leaders shared the view

that the 50th anniversary would offer great opportunities to further strengthen the time-honored friendship in wide-ranging areas in order to advance the "Strategic Partnership for Peaceful and Prosperous Future". They also shared the significance to promote a variety of commemorating events with the aims of broadening and deepening exchanges and cross-generation mutual understanding between the peoples of the two countries towards the next half century.

**(ii) People-to-People Contacts and Cultural Cooperation**

The two leaders acknowledged that the greater people-to-people contacts, in particular among the younger generations, would provide a more solid foundation for strengthening the future-oriented relationship, mutual understanding and friendly ties between the two countries and their peoples. Prime Minister Abe conveyed the willingness of the Japanese Government to cooperate on a new scholarship program for the development of human resources in higher education in Indonesia.

The two leaders also expressed their firm belief that cultural cooperation would also contribute to carrying forward the vision of the bilateral partnership. Prime Minister Abe expressed the intention of the Japanese Government to consider positively the provision of substructural assistance for the restoration of the Prambanan temple in Yogyakarta, which had been damaged by the earthquake that hit Central Java in May 2006.

Signed in Tokyo, 28 November 2006

Shinzo Abe  
Prime Minister of  
Japan

Susilo Bambang Yudhoyono  
President of the Republic of  
Indonesia

## Lampiran 4: Framework for CEP between Japan and ASEAN

### FRAMEWORK FOR COMPREHENSIVE ECONOMIC PARTNERSHIP BETWEEN JAPAN AND THE ASSOCIATION OF SOUTH EAST ASIAN NATIONS

WE, the Heads of State/Governments of Brunei Darussalam, the Kingdom of Cambodia, the Republic of Indonesia, the Lao People's Democratic Republic ("Lao PDR"), Malaysia, the Union of Myanmar, the Republic of the Philippines, the Republic of Singapore, the Kingdom of Thailand and the Socialist Republic of Viet Nam, Member States of the Association of South East Asian Nations (collectively, "ASEAN" or "ASEAN Member States", or individually, "ASEAN Member State"), and Japan gathered today for the Japan-ASEAN Summit;

RECALLING the Joint Declaration made at the Japan-ASEAN Summit held on 5 November 2002 in Phnom Penh, Cambodia to implement measures for the realisation of a Comprehensive Economic Partnership ("CEP"), including elements of a possible Free Trade Area ("FTA") which should be completed as soon as possible within 10 years, and to establish a Committee to consider and draft a framework for the realisation of the CEP between Japan and ASEAN ("Japan-ASEAN CEP");

INSPIRED by the significant progress made in Japan-ASEAN relations which has spanned 30 years of an economic partnership that has been expanding over a wide range of areas;

DESIRING to minimise barriers and deepen economic linkages between Japan and ASEAN; lower business costs; increase intra-regional trade and investment; increase economic efficiency; create a larger market with greater opportunities and larger economies of scale for the businesses of both Japan and ASEAN; and enhance our attractiveness to capital and talent;

SHARING the view that the Japan-ASEAN CEP should benefit from, and should be complementary to the economic integration of ASEAN, and considering that achievement of the ASEAN Free Trade Area ("AFTA") will enhance the value of ASEAN as a regional market and attract investment to ASEAN and that it is desirable that the Common Effective Preferential Tariff ("CEPT") Scheme among ASEAN Member States be implemented on a timely basis;

BEING confident that the establishment of an Japan-ASEAN FTA covering trade in goods, services and investment will create a partnership between Japan and ASEAN, and provide an important mechanism for strengthening co-operation and supporting economic stability in East Asia;

RECOGNISING the important role and contribution of the business sector in enhancing trade and investment between Japan and ASEAN and the need to

further promote and facilitate their co-operation and utilisation of greater business opportunities provided by the Japan-ASEAN CEP;

RECOGNISING the different stages of economic development among ASEAN Member States and between Japan and ASEAN, and the need to facilitate the increasing participation of the Kingdom of Cambodia, Lao PDR, the Union of Myanmar and the Socialist Republic of Viet Nam, (collectively, "the newer ASEAN Member States") in the Japan-ASEAN CEP;

REAFFIRMING the rights and obligations of the respective countries under the Marrakesh Agreement Establishing the World Trade Organization ("WTO Agreement"), and other multilateral, regional and bilateral agreements and arrangements;

RECOGNISING the catalytic role that regional trade arrangements can contribute towards accelerating regional and global liberalisation and as building blocks in the framework of the multilateral trading system;

HAVE DECIDED AS FOLLOWS:

## ■ 1. Objectives

The objectives of the Japan-ASEAN CEP are to:

- (a) strengthen economic integration between Japan and ASEAN through the creation of a CEP;
- (b) enhance the competitiveness of Japan and ASEAN in the world market through strengthened partnership and linkages;
- (c) progressively liberalise and facilitate trade in goods and services as well as create a transparent and liberal investment regime;
- (d) explore new areas and develop appropriate measures for further co-operation and economic integration; and
- (e) facilitate the more effective economic integration of the newer ASEAN Member States and bridge the development gap among the ASEAN Member States.

## ■ 2. Basic Principles

Japan and ASEAN will adhere to the following principles:

- (a) The Japan-ASEAN CEP should involve Japan and all ASEAN Member States and include a broad range of sectors focusing on liberalisation, facilitation and co-operation activities, noting the principle of reciprocity, transparency and mutual benefits to both Japan and ASEAN;



(b) The integrity, solidarity and integration of ASEAN will be given consideration in the realisation of the Japan-ASEAN CEP;

(c) The Japan-ASEAN CEP Agreement should be consistent with the rules and disciplines of the WTO Agreement;

(d) Special and differential treatment should be provided to the ASEAN Member States in recognition of their different levels of economic development. Additional flexibility should be accorded to the newer ASEAN Member States;

(e) Flexibility should be given to address the sensitive sectors in Japan and each ASEAN Member State; and

(f) Technical co-operation and capacity building programmes should also be considered.

### ■ 3. Measures for Comprehensive Economic Partnership

The Japan-ASEAN CEP should be realised by:

(a) carrying out the Measures for Immediate Implementation specified in Section 4;

(b) implementing programmes on Facilitation and Co-operation between Japan and ASEAN in the areas specified in Section 5; and

(c) implementing measures for Liberalisation in

- (1) Trade in Goods
- (2) Trade in Services; and
- (3) Investment.

### ■ 4. Measures For Immediate Implementation

1. Japan and ASEAN decide to work on the following activities that could provide immediate benefits on an accelerated basis:

(a) Technical assistance and capacity building to ASEAN, particularly for the newer ASEAN Member States, so as to improve their competitiveness to meaningfully participate in the partnership and to assist ASEAN Member States who are not members of the WTO and the World Customs Organization ("WCO") to work towards becoming members of the aforementioned organizations;

(b) Trade and investment promotion and facilitation measures;

(c) Trade and investment policy dialogue;

(d) Business sector dialogue;

(e) Measures to facilitate the mobility of business people;

(f) Exchange and compilation of relevant data such as customs tariff and bilateral trade statistics; and

(g) Any other measures delivering immediate mutual benefits.

2. Japan and ASEAN will continue to build upon existing or agreed programmes in the areas identified above.

## ■ 5. Facilitation and Co-operation

1. Japan and ASEAN decide to conduct consultations from the beginning of 2004 on the areas of facilitation and co-operation, and to develop work programmes for the expeditious implementation of measures or activities in each of the following areas:

### (1) Trade Related Procedures

Facilitation of trade-related procedures will be implemented in such areas as co-operation on custom procedures by computerisation, simplification and harmonisation, as far as possible, to relevant international standards.

### (2) Business Environment

Recognising that the satisfactory business environment is an indispensable part of the attractiveness to investors, Japan and each ASEAN Member State will make the effort to improve the business environment and enhance co-operation in related fields.

### (3) Intellectual Property Rights ("IPR")

Japan will support ASEAN Member States in developing, improving, enhancing and implementing their IPR capabilities, and in promoting accession to IPR-related international agreements. Co-operation between Japan and ASEAN, such as information exchange, will also be encouraged.

### (4) Other Areas of Co-operation:

- Energy

Co-operation in oil stockpiling, natural gas utilisation and promotion of energy efficiency.

- Information and Communications Technology ("ICT")

Co-operation in developing ICT infrastructure, Information Technology ("IT")-related legal systems, and IT-related human resource, and promoting exchanges of IT researchers and engineers.

- Human Resource Development ("HRD")

Co-operation among the relevant organisations in Japan and each ASEAN Member State, especially in the field of HRD for experienced engineers and middle management.

- Small and Medium Enterprises ("SMEs")

Co-operation in exchanging views on policies relating to SMEs and expanding business opportunities of SMEs.

- Tourism and hospitality

Co-operation in implementing seminars or information exchange on tourism and hospitality.

- Transportation and logistics

Co-operation for efficient cargo transport system, safe and sustainable shipping and safe and efficient air transport.

- Standards and conformance and mutual recognition arrangement

Exchange of information concerning the standards and conformance policies, and capacity building of standardisation organisations in each ASEAN Member State.

- Other possible technical co-operation projects, including environment, automobile, bio-technology, science and technology, sustainable forest management, competition policy, food security and financial services co-operation.

2. Japan and ASEAN will continue to develop work programmes in new areas of facilitation and co-operation.

## 6. Facilitation and Co-operation

1. Japan and ASEAN will start the consultations on the Japan- ASEAN CEP on the liberalisation of trade in goods, trade in services, and investment, from the beginning of 2004 by discussing the basic principles of Japan-ASEAN cumulative rules of origin and customs classification and collecting and analysing trade and custom data.

2. Japan and ASEAN will initiate a negotiation on the CEP Agreement between Japan and ASEAN as a whole, taking into account the achievements of bilateral negotiations between Japan and each ASEAN Member State, and the further

progress of the ASEAN integration process. Such Agreement should be consistent with the WTO Agreement.

3. During the negotiation, those ASEAN Member States that have not concluded bilateral Economic Partnership Agreement ("EPA") with Japan will negotiate concessions bilaterally. Schedules of liberalisation concessions between Japan and those ASEAN Member States that have concluded a bilateral EPA should not be renegotiated in the negotiation of the Japan-ASEAN CEP Agreement. All schedules of liberalisation concessions will be annexed to the Japan-ASEAN CEP Agreement.

#### (1) Trade in Goods

Japan and ASEAN decide to progressively eliminate duties and other restrictive regulations of commerce (except, where necessary, those permitted under Article XXIV (8) (b) of the General Agreement on Tariffs and Trade 1994 in Annex 1A to the WTO Agreement ("GATT")) on substantially all trade in goods in order to establish an FTA between Japan and ASEAN which will include, but will not be limited, to the following:

- (a) cumulative rules of origin;
- (b) detailed rules governing the tariff reduction or elimination programmes including principles governing reciprocal commitments;
- (c) non-tariff measures including technical barriers to trade; and
- (d) trade remedy measures based on the principles of the WTO Agreement.

#### (2) Trade in Services

Japan and ASEAN decide to progressively liberalise trade in services with substantial sectoral coverage consistent with the rules of the WTO Agreement. Such liberalisations should be directed to:

- (a) progressive elimination of substantially all discrimination between or among Japan and ASEAN and/or prohibition of new or more discriminatory measures with respect to trade in services between Japan and ASEAN, (except for measures permitted under Article V(1)(b) of the General Agreement on Trade in Services ("GATS") in Annex 1B to the WTO Agreement);
- (b) expansion in the depth and scope of liberalisation of trade in services;
- (c) facilitation of the entry and temporary movement of business people; and

(d) enhanced co-operation in services between Japan and ASEAN in order to improve efficiency and competitiveness.

### (3) Investment

In order to promote investment, Japan and ASEAN decide to:

(a) create a liberal and competitive environment;

(b) strengthen co-operation in investment, facilitate investment and improve transparency of investment rules and regulations; and

(c) provide for the protection of investors and investment.

## 7. Most-Favoured-Nation Treatment

For ASEAN Member States which are not yet members of the WTO, Japan will continue to apply the general Most-Favoured-Nation ("MFN") treatment as stipulated in Article I of the GATT. Japan will endeavour to provide MFN treatment under the WTO on a reciprocal basis.

## 8. General Exceptions

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between or among Japan and ASEAN where the same conditions prevail, or a disguised restriction on trade within the Japan- ASEAN CEP, nothing in this Framework should prevent Japan and/or any individual ASEAN Member State from adopting or enforcing measures, in accordance with the rules and disciplines of the WTO Agreement, for:

(a) the protection of the national security of Japan and/or each ASEAN Member State;

(b) the protection of articles of artistic, historic and archaeological value; or

(c) such other measures which Japan and/or each ASEAN Member State deems or deem necessary for the protection of public morals or to maintain public order, or for the protection of human, animal or plant life and health.

## 9. Consultation

Any differences concerning the interpretation or implementation of this Framework should be settled amicably by consultations and/or mediation.

## 10. Timeframes

1. Japan and ASEAN will start consultations on the Japan-ASEAN CEP on the liberalisation of trade in goods, trade in services and investment, from the beginning of 2004, as set forth in Section 6, paragraph 1.
2. Japan and ASEAN will make maximum efforts to commence the negotiation on the CEP Agreement between Japan and ASEAN as a whole, referred to in Section 6, paragraph 2, from the beginning of 2005. Japan and ASEAN will endeavour to conclude the negotiation as soon as possible, taking into account the need to leave sufficient time for implementation.
3. The implementation of measures for the realisation of the Japan- ASEAN CEP, including elements of a possible free trade area, should be completed as soon as possible by 2012, taking into account the economic levels and sensitive sectors in each country, including allowing additional five (5) years' time for the newer ASEAN Member States.

#### 11. Institutional Arrangements for this Framework

1. The ASEAN-Japan Committee on Comprehensive Economic Partnership ("AJCCEP") will continue to carry out the work set out in this Framework.
2. AJCCEP may establish other bodies as may be necessary to co-ordinate and implement this Framework, including the supervision, co-ordination and review of the implementation of other measures undertaken pursuant to this Framework.
3. The ASEAN Secretariat will provide the necessary secretariat support to the AJCCEP whenever and wherever the meetings are held.

SIGNED in Bali, Indonesia, this 8th day of October, 2003 in duplicate in the English language.

JUNICHIRO KOIZUMI  
Prime Minister  
Japan

HAJI HASSANAL BOLKIAH  
Sultan of Brunei Darussalam  
Brunei Darussalam

HUN SEN  
Prime Minister  
Kingdom of Cambodia

MEGAWATI SOEKARNOPUTRI  
President  
Republic of Indonesia

BOUNNHANG VORACHITH  
Prime Minister  
Lao People's Democratic Republic

MAHATHIR BIN MOHAMAD  
Prime Minister  
Malaysia

GENERAL KHIN NYUNT  
Prime Minister  
Union of Myanmar

GLORIA MACAPAGAL-ARROYO  
President  
Republic of the Philippines

GOH CHOK TONG  
Prime Minister  
Republic of Singapore

DR. THAKSIN SHINAWATRA  
Prime Minister  
Kingdom of Thailand

PHAN VAN KHAI  
Prime Minister  
Socialist Republic of Viet Nam

