Chapter 10

Trade and Investment Opportunities Between Japan and RCEP Countries

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Section 1 Trade in Goods

The RCEP is the first free trade agreement signed between Japan, China and South Korea, and the three Parties have made a historic breakthrough by reaching a bilateral tariff concession arrangement for the first time. After the signing of the RCEP, China, Japan and South Korea have established a free trade partnership with the mutual opening of markets for the first time, and the overall zero-tariff coverage has been significantly increased, opening up a broader scope for China-Japan-South Korea economic and trade cooperation. Among the many bilateral relationships, the RCEP has the greatest impact on the China-Japan economy and trade, since both China and Japan are both very large economies, but there was no bilateral FTA arrangement before this. The RCEP facilitates Japan's expansion of its FTA networks and brings significant benefits and more market opportunities for Japanese importers and exporters. This section explains the agreed preferential tariffs imposed by each country in the RCEP on each type of export or import products by industry, so that enterprises can understand how large the tariff preferential benefits are for various types of goods in Japan and the other RCEP Parties.

I. The Current Status of Trade in Goods between Japan and Other RCEP Parties

In terms of the scale of Japan's import and export trade

with other RCEP Parties, Japan's import and export trade with the other RCEP Parties has contracted in recent years, but still occupies an important position. In 2020, Japan's exports to other RCEP Parties amounted to US$292,257 million, accounting for approximately 45.57% of Japan's total exports. Its imports reached US$328,541 million, accounting for approximately 51.71% of Japan's total imports. Japan's overall trade volume with other RCEP Parties in 2020 decreased by 5.77% compared to 2019, and the overall trade development faces downward pressure. In 2020, Japan's exports and imports to the ASEAN, China, South Korea, Australia, and New Zealand amounted to US$192,060.26 million, US$305,172.86 million, US$ 71,287.96 million, US$47,936.09 million, and US$4,341.98 million respectively, with China being Japan's top trading partner among the RCEP Parties.

Japan has an overall trade deficit with other RCEP Parties, and its import dependence is higher than its export dependence, highlighting the different resource endowments and industrial division of labor among the RCEP Parties. In recent years, Japan's imports and exports with five countries—China, Australia, South Korea, Thailand and Vietnam—accounted for more than 60% of Japan's imports and exports with the RCEP. In 2020, Japan's exports to five countries—China, South Korea, Thailand, Vietnam and Malaysia—were worth US$141,000.00 million, US$44,688.45 million, US$25,525.31 million, US$17,117.84 million and US$12,595.55 million respectively, with Japan's total exports to these five countries accounting for about 70% of Japan's total exports to the RCEP. In 2020, Japan's imports from five countries—Japan, Australia, South Korea, Thailand and Vietnam—amounted to US$163,850.56 million, US$35,790.724 million, US$26,599.51 million, US$23,779.22 million and

US$22,046.17 million respectively, with Japan's imports from these five countries accounting for about 50% of Japan's total imports from the RCEP. Meanwhile, Japan shows a trade deficit with China, Australia, New Zealand and some ASEAN Parties. One can see that the percentage of Japan's imports to other RCEP Parties is higher than that of its exports. The conclusion of the RCEP will help Japan expand its export markets, meet domestic import demand, strengthen the regional industry chain and supply chain, and establish a common framework of rules of origin, which will greatly expand trade and investment liberalization and significantly enhance the value of Japan's FTA networks.

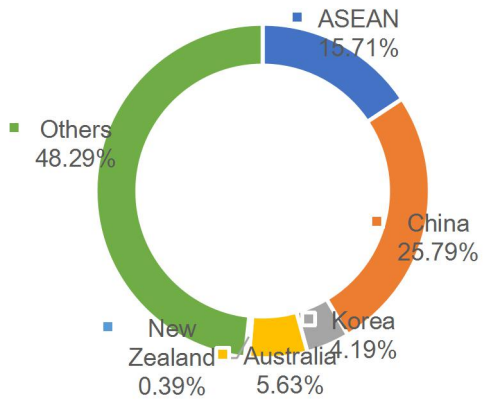

Figure 10.1.1 Composition of Japan's imports in 2020
Source: Ministry of Commerce.

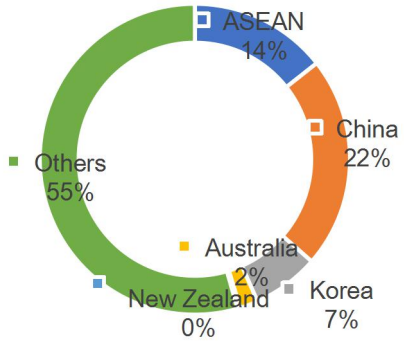

Figure 10.1.2 Composition of Japan's exports in 2020
Source: Ministry of Commerce.

Table 10.1.1 Japan's trade in goods with other RCEP Parties in 2020 (USD million)

Country or Region	Imports	year-on-year growth	Exports	year-on-year growth	Trade Value	year-on-year growth
ASEAN	99802.10	-7.42	92258.16	-13.16	192060.26	-10.27
China	163850.56	-3.17	141322.30	4.90	305172.86	0.41
Korea	26599.51	-10.21	44688.45	-3.42	71287.96	-6.07
Australia	35790.72	-21.26	12145.37	-16.19	47936.09	-20.04
New Zealand	2498.93	-6.51	1843.05	-20.90	4341.98	-13.21

Source: Trade-Map database.

Among the many bilateral relationships, the RCEP has the greatest impact on Japan's economic and trade relations with China. Both China and Japan are very large economies, but there

was no previous bilateral FTA arrangement. **Japan has a very close trade relationship with China, which has been Japan's top trading partner for 12 consecutive years.** According to the Ministry of Commerce, as of 2019, Japan has been China's second-largest trading partner in goods for four consecutive years, and China has been Japan's top trading partner in goods for 12 consecutive years. The first half of 2020 was affected by a number of factors, in particular COVID-19, and the trade value between China and Japan was significantly less than during the same period the year before, but after the pandemic was brought under effective control, the trade value between China and Japan made a large rebound in the second half of 2020. The trade value between China and Japan in 2020 was US$305,172 million, up 0.41% year-on-year, of which the import value was US$163,850.55 million, down 3.17% from the previous year. Export value was US$141,322.30 million, up 4.90% year-on-year. After the signing and entry into force of the RCEP, the ability of China-Japan economic and trade cooperation to cope with risks brought about by non-economic factors will be improved. One can look forward to the stable long-term development of China-Japan economic and trade relations.

II. Opportunities in trade in goods brought by the RCEP to Japan

The signing of the RCEP means that about one-third of the global economy will form a large integrated market, opening up a broader scope for Japan's economic and trade cooperation. Before the RCEP was formulated, Japan had no bilateral FTA with China and South Korea. Through the RCEP, Japan has established an FTA relationship with China and South Korea for the first time, which will further increase market openness, significantly reduce import and export tariffs, and further facilitate trade between Japan, China and South Korea, through cumulative regional rules of origin

and convenient customs clearance procedures. After the RCEP comes into effect, the economic and trade cooperation between Japan, China and South Korea will bring about additional and better development opportunities.

(A) Electromechanical Products

Electromechanical products belong to Category 16 of the customs trade product classification, covered in Chapters 84-85.

Table 10.1.2 Subcategories of the electromechanical products sector

HS Code	Product Description
84	Nuclear Reactors, Boilers, Machinery and Mechanical Appliances; Parts Thereof
85	Electrical Machinery and Equipment and Parts Thereof; Sound Recorders and Reproducers, Television Image and Sound Recorders and Reproducers, And Parts and Accessories of Such Articles

In export trade, the average growth of Japanese exports of electromechanical products in the past five years has been mostly positive, indicating that the market prospects of Japanese electromechanical products in other RCEP Parties are bright. Japan's exports of electromechanical products to five countries—China, Korea, Thailand, Singapore and Vietnam—have consistently exceeded the average, and these Parties are the key Parties for Japan's exports of electromechanical products. Japan's exports of electromechanical products to China accounted for half of its exports to other RCEP Parties. Laos, as a small importer Party of Japanese electromechanical products, ranked first among other RCEP Parties in terms of growth rate, indicating that its market for electromechanical products also has some potential.

In import trade, Japan's imports of electromechanical products from other RCEP Parties grew at an average annual rate of 1.98%, with steady growth on the whole. Japan's imports of electromechanical products from China accounted for 70% of the imports from other RCEP Parties. In terms of trade growth rate, in the electromechanical sector, the trade growth rates of Japan's

imports from other RCEP Parties show a wide variation. The best performers are Myanmar and Laos, with average annual growth rates of 40.74 % and 39.60 % respectively. In contrast, the average annual growth rates of Korea and Japan, which have the largest trade volumes, remained at a lower level. It is worth noting that Japan's import trade with South Korea and Singapore has experienced negative growth in recent years.

Table 10.1.3 Japan's Trade Value of Electromechanical Products with Other RCEP Parties and Average Growth Rate, 2015-2020

Country or Region	Japan exports to the country or region			Japan imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	1739.27	1785.89	0.53	60.57	152.53	20.29
Brunei Darussalam	25.24	28.35	2.36	-	0.02	-
Cambodia	96.97	166.58	11.43	38.77	128.38	27.06
China	44179.13	57365.93	5.36	72004.19	78480.31	1.74
Indonesia	4282.13	3203.74	-5.64	1961.00	2209.46	2.41
Lao People's Dem. Rep.	18.19	79.38	34.27	5.08	26.90	39.60
Malaysia	4777.04	4910.36	0.55	4958.81	4970.77	0.05
Myanmar	180.38	139.92	-4.95	4.87	26.87	40.74
New Zealand	279.89	285.09	0.37	43.08	22.94	-11.84
Philippines	4156.94	3939.97	-1.07	3795.22	4039.60	1.26
Rep. of Korea	14169.86	16044.88	2.52	8621.09	6985.33	-4.12
Singapore	6208.93	5953.29	-0.84	2883.55	2960.84	0.53
Thailand	10846.69	9826.40	-1.96	6964.27	8839.11	4.88
Viet Nam	5522.97	7110.89	5.18	3747.43	7054.03	13.49
TOTAL	96483.64	110840.67	2.81	105087.92	115897.11	1.98

Source: UN Comtrade Database.

By calculating the weighted MFN and FTA tax rates for the electromechanical industry in the other RCEP Parties, the total tax difference between the two is obtained as the margin of preference

(MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the agreed tax rates. The tax rate of electromechanical products under the RCEP is generally lower in the first year of the Agreement, and will be more significantly reduced in the tenth year.

In the first year after the RCEP comes into effect, Australia, Indonesia and Thailand will have the highest tax differences, all exceeding 2%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these three Parties. China has been Japan's largest trading partner, but its tariff rate reduction in the first year after the RCEP comes into effect is not significant, with a tax difference of 0.42%. Singapore, as a free trade port, will have reduced its MFN tariff rate to zero and liberalized trade in electromechanical products.

Ten years after the RCEP comes into effect, Cambodia and Indonesia will have the highest tax differences, both exceeding 4%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these Parties. More than half of Japan's exports of electromechanical products to other RCEP Parties are to China, and although China's tax rate to Japan decreases less in the first year, the tariff rate decreases considerably ten years after the RCEP comes into effect, which will bring benefits to exporters.

Table 10.1.4 Comparison of Export-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	2.92	0.51	2.41	0.39	2.53
Brunei Darussalam	3.34	3.31	0.03	3.31	0.03
Cambodia	14.51	14.51	0.00	10.08	4.43
China	3.92	3.50	0.42	1.71	2.21
Indonesia	4.49	2.09	2.41	0.05	4.44
Lao People's Dem. Rep.	5.08	4.62	0.47	1.92	3.17

Malaysia	1.25	1.00	0.25	0.35	0.90
Myanmar	1.73	1.09	0.65	0.90	0.84
New Zealand	3.48	3.30	0.19	2.45	1.03
Philippines	2.08	0.23	1.85	0.13	1.95
Rep. of Korea	4.05	3.51	0.54	1.84	2.21
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	4.23	1.84	2.38	0.62	3.60
Viet Nam	2.59	1.84	0.75	0.47	2.12

Source: UN Comtrade Database and WITS.

Japan's electromechanical industry has achieved zero tariffs for most RCEP Parties, but has not yet achieved complete tariff exemptions for China and South Korea, with certain import tariffs still in place. The RCEP will offer greater benefits for companies importing Chinese and Korean electromechanical products.

China has been Japan's largest trading partner among the RCEP Parties, and currently, Japan's exports to China are concentrated in the fields of electronic and electrical products, mechanical products, and automobiles. More than half of Japan's mechanical and electrical products imported from other RCEP Parties are from China. Although the decrease in Japan's import tariff rate on Chinese products in the first year is relatively small, the tariff reduction will be considerable ten years after the RCEP comes into effect, basically achieving zero tariffs. After the signing of the RCEP, Japan's export costs to China will be significantly reduced, bringing benefits to import enterprises.

Korea is Japan's trading partner with the highest import tariff rate among the RCEP Parties for electromechanical products, and the tariff rate reduction in the first year of RCEP is greater than that of China, ranking first among other RCEP Parties. Ten years after the RCEP comes into effect, the tariff rate will drop even more significantly, with a tax difference of 0.0331%. This indicates that imports of electromechanical products from Korea will have the

greatest room for tax reduction and profitability in the next ten years.

Table 10.1.5 Comparison of Import-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	0.0000	0.0000	0.0000	0.0000	0.0000
Brunei Darussalam	0.0000	0.0000	0.0000	0.0000	0.0000
Cambodia	0.0000	0.0000	0.0000	0.0000	0.0000
China	0.0046	0.0042	0.0004	0.0004	0.0042
Indonesia	0.0000	0.0000	0.0000	0.0000	0.0000
Lao People's Dem. Rep.	0.0000	0.0000	0.0000	0.0000	0.0000
Malaysia	0.0000	0.0000	0.0000	0.0000	0.0000
Myanmar	0.0000	0.0000	0.0000	0.0000	0.0000
New Zealand	0.0000	0.0000	0.0000	0.0000	0.0000
Philippines	0.0000	0.0000	0.0000	0.0000	0.0000
Rep. of Korea	0.0362	0.0331	0.0030	0.0030	0.0331
Singapore	0.0000	0.0000	0.0000	0.0000	0.0000
Thailand	0.0000	0.0000	0.0000	0.0000	0.0000
Viet Nam	0.0000	0.0000	0.0000	0.0000	0.0000

Data source: Schedule of Tariff Commitments of RCEP members.

(B) Chemical Products

Base metals and their byproducts belong to Category 15 of the customs trade product classification, covered in Chapters 72-83.

Table 10.1.6 Subcategories of base metals and their byproducts

HS Code	Product Description
72	Iron and steel
73	Articles of iron or steel
74	Copper and articles thereof
75	Nickel and articles thereof
76	Aluminium and articles thereof
78	Lead and articles thereof
79	Zinc and articles thereof
80	Tin and articles thereof
81	Other base metals; cermets; articles thereof
82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal

83	Miscellaneous articles of base metal

In export trade, Japan's exports of base metals and their byproducts to most other RCEP Parties grew negatively on average over the last five years, with those to Laos, New Zealand and Brunei declining by more than 10%. However, overall, the average annual growth rate of Japan's exports to other RCEP Parties was -0.86%, only a slight decline. Japan's exports of base metals and their byproducts to China, Korea and Thailand, which are the key Parties for Japan's exports of base metals and their byproducts, are consistently above average. Against the tightening export markets for base metals, Myanmar and Vietnam still achieved relatively substantial growth, with average annual growth rates of 18.64% and 7.15% respectively, indicating that the base metal markets of these Parties have some potential.

In import trade, the average annual growth rate of Japan's imports of base metals and their byproducts from other RCEP Parties was 0.77% from 2015 to 2020. In the import trade of base metals and their byproducts, China has been Japan's largest trading partner, but in recent years, Japan's import trade with China showed negative growth in all aspects. In terms of trade growth rate, Vietnam, Australia and Malaysia each have a high average annual growth rate of about 10%, and their more substantial trade values show some potential.

Table 10.1.7 Japan's trade value of base metals and their byproducts with other RCEP Parties and average growth rate, 2015-2020 (USD million)

Country or Region	Japan exports to the country or region			Japan imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	375.53	264.80	-6.75	1200.82	1872.75	9.29
Brunei Darussalam	22.00	10.92	-13.07	-	-	-
Cambodia	9.72	7.71	-4.53	1.76	2.46	6.89
China	11266.43	11810.44	0.95	8789.91	8363.18	-0.99
Indonesia	2309.7	1831.7	-4.53	1199.3	1154.7	-0.76

	8	4		4	4	
Lao People's Dem. Rep.	4.61	0.88	-28.27	0.04	-	-
Malaysia	1697.51	1834.22	1.56	383.86	591.95	9.05
Myanmar	35.01	82.27	18.64	0.66	4.00	43.31
New Zealand	70.70	37.11	-12.10	403.32	347.64	-2.93
Philippines	1009.64	924.43	-1.75	814.15	822.92	0.21
Rep. of Korea	6476.16	5633.35	-2.75	3572.30	3723.66	0.83
Singapore	1056.71	714.04	-7.54	165.98	83.21	-12.90
Thailand	5783.21	4785.18	-3.72	1373.46	1331.01	-0.63
Viet Nam	1992.68	2814.74	7.15	511.05	840.48	10.46
TOTAL	32109.68	30751.82	-0.86	18416.66	19138.01	0.77

Source: UN Comtrade Database and WITS.

By calculating the weighted MFN and FTA tax rates for the base metals industry in the other RCEP Parties, the total tax difference between the two is obtained as the margin of preference (MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the agreed tax rates.

In the first year after the RCEP comes into effect, Australia, Laos and the Philippines will have the highest tax differences, all exceeding 2%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these three Parties. Among the RCEP Parties, China has been Japan's largest trading partner, and the tariff rate reduction in the first year after the RCEP comes into effect is 1.15%, which is not as high as the above three Parties, but compared with Korea, its second-largest base metal export trading partner among the RCEP Parties, the reduction is more substantial. Overall, the tariff preferential benefits for Japanese enterprises exporting to China are still great.

Ten years after the RCEP comes into effect, Cambodia and Laos will have the highest tax differences, both exceeding 4%, indicating that there are greater potential preferential benefits in

Japan's export tax rates for these Parties. Nearly 40% of Japan's base metal and byproduct exports to other RCEP Parties are to China. Ten years after the RCEP comes into effect, China's tariff rates will be further reduced, which will significantly reduce the tariff burden on base metals and byproduct exporters to China. South Korea and Thailand are Japan's second and third-largest base metal export trading partners, but their tariff reductions are not significant. Exports of base metals and byproducts by Japanese companies to China are expected to further increase once the RCEP comes into effect.

Table 10.1.8 Comparison of Export-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	4.46	2.34	2.12	1.51	2.95
Brunei Darussalam	0.05	0.05	0.00	0.05	0.00
Cambodia	12.42	12.42	0.00	8.23	4.19
China	5.16	4.00	1.15	1.82	3.34
Indonesia	5.64	5.17	0.47	3.93	1.71
Lao People's Dem. Rep.	7.76	4.71	3.05	2.07	5.68
Malaysia	7.99	7.84	0.16	7.08	0.91
Myanmar	1.30	0.68	0.62	0.60	0.70
New Zealand	2.62	2.41	0.20	1.17	1.45
Philippines	3.22	1.17	2.06	0.65	2.57
Rep. of Korea	1.90	1.72	0.18	1.08	0.82
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	4.39	2.74	1.64	1.40	2.99
Viet Nam	1.79	1.21	0.58	0.40	1.40

Source: UN Comtrade Database and WITS.

By calculating the weighted MFN and FTA tax rates for the base metals and byproducts industry in the other RCEP Parties, the total tax difference between the two is obtained as the margin of preference (MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the

agreed tax rates. Currently, Japan's base metals and byproducts industry imposes the highest tariffs for imports from China and the Philippines. The RCEP will offer greater preferential benefits for base metals and byproducts companies in China and the Philippines.

In the first year after the RCEP comes into effect, China and the Philippines will have the highest tax differences, both exceeding 0.05%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these two Parties. China, which has been Japan's largest trading partner among the RCEP Parties, has the largest reduction in tariff rates in the first year after the RCEP comes into effect, with a tax difference of 0.08%. The Philippines, as the partner country with the highest tariff rates imposed on its imports by Japan, has the second-largest tariff rate reduction in the first year of the RCEP, with a tax difference of 0.07%.

Ten years after the RCEP comes into effect, China and the Philippines will still have tax differences far exceeding those of other Parties, at 0.77% and 0.69% respectively. Singapore, as a free trade port, will have reduced its MFN tariff rate to zero and liberalized trade in base metals and their byproducts. More than half of Japan's imports of base metals and byproducts from the RCEP Parties are from China. China's tax rate for Japan will decrease the most in the first year after the RCEP comes into effect, and will drop even significantly in ten years, which will bring benefits to importers.

Table 10.1.9 Comparison of Import-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	0.21	0.20	0.01	0.08	0.13
Cambodia	0.04	0.04	0.00	0.00	0.04

China	0.95	0.87	0.08	0.18	0.77
Indonesia	0.02	0.01	0.00	0.00	0.01
Malaysia	0.72	0.67	0.05	0.23	0.48
Myanmar	0.07	0.07	0.01	0.03	0.05
New Zealand	0.00	0.00	0.00	0.00	0.00
Philippines	1.08	1.01	0.07	0.39	0.69
Rep. of Korea	0.29	0.26	0.03	0.04	0.25
Singapore	0.02	0.02	0.00	0.00	0.02
Thailand	0.17	0.15	0.01	0.02	0.15
Viet Nam	0.36	0.33	0.03	0.09	0.27

Source: WITS database.

(C) Chemical Products

Chemical products belong to Category 6 of the customs trade product classification, covered in Chapters 28-38.

Table 10.1.10 Subcategories of the chemical products sector

HS Code	Product Description
28	Inorganic Chemicals; Organic or Inorganic Compounds of Precious Metals, Of Rare-Earth Metals, Of Radioactive Elements or Of Isotopes
29	Organic Chemicals
30	Pharmaceutical Products
31	Fertilizers
32	Tanning Or Dyeing Extracts; Tannins and Their Derivatives; Dyes, Pigments and Other Colouring Matter; Paints and Varnishes; Putty and Other Mastics; Inks
33	Essential Oils and Resinoids; Perfumery, Cosmetic or Toilet Preparations
34	Soap, Organic Surfactants, Washing Preparations, Lubricating Preparations
35	Albuminoidal substances; modified starches; glues;
36	Explosives; Pyrotechnic Products; Matches; Pyrophoric Alloys; Certain Combustible Preparations
37	Photographic Or Cinematographic Goods
38	Miscellaneous Chemical Products

In export trade, the average growth of Japanese chemical products exports in the past five years has been mostly positive, indicating that the market prospects of Japanese chemical products in other RCEP Parties are bright. Among them, the export values of Japanese chemical products to China and Korea have always exceeded the average, and these countries are the key Parties for Japan's exports of chemical products. Laos, as a small importer Party of Japanese chemical products, ranked first among other

RCEP Parties in terms of growth rate, indicating that the chemical products market of this Party also has some potential.

In import trade, the average annual growth rate of Japan's imports of chemical products from other RCEP Parties was 4.32% from 2015 to 2020. In the import trade of chemical products, China and South Korea have been Japan's largest trading partners in recent years, and the trade value has shown a trend of overall growth. In terms of trade growth rate, in the chemical industry, the trade growth rates of Japan's imports from other RCEP Parties show a wide variation. The best performers are Brunei and Laos, with average annual growth rates of 42.24% and 20.66% respectively. The average annual growth rate of China and Korea, which have the largest trade volume, is maintained at a lower level.

Table 10.1.11 Japan's Trade Value of Chemical Products with Other RCEP Parties and Average Growth Rate, 2015-2020

Country or Region	Japan exports to the country or region			Japan imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	295.25	324.75	1.92	292.59	616.57	16.08
Brunei Darussalam	3.48	1.63	-14.12	5.76	33.54	42.24
Cambodia	3.52	9.81	22.75	0.25	0.02	-41.72
China	11334.47	16498.84	7.80	7801.65	8733.17	2.28
Indonesia	787.38	871.20	2.04	480.74	594.06	4.32
Lao People's Dem. Rep.	0.47	3.36	48.09	4.02	10.27	20.66
Malaysia	751.32	721.25	-0.81	622.71	595.43	-0.89
Myanmar	9.87	12.98	5.63	1.12	0.15	-32.79
New Zealand	43.55	40.40	-1.49	309.07	229.37	-5.79
Philippines	542.00	556.16	0.52	70.00	142.08	15.21
Rep. of Korea	7985.10	7727.68	-0.65	2343.25	3242.31	6.71
Singapore	1187.52	1686.45	7.27	1539.22	2444.01	9.69
Thailand	1614.61	2065.00	5.04	1219.26	1467.44	3.77
Viet Nam	611.68	1105.89	12.57	475.96	630.29	5.78
TOTAL	25170.22	31625.37	4.67	15165.59	18738.70	4.32

Source: UN Comtrade Database and WITS.

By calculating the weighted MFN and FTA tax rates for the chemical products industry in the other RCEP Parties, the total tax difference between the two is obtained as the margin of preference (MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the agreed tax rates.

In the first year after the RCEP comes into effect, Indonesia, the Philippines and Thailand will have the highest tax differences, all exceeding 2%, indicating that there are great potential preferential benefits in Japan's export tax rates for these three Parties. Singapore, as a free trade port, will have reduced its MFN tariff rate to zero and liberalized trade in chemical products. China has been Japan's largest trading partner among the RCEP Parties, and the tariff rate will be reduced to 0.81% in the first year of RCEP, which is not a great degree of preferential benefits compared with Korea, the second-largest trading partner for chemical exports.

Ten years after the RCEP comes into effect, Indonesia and Vietnam will have the highest tax differences, both exceeding 4%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these Parties. Nearly half of Japan's chemical exports to other RCEP Parties are to China. Ten years after the RCEP comes into effect, China's tariff rates will be further reduced, but the degree of preferential benefits will be still lower than that of South Korea. South Korea is Japan's second-largest trading partner for chemical exports and has the third-largest tariff reduction among the other RCEP Parties. It is expected that after the RCEP comes into effect, the tariff burden will be significantly reduced on chemical product exporters to Korea, and exports of chemical products by Japanese companies to Korea will further increase.

Table 10.1.12 Comparison of Export-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	2.02	0.53	1.49	0.02	2.01
Brunei Darussalam	0.31	0.31	0.00	0.31	0.00
Cambodia	11.70	10.99	0.71	8.97	2.73
China	6.18	5.37	0.81	2.59	3.59
Indonesia	5.56	2.78	2.78	1.22	4.34
Lao People's Dem. Rep.	16.68	16.31	0.37	14.98	1.71
Malaysia	4.07	3.90	0.17	3.29	0.78
Myanmar	5.90	5.58	0.32	4.91	0.99
New Zealand	1.46	1.30	0.16	0.57	0.88
Philippines	2.50	0.17	2.33	0.13	2.37
Rep. of Korea	4.89	3.50	1.39	0.92	3.98
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	3.67	1.54	2.12	0.13	3.54
Viet Nam	5.10	3.25	1.85	0.61	4.49

Source: UN Comtrade Database and WITS.

By calculating the weighted MFN and FTA tax rates for the chemical industry in the other RCEP Parties, the total tax difference between the two is obtained as the margin of preference (MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the agreed tax rates. The tax rate of chemical products under the RCEP is generally lower in the first year of the Agreement, and will be more significantly reduced in the tenth year.

In the first year after the RCEP comes into effect, China, Laos and New Zealand will have the highest tax differences, all exceeding 0.10%, indicating that there are greater potential preferential benefits in Japan's import tax rates for these two Parties. China, which has been Japan's largest trading partner, ranked third in terms of tariff rate reduction in the first year after the RCEP comes into effect, with a tax difference of 0.14%. Japan's

tariff reductions for imported chemical products from Laos and New Zealand are large, but its trade value with Laos and New Zealand does not make up a large proportion, and as such, the tariff reduction preferential benefits that can be reaped by enterprises through the Agreement are limited.

Ten years after the RCEP comes into effect, it is still China, Laos, and New Zealand that have the highest tax differences, all exceeding 1.00%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these Parties. Nearly half of Japan's chemical imports from other RCEP Parties are from China. China's tax rate for Japan decreases the most in the first year of the RCEP, and will decrease significantly in the tenth year, which will bring benefits to Japanese companies importing chemical products from China.

Table10.1.13 Comparison of Import-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	0.74	0.70	0.05	0.30	0.45
Brunei Darussalam	0.00	0.00	0.00	0.00	0.00
Cambodia	0.00	0.00	0.00	0.00	0.00
China	1.57	1.43	0.14	0.25	1.31
Indonesia	0.44	0.41	0.03	0.14	0.30
Lao People's Dem. Rep.	2.93	2.63	0.30	0.30	2.63
Malaysia	0.15	0.13	0.01	0.02	0.12
Myanmar	0.00	0.00	0.00	0.00	0.00
New Zealand	2.24	2.04	0.20	0.36	1.88
Philippines	0.01	0.01	0.00	0.00	0.01
Rep. of Korea	1.05	0.95	0.10	0.15	0.90
Singapore	0.88	0.81	0.07	0.21	0.67
Thailand	1.36	1.33	0.03	1.07	0.29
Viet Nam	0.84	0.79	0.05	0.37	0.47

Source: WITS database.

(D) Textiles and Raw Textile Materials

Textiles and raw textile materials belong to Category 11 of the customs trade product classification, covered in Chapters 50-63.

Table 10.1.14 Subcategories of textiles and raw textile materials

HS Code	Product Description
50	silk
51	wool, fine or coarse animal hair; horsehair yarn and woven fabric
52	cotton
53	other vegetable textile fibres; paper yarn and woven fabrics of paper yarn
54	man-made filaments; strip and the like of man-made textile materials
55	man-made staple fibres
56	wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof
57	carpets and other textile floor coverings
58	special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery
59	impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial
60	knitted or crocheted fabrics
61	articles of apparel and clothing accessories, knitted or crocheted
62	articles of apparel and clothing accessories, not knitted or crocheted
63	other made up textile articles; sets; worn clothing and worn textile articles; rags

In export trade, Japan's exports of textiles and raw textile materials to most other RCEP Parties have grown negatively on average over the past five years, but the decline has not been significant. Japan's exports of textiles and raw textile materials to China, Vietnam and South Korea have always exceeded the average, and these countries are the key Parties for Japan's exports of textiles and raw textile materials. In the tightening export markets for textiles and raw textile materials, Myanmar, as a smaller importer Party of textiles and raw textile materials from Japan, has a relatively significant growth rate, ranking first among the other RCEP Parties, indicating that the market for textiles and raw textile materials of this Party also has some potential.

In import trade, the average annual growth rate of Japan's imports of textiles and raw textile materials from the other RCEP Parties from 2015 to 2020 was 0.37%, with stable overall growth.

Among the RCEP Parties, China is Japan's largest trading partner in this industry, but in recent years, Japan's import trade to China has shown negative growth in all aspects. The trade growth rates of Japan's imports from other RCEP Parties show a wide variation. The average annual growth rate of Japan's import trade with Vietnam was high at 7.62%, and Vietnam is the second-largest importer of Japanese textiles and raw textile materials, with trade value second only to China's. In general, Japan's import trade with Vietnam has a greater potential for development.

Table 10.1.15 Japan's Trade Value of Textiles and Raw Textile Materials with Other RCEP Parties and Average Growth Rate, 2015-2020

Country or Region	Japan exports to the country or region			Japan imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	25.58	26.69	0.85	36.05	34.50	-0.87
Brunei Darussalam	0.25	0.11	-15.16	0.00	0.00	#DIV/0!
Cambodia	40.60	42.99	1.15	659.61	1068.93	10.14
China	2480.74	1948.02	-4.72	22886.14	21350.17	-1.38
Indonesia	271.10	226.92	-3.50	1445.35	1288.17	-2.28
Lao People's Dem. Rep.	10.63	8.24	-4.96	35.57	38.32	1.50
Malaysia	137.76	101.41	-5.94	254.65	253.11	-0.12
Myanmar	61.00	84.53	6.74	582.25	963.69	10.60
New Zealand	4.79	3.41	-6.57	13.18	5.63	-15.63
Philippines	115.14	96.98	-3.37	147.55	161.27	1.80
Rep. of Korea	363.06	295.13	-4.06	460.15	464.48	0.19
Singapore	72.01	51.68	-6.42	6.41	6.63	0.68
Thailand	308.45	245.29	-4.48	842.09	810.22	-0.77
Viet Nam	791.85	849.61	1.42	3381.06	4881.67	7.62
TOTAL	4682.95	3981.01	-3.20	30750.04	31326.80	0.37

Source: UN Comtrade Database and WITS.

By calculating the weighted MFN and FTA tax rates for the textiles industry in the other RCEP Parties, the total tax difference

between the two is obtained as the margin of preference (MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the agreed tax rates.

In the first year after the RCEP comes into effect, the Philippines, Thailand, and Vietnam will have the highest tax differences, all exceeding 5%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these three Parties. Singapore, as a free trade port, will have reduced its MFN tariff rate to zero and liberalized trade in textiles and raw materials. China has been Japan's largest trading partner among the RCEP Parties, and the tariff rate reduction in the first year of RCEP's entry into force is 0.93%, which is not a large degree of preferential benefit. Vietnam, as Japan's second-largest export trading partner in the textiles industry, has a first-year tariff reduction rate of 6.68%. Enterprises can use the Agreement to reap great preferential benefits.

Ten years after the RCEP comes into effect, Indonesia and Vietnam will have the highest tax differences, both exceeding 4%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these Parties. Nearly 70% of Japan's textile exports to other RCEP Parties are to China and Vietnam. Although the tax reduction preferential benefits in the first year are low, China's tariff rate will be significantly reduced ten years after the RCEP comes into effect, with a tax reduction of up to 6.82%. Vietnam is Japan's second-largest textile export trading partner, with a large tariff reduction in the first year and further tariff reduction after ten years, with tax rate reduction of up to 8.99%, ranking first among the other RCEP Parties. The RCEP is expected to significantly reduce the tariff burden on enterprises exporting textile products to China and Vietnam once it comes into effect, and Japanese enterprises will further increase their textile exports to

China and Vietnam.

Table 10.1.16 Comparison of Import-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	5.54	2.09	3.44	0.86	4.67
Brunei Darussalam	0.00	0.00	0.00	0.00	0.00
Cambodia	6.91	5.64	1.26	3.85	3.06
China	9.48	8.56	0.93	2.66	6.82
Indonesia	7.08	3.51	3.58	2.89	4.20
Lao People's Dem. Rep.	9.89	8.92	0.97	3.23	6.65
Malaysia	4.10	3.90	0.20	0.22	3.88
Myanmar	13.54	12.21	1.33	7.56	5.98
New Zealand	3.42	3.20	0.22	1.70	1.71
Philippines	10.20	2.63	7.57	1.59	8.60
Rep. of Korea	8.92	7.75	1.17	3.78	5.13
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	7.25	1.66	5.59	0.00	7.25
Viet Nam	11.12	4.44	6.68	2.13	8.99

Source: UN Comtrade Database and WITS.

By calculating the weighted MFN and FTA tax rates for the textiles industry in the other RCEP Parties, the total tax difference between the two is obtained as the margin of preference (MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the agreed tax rates. The tax rate of textiles products under the RCEP is generally lower in the first year of the Agreement, and will be more significantly reduced in the tenth year.

In the first year after the RCEP comes into effect, China, Laos, and Myanmar will have the highest tax differences, all exceeding 0.20%, indicating that there are greater potential preferential benefits in Japan's import tax rates for these three Parties. China, which has been Japan's largest trading partner, has the largest tariff rate reduction in the first year of the RCEP, with a

tax difference of 0.55%. Japan's tariff reductions for imported textiles and raw textile materials from Laos and Myanmar are large, but its trade values with Laos and New Zealand account for a small percentage of its total. As such, the tax reduction preferential benefits that can be reaped by enterprises through the Agreement are limited.

Ten years after the RCEP comes into effect, it is still China, Laos, and Myanmar that have the highest tax differences, all exceeding 2%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these Parties. Nearly half of Japan's textile and raw material imports from other RCEP Parties are from China. China's tax rate for Japan will be reduced the most in the first year of the RCEP, and will drop even more significantly in the tenth year, by a rate far greater than those of other Parties, which will bring benefits to Japanese enterprises importing Chinese textiles and raw textile materials.

Table 10.1.17 Comparison of Import-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	0.14	0.13	0.01	0.05	0.09
Cambodia	2.05	1.91	0.14	0.67	1.38
China	7.65	7.09	0.55	2.69	4.96
Indonesia	1.64	1.53	0.12	0.51	1.13
Lao People's Dem. Rep.	4.06	3.77	0.30	1.18	2.88
Malaysia	0.94	0.88	0.06	0.33	0.61
Myanmar	3.67	3.42	0.25	1.27	2.40
New Zealand	0.02	0.02	0.00	0.01	0.01
Philippines	1.40	1.31	0.09	0.49	0.91
Rep. of Korea	2.73	2.56	0.17	1.06	1.67
Singapore	0.05	0.05	0.00	0.01	0.04
Thailand	0.86	0.81	0.06	0.31	0.55
Viet Nam	2.21	2.06	0.15	0.75	1.46

Source: WITS database.

(E) Optical Instruments, Watches and Clocks, and Medical Equipment

Optical instruments, watches and clocks, and medical equipment belong to Category 18 of the customs trade product classification, covered in Chapters 90-92.

Table 10.1.18 Subcategories of optical instruments, watches and clocks, and medical equipment sector

HS Code	Product Description
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof
91	Clocks and watches and parts thereof
92	Musical instruments; parts and accessories of such articles

In export trade, Japan's exports of optical instruments, watches and clocks, and medical equipment to China, Korea and Thailand consistently exceeded the total average value of Japan's exports of such products to other RCEP Parties, and these three countries are the key Parties for Japan's exports of optical, watches and clocks, and medical equipment. Vietnam ranked first among other RCEP Parties in terms of growth rate and fifth among the other RCEP Parties in terms of trade value, indicating that the market for optical instruments, watches and clocks, medical equipment in this Party has some potential. In addition, Australia, Indonesia, Myanmar, and the Philippines have seen negative growth in the import of optical instruments, watches and clocks, and medical equipment on a large scale, which requires the attention of enterprises.

In import trade, Japan's trade imports of optical instruments, watches and clocks, and medical equipment from other RCEP Parties grew steadily on the whole from 2015 to 2020, with an average annual growth rate of 2.50%. China is Japan's largest trading partner in this industry, but in recent years, Japan's import trade with China has shown negative growth in all aspects, with a growth rate of -0.22%. In terms of trade growth rate, in the optical

instruments, watches and clocks, and medical equipment industry, the trade growth rates of Japan's imports from other RCEP Parties show a wide variation. The average annual growth rate of Japan's import trade with Australia is higher, at 18.77%, and the trade volume is one order of magnitude more than those with other Parties that also have growth rates exceeding 10%. In general, Japan's import trade with Australia has a greater potential for development.

Table 10.1.19 Japan's Trade Value of Optical Instruments, Watches and Clocks, and Medical Equipment with Other RCEP Parties and Average Growth Rate, 2015-2020

Country or Region	Japan exports to the country or region			Japan imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	289.23	235.08	-4.06	112.09	264.95	18.77
Brunei Darussalam	0.56	0.47	-3.39	0.00	-	-
Cambodia	9.06	14.16	9.33	1.25	1.90	8.81
China	10534.32	11541.70	1.84	5467.91	5409.13	-0.22
Indonesia	456.87	321.06	-6.81	201.30	200.54	-0.08
Lao People's Dem. Rep.	1.86	3.18	11.38	0.00	0.03	65.54
Malaysia	434.34	548.34	4.77	738.57	861.79	3.13
Myanmar	27.35	21.19	-4.98	4.44	13.89	25.62
New Zealand	18.59	17.78	-0.89	16.28	31.89	14.40
Philippines	454.10	337.17	-5.78	339.86	371.67	1.81
Rep. of Korea	3446.54	3542.19	0.55	443.16	677.32	8.85
Singapore	670.33	754.41	2.39	678.51	907.00	5.98
Thailand	1526.80	1463.18	-0.85	870.93	1251.43	7.52
Viet Nam	444.39	882.18	14.70	318.50	408.64	5.11
TOTAL	18314.35	19682.09	1.45	9192.80	10400.18	2.50

Source: UN Comtrade Database and WITS.

By calculating the weighted MFN and FTA tax rates in the other RCEP Parties, the total tax difference between the two is obtained

as the margin of preference (MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the agreed tax rates.

In the first year after the RCEP comes into effect, Indonesia and Thailand will have the highest tax differences, both exceeding 3%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these Parties. Singapore, as a free trade port, will have reduced its MFN tariff rate to zero and liberalized trade in optical instruments, watches and clocks, and medical equipment. China has been Japan's largest trading partner, and its tariff rate reduction in the first year of the RCEP is 0.84%, which is not a large degree of preferential benefits. South Korea, as Japan's second-largest export trading partner in the optical instruments, watches and clocks, and medical equipment industry, will reduce tariffs by 0.95% in the first year, slightly higher than those of China.

Ten years after the RCEP comes into effect, Cambodia and Thailand will have the highest tax differences, both exceeding 6%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these Parties. Thailand ranked first in tax reduction rate in the first year and after ten years, and enterprises can take advantage of the Agreement to reap a large number of preferential benefits. Nearly 60% of Japan's exports of optical instruments, watches and clocks, and medical equipment to other RCEP Parties are to China. Although the degree of tariff rate preferential benefits in China is low in the first year, **China's tariff rates will be reduced by as much as 4.71% in the tenth year of the RCEP.** South Korea, Japan's second-largest export trading partner for optical instruments, watches and clocks, and medical equipment, will have a slightly higher tariff reduction than China in the first year, and a slightly lower tax difference of 4.45% after ten

years. With the advancement of the RCEP, the tax reductions granted to Japan by China and South Korea will further reduce the tax burden on Japanese exporters.

Table 10.1.20 Comparison of Export-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	0.25	0.13	0.12	0.07	0.18
Brunei Darussalam	2.93	2.93	0.00	2.93	0.00
Cambodia	14.99	14.99	0.00	6.49	8.50
China	5.96	5.12	0.84	1.25	4.71
Indonesia	4.46	0.48	3.98	0.01	4.46
Lao People's Dem. Rep.	5.00	3.95	1.05	1.58	3.42
Malaysia	0.08	0.02	0.07	0.00	0.08
Myanmar	2.22	2.09	0.13	1.72	0.49
New Zealand	0.72	0.63	0.09	0.51	0.20
Philippines	1.54	0.00	1.54	0.00	1.54
Rep. of Korea	5.24	4.29	0.95	0.78	4.45
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	6.41	0.13	6.29	0.02	6.40
Viet Nam	0.19	0.03	0.16	0.00	0.18

Source: UN Comtrade Database and WITS.

Currently, Japan's optical instruments, watches and clocks, and medical equipment industry has achieved zero import tariffs for most RCEP Parties, but not full tariff exemptions for Parties such as China and Korea, with certain import tariffs still in place. Among them, Japan's import tariffs on Chinese and South Korean products are an order of magnitude higher than those of other Parties, and the RCEP will provide greater preferential benefits for Japanese companies importing optical instruments, watches and clocks, and medical equipment from China and South Korea.

In the first year after the RCEP comes into effect, China and South Korea will have the highest tax differences, indicating there are greater potential preferential benefits in Japan's import tax

rates for these Parties. China, which has been Japan's largest trading partner, has the highest tariff rate reduction among other RCEP Parties in the first year of the RCEP. Korea is Japan's second-largest partner among the other RCEP Parties in terms of tariff rate reduction for the optical instruments, watches and clocks, and medical equipment industry, but the trade volume accounts for a small percentage of the total, and the tariff reduction preferential benefits that can be reaped by enterprises using the Agreement are limited.

Ten years after the RCEP comes into effect, it is still China and South Korea that have the highest tax differences, indicating that there are greater potential preferential benefits in Japan's import tax rates for these Parties. More than half of Japan's imports of optical instruments, watches and clocks, and medical equipment from other RCEP Parties are from China. Japan's tariff rates on Chinese imports decreases significantly in the first year, and the tariff rate will decrease even more significantly in the tenth year, reaching 0.1644%, which indicates that imports of optical instruments, watches and clocks, and medical equipment from China will have the greatest room for tax reduction and profitability in the next ten years. South Korea's tariff rate will also drop significantly after ten years, but the reduction rate is slightly lower than that of China. In general, the implementation of the RCEP will bring benefits to Japanese companies that import optical instruments, watches and clocks, and medical equipment from China and South Korea.

Table 10.1.21 Comparison of Import-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	0.0048	0.0046	0.0003	0.0018	0.0030
Cambodia	0.0000	0.0000	0.0000	0.0000	0.0000

China	0.2556	0.2396	0.0160	0.0911	0.1644
Indonesia	0.0000	0.0000	0.0000	0.0000	0.0000
Lao People's Dem. Rep.	0.0000	0.0000	0.0000	0.0000	0.0000
Malaysia	0.0087	0.0082	0.0005	0.0033	0.0054
Myanmar	0.0000	0.0000	0.0000	0.0000	0.0000
New Zealand	0.0003	0.0003	0.0000	0.0001	0.0002
Philippines	0.0001	0.0001	0.0000	0.0000	0.0000
Rep. of Korea	0.2057	0.1928	0.0130	0.0787	0.1271
Singapore	0.0024	0.0022	0.0001	0.0009	0.0015
Thailand	0.0090	0.0084	0.0005	0.0034	0.0056
Viet Nam	0.0418	0.0394	0.0024	0.0158	0.0260

Source: WITS database.

(F) Plastics and Rubber

Plastics and rubber belong to Category 7 of the customs trade product classification, covered in Chapters 39-40.

Table 10.1.22 Subcategories of plastics and rubber sector

HS Code	Product Description
39	Plastics and articles thereof
40	Rubber and articles thereof

In export trade, China is the key Party for Japan's plastic and rubber exports. More than half of Japan's plastic and rubber exports to other RCEP Parties are to China, and the growth rate of Japan's export trade to China has also been faster in recent years, with an average annual growth rate of 6.01%. In terms of trade growth rate, Laos, as a small importer Party of plastics and rubber from Japan, ranked first among other RCEP Parties in terms of growth rate, indicating that its market for plastics and rubber products also has some potential.

In import trade, Japan's imports of plastic and rubber products from the other RCEP Parties grew at an average annual rate of 1.54%. China and Thailand are Japan's top two trading partners. In terms of trade growth rate, in the plastics and rubber industry, Vietnam and Australia have high average annual growth rates

exceeding 10%, with more substantial trade values that have some potential.

Table 10.1.23 Japan's Trade Value of Plastics and Rubber Products with Other RCEP Parties and Average Growth Rate, 2015-2020

Country or Region	Japan exports to the country or region			Japan imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	503.00	580.52	2.91	39.32	71.14	12.59
Brunei Darussalam	1.99	1.09	-11.43	-	-	-
Cambodia	8.43	12.01	7.32	6.32	5.37	-3.19
China	7496.44	10036.65	6.01	5590.71	5830.35	0.84
Indonesia	953.65	771.57	-4.15	1270.30	1178.37	-1.49
Lao People's Dem. Rep.	1.69	4.17	19.82	0.21	0.01	-46.78
Malaysia	727.65	835.27	2.80	832.35	1143.13	6.55
Myanmar	12.15	13.77	2.54	15.98	17.46	1.80
New Zealand	53.29	38.81	-6.15	4.06	3.75	-1.57
Philippines	509.72	562.89	2.00	278.08	268.66	-0.69
Rep. of Korea	3341.46	3186.94	-0.94	1471.29	1512.51	0.55
Singapore	439.32	424.14	-0.70	284.87	256.34	-2.09
Thailand	1547.28	1518.36	-0.38	2028.39	2101.79	0.71
Viet Nam	906.20	1358.11	8.43	667.11	1092.83	10.38
TOTAL	16502.28	19344.30	3.23	12488.99	13481.74	1.54

Source: UN Comtrade Database.

In the first year after the RCEP comes into effect, Australia, Indonesia, and the Philippines have the highest tax differences, all exceeding 3%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these three Parties. Singapore, as a free trade port, will have reduced its MFN tariff rate to zero and liberalized trade in plastics and rubber products. China has been Japan's largest trading partner, In the first year of the RCEP, its tariff rate reduction is 0.65%, which is not a large degree of preferential benefits. South Korea, as Japan's

second-largest export trading partner in the plastics and rubber industry, has a tariff rate reduction of 0.44% in the first year.

Ten years after the RCEP comes into effect, Indonesia, Laos, the Philippines and Thailand have the highest tax differences, all exceeding 5%, indicating that there are great potential preferential benefits in Japan's export tax rates for these Parties. Indonesia and Malaysia are among the top three tax-reducing Parties in the first year and tenth year, and enterprises can take advantage of the Agreement to reap a large number of preferential benefits. Half of Japan's plastic and rubber exports to other RCEP Parties are to China. Although China's tariff reduction preferential benefits in the first year are low, ten years after the RCEP comes into effect, China's tariff rate will be reduced significantly, with a rate reduction of up to 4.23%. South Korea is Japan's second-largest export trading partner in plastic and rubber products. Its tariff reduction rate in the first year is slightly lower than that of China, with a tax rate difference of 4.42% after ten years, slightly higher than that of China. The implementation of the RCEP will greatly promote the trade of plastic and rubber products between Japan, China and South Korea, and reduce costs for Japanese exporters.

Table 10.1.24 Comparison of Export-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	4.87	1.04	3.84	0.90	3.97
Brunei Darussalam	6.12	6.12	0.00	6.12	0.00
Cambodia	11.42	10.85	0.57	8.22	3.20
China	7.12	6.48	0.65	2.89	4.23
Indonesia	7.26	4.24	3.02	2.17	5.09
Lao People's Dem. Rep.	11.60	9.55	2.05	6.05	5.55
Malaysia	10.41	10.18	0.23	8.24	2.17
Myanmar	4.36	4.31	0.05	2.92	1.44
New Zealand	2.48	2.20	0.28	1.02	1.46

Philippines	8.44	5.16	3.28	2.96	5.48
Rep. of Korea	6.47	6.04	0.44	2.06	4.42
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	5.21	3.34	1.87	0.14	5.07
Viet Nam	5.83	2.92	2.91	1.33	4.50

Source: UN Comtrade Database and WITS.

Nearly 60% of Japan's plastic and rubber industry imports from other RCEP Parties are from China and South Korea, but currently, since Japan, China and South Korea have not signed a trade agreement, Japan's plastic and rubber industry has imposed the highest tariffs on Chinese and South Korean imports among the RCEP Parties. The RCEP is expected to offer greater preferential benefits for Japanese companies importing plastics and rubber from China and South Korea.

In the first year after the RCEP comes into effect, China and South Korea will have the highest tax differences, indicating that there are greater potential preferential benefits in Japan's import tax rates for these two Parties. China, which has been Japan's largest trading partner, has a large tariff rate reduction in the first year of the RCEP, with a tax difference of 0.28%, ranking first among other RCEP Parties. South Korea is Japan's second-largest partner in the plastics and rubber industry in terms of tariff rate reduction among RCEP Parties, with a tax difference of 0.28%, ranking second among the other RCEP Parties.

Ten years after the RCEP comes into effect, it is still China and South Korea that will have the highest tax differences. Japan's tariff rates on Chinese imports will be reduced more in the first year, and the tariff rate will decrease even more significantly after ten years, reaching 2.70%, which indicates that the import of plastics and rubber from China will have the greatest potential for tax reduction and profitability in the next ten years. Korea's tariff rate will also be significantly reduced after ten years, but the rate of

reduction is slightly lower than that of China. Nearly half of Japan's plastic and rubber imports from the other RCEP Parties are from China. In general, the implementation of the RCEP will bring greater benefits to Japanese companies importing plastic and rubber from China.

Table 10.1.25 Comparison of Import-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	1.57	1.41	0.15	0.17	1.40
Cambodia	0.98	0.91	0.07	0.22	0.75
China	3.14	2.86	0.28	0.43	2.70
Indonesia	0.11	0.10	0.01	0.02	0.09
Lao People's Dem. Rep.	0.45	0.42	0.02	0.17	0.27
Malaysia	0.32	0.30	0.03	0.04	0.28
Myanmar	0.80	0.74	0.07	0.07	0.73
New Zealand	0.30	0.28	0.02	0.10	0.20
Philippines	2.03	1.85	0.18	0.25	1.78
Rep. of Korea	3.06	2.79	0.27	0.43	2.63
Singapore	0.26	0.24	0.02	0.06	0.20
Thailand	0.40	0.37	0.03	0.08	0.32
Viet Nam	0.91	0.84	0.07	0.14	0.77

Source: WITS database.

(G) Furniture, Toys, and Miscellaneous Manufactured Products

Table 10.1.26 Subcategories of furniture, toys, and miscellaneous manufactured products sector

HS Code	Product Description
94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated name-plates and the like; prefabricated buildings
95	Toys, games and sports requisites; parts and accessories thereof
96	Miscellaneous manufactured articles

In export trade, China is the key country for Japan's exports of furniture, toys and miscellaneous manufactured products. More than half of Japan's exports of furniture, toys, miscellaneous manufactured products to the other RCEP Parties have been to

China, but in recent years, Japan's export trade with China has shown a decline. Its trade values with Australia and Vietnam are more significant, basically more than the average, with faster growth rates that show some potential.

In import trade, on the whole, Japan's imports of furniture, toys, and miscellaneous manufactured products from the other RCEP Parties grew at an average annual rate of 2.10%, showing overall steady growth. In the import trade of this industry, China has been Japan's largest trading partner, and more than 70% of Japan's plastic and rubber imports from the other RCEP Parties are from China. In terms of trade growth rate, the trade growth rates of Japan's imports of these products from the other RCEP Parties show a wide variation. The best performers are Australia and Myanmar, with an average annual growth rate of 27.16% and 23.45% respectively, with high potential for future development.

Table 10.1.27 Japan's Trade Value of Furniture, Toys, and Miscellaneous Manufactured Products with Other RCEP Parties and Average Growth Rate, 2015-2020

Country or Region	Japan exports to the country or region			Japan imports to the country or region		
	2015	2020	Average Growth Rate (%)	2015	2020	Average Growth Rate (%)
Australia	59.68	134.46	17.64	4.13	13.73	27.16
Brunei Darussalam	0.36	0.12	-19.11	-	-	-
Cambodia	7.29	4.82	-7.94	6.43	16.41	20.61
China	1624.14	1437.02	-2.42	9363.54	10281.72	1.89
Indonesia	86.45	67.29	-4.89	251.34	226.07	-2.10
Lao People's Dem. Rep.	0.76	1.41	13.21	1.10	2.79	20.34
Malaysia	87.29	69.10	-4.56	327.86	315.21	-0.78
Myanmar	11.50	14.47	4.70	2.52	7.21	23.45
New Zealand	5.84	6.61	2.50	0.74	1.40	13.65
Philippines	58.53	41.32	-6.73	195.34	219.15	2.33
Rep. of Korea	402.60	511.52	4.91	239.46	210.49	-2.55
Singapore	117.41	131.80	2.34	10.70	8.16	-5.27
Thailand	122.93	122.07	-0.14	587.47	450.85	-5.16

Viet Nam	135.49	239.31	12.05	923.08	1466.65	9.70
TOTAL	2720.25	2781.32	0.45	11913.71	13219.83	2.10

Source: UN Comtrade Database.

By calculating the weighted MFN and FTA tax rates in the other RCEP Parties, the total tax difference between the two is obtained as the margin of preference (MOP). A larger tax difference means a larger trade volume and a greater potential preferential benefit from using the agreed tax rates.

In the first year after RCEP comes into effect, Indonesia, Laos, the Philippines, Thailand, and Vietnam will have the highest tax differences, all exceeding 6%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these Parties. Singapore, as a free trade port, will have reduced its MFN tariff rate to zero and liberalized trade in furniture, toys, and miscellaneous manufactured products. China has been Japan's largest trading partner, and its tariff rate will be reduced to 0.59% in the first year of the RCEP, which is not a large degree of preferential benefits. South Korea, as Japan's second-largest export trading partner in furniture, toys, and miscellaneous manufactured products, will reduce tariffs by 0.74% in the first year, slightly higher than China.

Ten years after the RCEP comes into effect, Thailand and Vietnam will have the highest tax differences, both exceeding 10%, indicating that there are greater potential preferential benefits in Japan's export tax rates for these Parties. Thailand and Vietnam have the highest tax reductions in the first year and after ten years, and enterprises can take advantage of the Agreement to reap a large number of preferential benefits. Half of Japan's exports of furniture, toys, and miscellaneous manufactured products to the other RCEP Parties are to China. Although the degree of preferential tariff rates in China is low in the first year, China's tariff

rates will be significantly reduced by up to 5.84% ten years after the RCEP comes into effect. South Korea, Japan's second-largest export trading partner for furniture, toys, and miscellaneous manufactured products, will see a slightly lower tariff reduction than China in the first year, and a tax difference of 5.16% after ten years. With the advancement of the RCEP, the tax reductions granted to Japan by other RCEP Parties will further reduce the tax burden on Japanese exporters.

Table 10.1.28 Comparison of Import-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Export-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Export-Weighted FTA (%)	Tax Difference (%)	Export-Weighted FTA (%)	Tax Difference (%)
Australia	3.28	0.15	3.13	0.13	3.15
Brunei Darussalam	2.33	2.33	0.00	2.33	0.00
Cambodia	9.70	9.70	0.00	7.66	2.05
China	11.46	10.87	0.59	5.62	5.84
Indonesia	9.96	3.95	6.01	2.77	7.19
Lao People's Dem. Rep.	9.57	2.67	6.89	1.23	8.33
Malaysia	9.13	8.46	0.67	2.86	6.27
Myanmar	3.01	2.92	0.09	2.22	0.79
New Zealand	2.85	2.27	0.57	0.98	1.87
Philippines	8.59	1.92	6.67	0.99	7.60
Rep. of Korea	6.22	5.48	0.74	1.06	5.16
Singapore	0.00	0.00	0.00	0.00	0.00
Thailand	13.27	3.57	9.70	1.66	11.61
Viet Nam	16.99	10.06	6.93	5.45	11.54

Source: UN Comtrade Database and WITS.

The tariff rates for furniture, toys and miscellaneous manufactured products under the RCEP are generally lower in the first year of the Agreement, with more substantial reductions in the tenth year.

In the first year after the RCEP comes into effect, Korea and Cambodia will have the highest tax differences, indicating that there are greater potential preferential benefits in Japan's import tax

rates for these two Parties. China, which has been Japan's largest trading partner, ranked fourth in terms of tariff rate reduction in the first year of the RCEP, with a tax difference of 0.08%. Among the RCEP Parties, Korea is the partner country with the greatest tax reduction rate for Japan in furniture, toys, miscellaneous manufactured products, but its trade value accounts for a small percentage. The tariff reduction preferential benefits that enterprises can reap using this Agreement are limited.

Ten years after the RCEP comes into effect, Myanmar, China and South Korea will have the highest tax differences, indicating that there are greater potential preferential benefits in Japan's import tax rates for these Parties. Japan's trade value with Myanmar is small, and the total amount of tariff preferential benefits Japanese companies can reap from it is limited. Nearly 80% of Japan's imports of furniture, toys and miscellaneous manufactured products from the RCEP Parties are from China. Japan's tariff reduction on Chinese imports is average in the first year, but the tariff rate will decrease at a very significant rate of 0.84% after ten years, which indicates that imports of furniture, toys and miscellaneous manufactured products from China will have the greatest room for tax reduction and profitability in the next ten years. In general, the implementation of the RCEP will bring benefits to Japanese companies importing furniture, toys and miscellaneous manufactured products from China, and Japanese imports of such products from China will increase rapidly.

Table 10.1.29 Comparison of Export-Weighted MFN Rates, FTA Rates and Tax Differences in the RCEP

Country or Region	Import-Weighted MFN (%)	RCEP Year1		RCEP Year10	
		Import-Weighted FTA (%)	Tax Difference (%)	Import-Weighted FTA (%)	Tax Difference (%)
Australia	0.28	0.26	0.02	0.10	0.18
Cambodia	0.92	0.84	0.09	0.13	0.79
China	1.12	1.04	0.08	0.28	0.84

Indonesia	0.23	0.21	0.02	0.04	0.19
Lao People's Dem. Rep.	0.56	0.51	0.05	0.08	0.48
Malaysia	0.90	0.82	0.08	0.11	0.79
Myanmar	1.71	1.61	0.10	0.54	1.18
New Zealand	0.40	0.37	0.03	0.13	0.27
Philippines	0.83	0.77	0.06	0.19	0.64
Rep. of Korea	1.10	1.00	0.10	0.16	0.94
Singapore	0.02	0.02	0.00	0.00	0.02
Thailand	1.07	0.99	0.08	0.25	0.82
Viet Nam	0.67	0.63	0.04	0.21	0.47

Source: WITS database.

Section 2 Trade in Service

Japan is an important member of the CPTPP Agreement, and joining the RCEP will expand the trade volume in services with China, Australia, New Zealand and the ASEAN, and increase bilateral trust. As an important member of the RCEP, examining the scale and structure of Japan's trade in services has important implications for their interoperability among other RCEP Parties. Analyzing the current status of trade in services between Japan and other RCEP Parties will help clarify Japan's strengths and weaknesses among the RCEP members and provide strategic support for further promoting the development and formulating decisions of trade in services.

I. The Current Status of Japan's Trade in Services With Other RCEP Parties

The other RCEP Parties are important partners for Japan's trade-in-services exports. This section will analyze the current status of Japan's trade in services with other RCEP Parties in the context of Japan's export data for such trade to other RCEP Parties. Statistics show that in 2019, Japan's trade-in-services exports to other RCEP Parties reached US$70.68 billion, accounting for 26% of Japan's total trade-in-services exports to the rest of the world, up

1.5% year-on-year.

Looking at the overall scale of Japan's trade-in-services exports, from 2014 to 2019, Japan's overall trade-in-services exports to the world showed an upward trend, gradually shifting from a trade deficit to a trade surplus. The export value of its trade in services rose from US$163.79 billion in 2014 to US$205.06 billion in 2019, an increase of 25.2% year-on-year. Japan's trade-in-services exports are developing at a relatively fast pace.

Looking at the stock of Japan's trade-in-services exports with other RCEP Parties, Japan's exports to other RCEP Parties show a wide variation. Among them, Japan's trade-in-services exports to the ASEAN are the largest in volume, followed by China, Korea and lastly Australia and New Zealand. Japan's trade-in-services exports to the ASEAN Parties totaled US$174.29 billion between 2014 and 2019, accounting for 47.1% of Japan's total exports to the RCEP, higher than Japan's exports to Korea at US$49.14 billion, and higher than Japan's exports to Australia at US$16.42 billion, and 72 times more than the US$2.453 billion exported to New Zealand. China is the largest importer of Japan's trade in services among the other RCEP Parties, and Japanese export stock in China was as high as US$128.05 billion. Japan's trade-in-services exports to the ASEAN Parties are mainly concentrated in Singapore, Thailand and Indonesia, with Singapore accounting for the largest share, its trade-in-services exports there amounting to US$13.01 billion in 2019 alone, accounting for 40% of Japan's total exports to the ASEAN Parties.

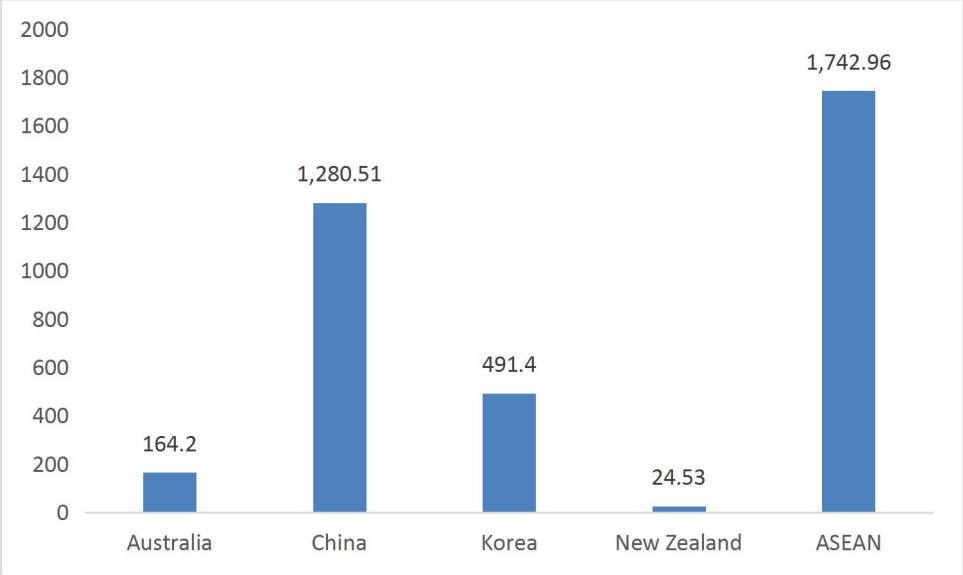

Figure 10.2.1 Japan's Export Stock in Other RCEP Parties, 2014-2019 (USD 100 million)
Source: WTO database in Trade in Services.

Looking at the export flows of trade in services between Japan and other RCEP Parties, Japan's total trade-in-services exports to the ASEAN Parties showed an upward trend, from US$27.57 billion in 2014 to US$32.66 billion in 2019, an increase of 18.5% year-on-year. The proportion of Japan's trade-in-services exports to China and South Korea is relatively large, with trade-in-services exports to China rising year by year, while trade-in-services to South Korea have shifted from a trade deficit to a trade surplus since 2016. Due to the geographical proximity, cultural interconnectivity, convenient transport and logistics, and frequent personnel exchanges, Japan has natural advantages in conducting such trade in services. Meanwhile, the economies and industrial technologies of Japan, South Korea, and China are at different stages of development, which is conducive to achieving complementary advantages and mutual benefits. Japan's total trade-in-services exports to Australia and New Zealand remain stable, maintaining a trade surplus.

The scale of Japan's trade-in-services exports to other RCEP Parties has been expanding on the whole, focusing on increasing exports to the ASEAN and China. Such trade with

the ASEAN mainly manifests itself in exports to Parties such as Singapore and Thailand. In recent years, Japan's trade in services has gradually turned from a deficit to a surplus, and its total surplus has been expanding.

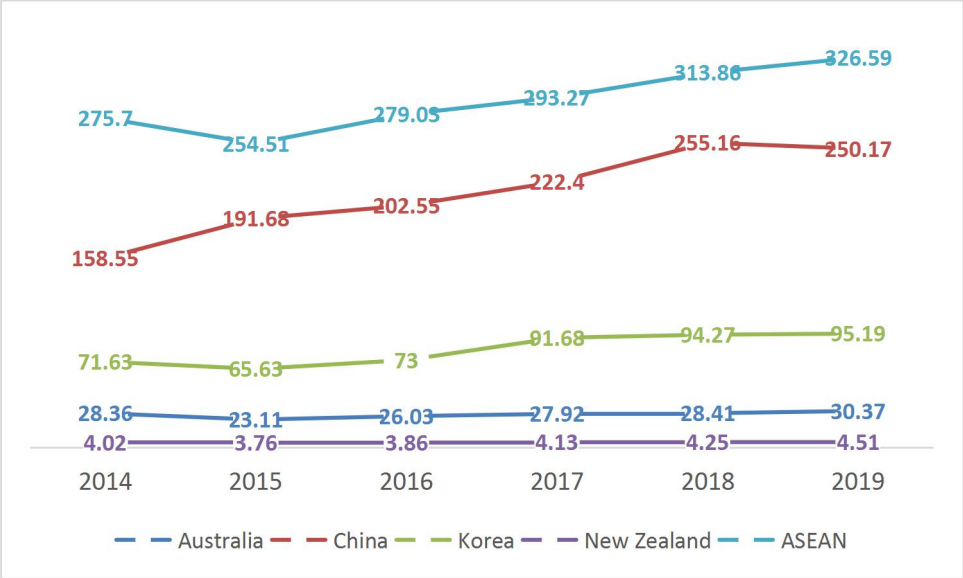

Figure 10.2.2 Japan's Export Flows to Other RCEP Parties, 2014-2019 (USD 100 million)
Source: WTO database in Trade in Services.

Looking at specific industries, Japan's trade-in-services exports to other RCEP Parties are mainly in the tourism and transportation and freight sectors. Japan's exports of tourism services to other RCEP Parties from 2014 to 2019 amounted to US$110.6 billion, accounting for 37% of its total exports. Japan's developed tourism industry and unique human geography determine its dominant position in such trade-in-services exports, and its exports of tourism services are on an upward trend, rising from US$9.76 billion in 2014 to US$25.40 billion in 2019, with an average annual growth rate of 32.0%. From 2014 to 2019, Japan's exports of transportation and freight services to other RCEP Parties totaled US$68.63 billion and exports of intellectual property services were worth US$66.42 billion. Of these, exports of transportation and freight services have declined, from US$13.35 billion in 2014 to US$9.20 billion in 2019. Exports of intellectual property services have maintained steady growth, declining only

slightly in 2015. Exports of construction services declined from US$7.12 billion in 2014 to US$5.93 billion in 2019, an average annual decline of 2.4%. Japan's economy has traditionally been export-driven, and exports of intellectual property rights services have risen in recent years. Their revenues have become one of Japan's latest major export revenues.

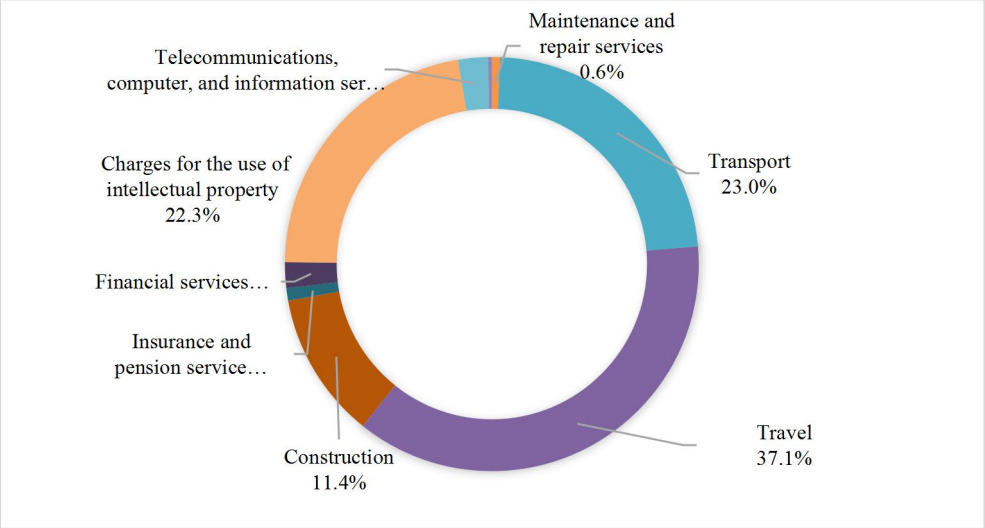

Figure 10.2.3 Composition of Japan's exports to other RCEP Parties (total stock)
Source: WTO database in Trade in Services.

Looking at specific Parties, Japan exported the highest amount of intellectual property services to the ASEAN members, worth US$6.30 billion in 2019, accounting for 27.4% of Japan's total trade-in-services exports to the ASEAN. Exports of construction services amounted to US$5.40 billion, while exports of tourism services and transportation and freight services accounted for US$4.82 billion and US$4.27 billion respectively. Using cross-sectional analysis, the ASEAN Parties are the largest trading partners for Japan's exports of construction and insurance services relative to other RCEP Parties, with exports of construction services to the ASEAN Parties accounting for 91.1% of total exports of construction services to other RCEP Parties, and exports of insurance services to the ASEAN Parties accounting for 64.8% of total exports of insurance services to other RCEP Parties.

Japan exported as much as US$14.04 billion worth in tourism services to China in 2019, accounting for 61.3% of its total trade-in-services exports to China. It exported US$4.82 billion worth of intellectual property services, and US$3.06 billion worth in transportation and freight services. Using cross-sectional analysis, relative to other RCEP Parties, China is Japan's largest exporting destination of tourism services and personal, cultural and recreational services, with tourism exports to China accounting for 55.3% of its total exports of tourism services to other RCEP Parties, and exports of personal, cultural and recreational services to China accounting for 47.6% of the total exports of such services to the other RCEP Parties.

Japan exported more tourism services and transportation and freight services to South Korea, with exports of tourism services worth US$5.18 billion and exports of transportation and freight services worth US$1.378 billion, accounting for 63.5% and 16.9% of its total trade-in-services exports to Korea respectively. Using cross-sectional analysis, Korea imports more of Japan's personal, cultural and recreational services than other RCEP Parties, and Japan's exports of personal, cultural and recreational services to Korea account for 31.7% of its total exports of such services to the RCEP.

Japan's exports to Australia are dominated by tourism services, to which it exported US$1.198 billion worth of such services in 2019, accounting for 49.8% of its total trade-in-services exports to Australia. Compared to the trade-in-services imports from other RCEP Parties, Australia has more imports in the financial services sector. Japan's financial services exports to Australia accounted for 28.2% of its total financial services exports to the RCEP.

Japan's exports to New Zealand are dominated by tourism services and transportation and freight services, which account for

US$150 million and US$60 million respectively, or 57.8% and US$2.36 billion of its total trade-in-services exports to New Zealand. Due to the low trade value of services exported to New Zealand, no cross-sectional analysis is given here.

Table10.2.1 Japan's Trade Exports in Services to Other RCEP Parties in 2019 (USD million)

	ASEAN	Australia	China	Korea	New Zealand
Maintenance and repair services	209	24	74	23	0
Transport	4,265	432	3,062	1,378	62
Travel	4,824	1,198	14,044	5,179	152
Construction	5,398	78	127	288	34
Insurance and pension services	387	18	82	108	2
Financial services	602	337	202	51	5
Charges for the use of intellectual property	6,302	223	4,821	782	6
Telecommunications, computer, and information services	954	95	422	292	2
Personal, cultural, and recreational services	31	3	78	52	0
Total	22,972	2,408	22,912	8,153	263

Source: WTO database in Trade in Services.

II. The Current Status of Trade in Services of Other RCEP Parties With Japan

Looking at the overall scale of Japan's trade-in-services imports, Japan's trade-in-services imports from the rest of the world rose from US$192.42 billion in 2014 to US$203.59 billion in 2019, an increase of 5.8% year-on-year. Japan's trade-in-services imports from other RCEP Parties reached US$51 billion, accounting for 25.1% of its total world imports, up 1.6% year-on-year.

In terms of the stock of Japan's trade-in-services imports from other RCEP Parties, Japan's trade-in-services imports from the ASEAN far exceed those from other RCEP Parties. Japan's trade-in-services imports from the ASEAN Parties totaled US$160.18 billion between 2014 and 2019, accounting for 56.0% of Japan's total imports from the RCEP, higher than Japan's imports

from South Korea (US$44.25 billion), from Australia (US$14.37 billion) and far exceeding Japan's imports from New Zealand (US$1.795 billion). China was the largest importer of Japan's trade in services among the RCEP Parties, with Japan's export stock in China reaching US$128.05 billion. The stock of Japan's trade-in-services imports from China was US$65.55 billion. Trade-in-services imports from the ASEAN Parties are mainly concentrated in Singapore, Thailand and the Philippines, with imports from Singapore amounting to US$17.84 billion in 2019, and from Thailand and the Philippines amounting to US$3.64 billion and US$2.21 billion respectively.

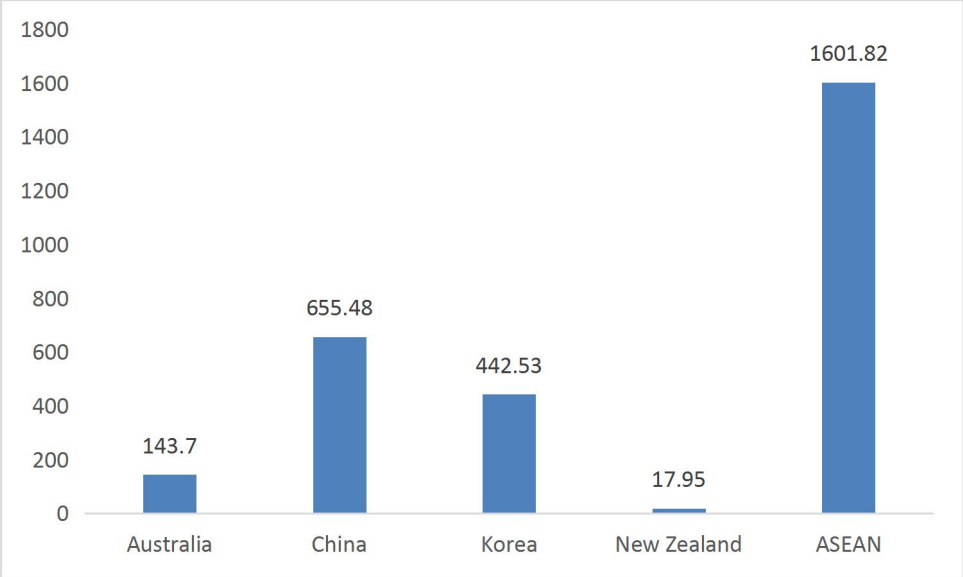

Figure 10.2.4 Japan's Import Stock from Other RCEP Parties, 2014-2019 (USD 100 million)
Source: WTO database in Trade in Services.

Looking at the flows of Japan's trade-in-service imports from the other RCEP Parties, Japan's imports from the ASEAN Parties show an upward trend, with imports increasing year by year, while imports from China, South Korea, Australia, and New Zealand remain stable. From 2014 to 2019, trade-in-services imports from the ASEAN increased by 18.1%, from US$24.80 billion to US$29.34 billion. Imports from China decreased slightly from US$11.79 billion in 2014 to US$11.34 billion in 2019, while imports from South Korea, Australia and New Zealand also showed a slight

downward trend, although the overall import status remains stable.

Japan's trade-in-services imports from other RCEP Parties continue to expand, but the growth rate of imports is slower than the growth rate of exports. Its focus is on increasing imports from the ASEAN, mainly manifested in imports from Parties like Singapore and Thailand.

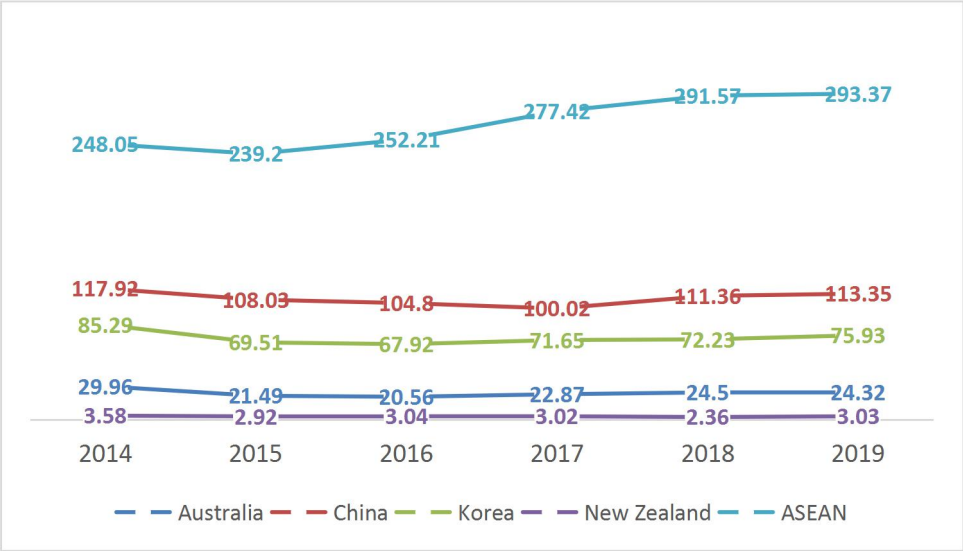

Figure 10.2.5 Japan's Import Flows from Other RCEP Parties, 2014-2019 (USD 100 million)
Source: WTO database in Trade in Services.

In terms of specific sectors, Japan's trade-in-services imports from the other RCEP Parties are mainly in transportation and freight services and tourism services. It imported US$61.69 billion worth of transportation and freight services from other RCEP Parties between 2014 and 2019, accounting for 32.9% of its total imports. Its transportation and freight services imports are on a declining trend, from US$11.59 billion in 2014 to US$9.95 billion in 2019, but still maintained a large trade deficit in the transportation and freight services sector. There were US$21.03 billion worth of intellectual property rights services imported. Imports of tourism services showed an upward trend amid fluctuations, rising from US$7.0 billion in 2014 to US$7.55 billion in 2019, with cumulative imports reaching US$41.15 billion, accounting for 22.0% of its total import stock, with the tourism

sector still maintaining a large trade surplus.

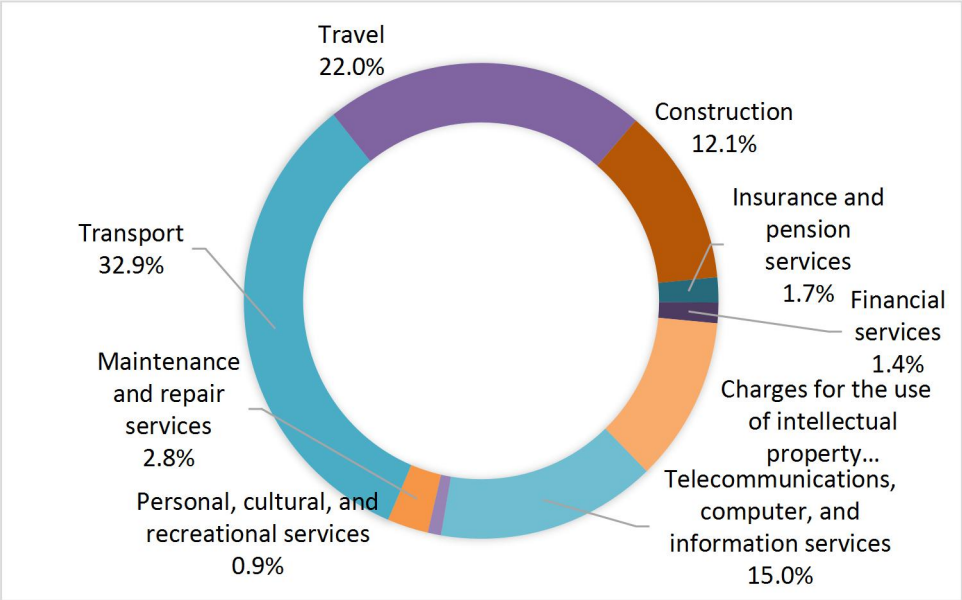

Figure 10.2.6 Composition of Japan's imports from other RCEP Parties (total stock)
Source: WTO database in Trade in Services.

In terms of specific Parties, Japan imported the most transportation and freight services from the ASEAN Parties, with US$4.94 billion in 2019, accounting for 24.7% of Japan's total trade-in-services imports from the ASEAN Parties. There were US$3.98 billion worth of intellectual property services, and US$3.97 billion and US$3.56 billion worth of tourism services and communication services imported respectively. Using cross-sectional analysis, the ASEAN is Japan's largest import trading partner of intellectual property services and construction services, with imports of intellectual property services from the ASEAN accounting for 80.6% of total imports of such services from the RCEP. Construction services from the ASEAN accounted for 71.9% of total imports of such services from the RCEP.

Japan imported the most transportation services from South Korea, worth US$2.29 billion in 2019, accounting for 39.9% of its total trade-in-services imports from South Korea. This was followed by tourism services and intellectual property services, with Japan importing US$1.31 billion worth of tourism services and US$800

million worth of intellectual property services from South Korea. Compared to imports from other RCEP Parties, Korea is Japan's largest import partner of personal, cultural and entertainment services, with Japan importing US$180 million of such services from Korea, accounting for 87.4% of its total imports of personal, cultural and entertainment services from the RCEP. Korea's well-developed entertainment and culture industry, appealing to a wide audience, is a major factor in attracting Japan's imports.

Tourism services were the sector Japan imported the most from China, worth US$2.06 billion in 2019, accounting for 31.3% of its total imports from China. This is followed by computer, communication and information services, with Japan importing US$1.96 billion worth of such services. Using cross-sectional analysis, except for the ASEAN Parties, Japan imported more computer, communication and information services from China, accounting for 32.4% of its total imports of such services from the other RCEP Parties.

Transportation and freight services are services Japan imported the most from Australia, worth US$790 million in 2019, or 41.6% of its total imports from Australia. It imported US$310 million worth in maintenance and repair services and US$190 million worth in financial services. Using cross-sectional analysis, Australia is a significant partner for Japan's financial sector imports compared to the other RCEP Parties, with Japan's financial services imports from Australia accounting for 38.1% of its overall financial services imports from the RCEP. Australia is a prestigious and vibrant financial center in the Asia-Pacific region, and the financial services sector is one of the fastest-growing industries in the Australian economy. Australia's highly developed, prudent and liquid financial market is an important factor attracting Japan's imports.

Transportation and freight services occupy the largest

proportion of Japan's imports from New Zealand. Japan imported US$140 million worth of such services in 2019, accounting for 54.7% of its total trade-in-services imports from New Zealand. Due to the relatively small volume of imports from New Zealand, a cross-sectional analysis with other RCEP Parties is not given here.

Table 10.2.2 Japan's Trade Exports in Services to Other RCEP Parties in 2019 (USD million)

	ASEAN	Australia	China	Korea	New Zealand
Maintenance and repair services	413	314	322	54	16
Transport	4,941	786	1,801	2,287	139
Travel	3,970	168	2,062	1,305	45
Construction	2,442	66	217	624	44
Insurance and pension services	445	195	91	42	1
Financial services	248	190	20	37	4
Charges for the use of intellectual property	3,982	43	107	802	5
Telecommunications, computer, and information services	3,564	122	1,957	399	0
Personal, cultural, and recreational services	13	4	9	180	0
Total	20,018	1,888	6,586	5,730	254

Source: WTO database in Trade in Services.

Looking at the bilateral trade-in-services sectors between Japan and other RCEP Parties, the largest sources of Japan's trade surplus with other RCEP Parties are in tourism and intellectual property royalties, which grew from US$12.731 billion in 2017, to US$17.847 billion in 2019, a relatively large increase. Intellectual property royalties reached a peak at US$8.299 billion in 2018 and declined slightly in 2019. Japan has a high level of economic development and its intellectual property exports are an important pillar in reversing its trade deficit. In recent years, Japan's intellectual property royalties and financial services have developed well, with strong international market competitiveness and a stable share in the international market. Japan's development in this industry has long-term stability, which further strengthens the economic foundation for Japan's trade in services to help reverse the trade deficit into a surplus.

The trade deficit in computer, communication and information services and maintenance and repair services presented an upward trend. In particular, the trade deficit in computer, communication and information services rose from US$3.159 billion in 2017 to US$4.277 billion. In personal, cultural, and recreational services, there is a constant fluctuation. A comprehensive analysis of Japan's trade in services shows a trend of trade surplus in technology-intensive industries with high competitiveness.

Table 10.2.3 Japan's Trade Balance in Services with Other RECP Parties by Industry, 2017-2019 (USD million)

	2017			2018			2019		
	export	import	balance	export	import	balance	export	import	balance
Maintenance and repair services	255	789	-534	335	1141	-806	330	1,119	-789
Transport	12,208	9,957	2,251	11,111	10,467	644	9,199	9,954	-755
Travel	19,443	6,712	17,231	24,544	6,802	17,742	25,397	7,550	17,847
Construction	5,618	3,113	2,505	5,007	3,775	1,232	5,925	3,393	2,532
Insurance and pension services	538	668	-130	567	758	-191	597	774	-177
Financial services	954	442	512	1,099	543	556	1197	499	698
Charges for the use of intellectual property	11,255	4,320	6,935	12,387	4,088	8,299	12,134	4,939	7,195
Telecommunications, computer, and information services	1,247	4,406	-3,159	1,308	4,644	-3,336	1,765	6,042	-4,277
Personal, cultural, and recreational services	290	315	-25	61	187	-126	164	206	-42

Source: WTO database in Trade in Services.

With China, Japan maintained a high trade surplus in two sectors, tourism and intellectual property royalties, and a trade deficit in computer, communication and information services. With the ASEAN, it maintained a high trade surplus in construction and intellectual property rights usage, and also showed a trade deficit in computer, communication and information services. With South Korea, it maintained a trade surplus in tourism services, with a

trade deficit in construction and transportation and freight services. With Australia and New Zealand, there are lower volumes of trade, with surplus and deficit margins fluctuating less.

III. Interpreting Japan's Commitments to the RCEP in Trade in Services

The signing of the RCEP has established a new FTA partnership between China and Japan. Japan's use of the Negative List is more complete, listing 57 sectors or activities with non-conforming measures and 24 possible restrictive measures. Japan is the country committed to opening the most sectors in the RCEP, and Parties can access all their markets that are not on the Schedule of Non-Conforming Measures. Parties will be granted market access to all sectors not listed in the Negative List. For the sectors included in the Negative List, Japan has also made a high level of commitments, which mainly include the following:

(A) Business Services

In the business sector, Japan has set out specific reservations and restrictions in the form of a Negative List. Other than these restrictions, Parties will be treated on equal terms with local service suppliers. Japan has fully opened up the fields of urban planning, medical, dental, nursing, computer-related, R&D, dry lease, advertising, consulting, printing and other services.

1. A person engaged in specified motor vehicle maintenance and repair businesses is required to establish a workplace in Japan and to obtain an approval from the Director-General of the District Transport Bureau having jurisdiction over the district of the workplace. 2. A person providing private job placement or worker dispatching services to Japanese companies is required to have an establishment in Japan and obtain permission from or submit notification to the competent authority. 3. Only a Japanese national or a Japanese legal person can have mining rights or mining lease

rights. 4. Suppliers of foreign legal advice, collection agents, patent attorneys, judicial scriveners, administrative scriveners, notaries, legal services, certified public accountants and tax accountant and appraiser services, labor consultants, maritime procedure agents, and surveyors must have the appropriate qualifications and are required to establish a company or office. Only Japanese nationals may be appointed as notaries public.

(B) Construction Services

In the field of construction, Japan has set out specific reservations and restrictions in the form of a Negative List. Other than these restrictions, Parties may engage in construction work, equipment installation, and other works. 1. A person engaged in construction work is required to establish a place of business in Japan and obtain permission from the Minister of Land, Infrastructure, Transport and Tourism or the governor of the prefecture having jurisdiction over the district where the place of business is located. 2. A person who intends to conduct demolition work must establish a place of business in Japan and be registered with the governor of the prefecture having jurisdiction over the district where the place of business is located.

(C) Telecommunication Services

Parties may carry out express delivery services in Japan, including 1. natural persons without Japanese nationality; 2. foreign governments or their representatives; 3. foreign legal entities or foreign entities may acquire shares in Nippon Telegraph and Telephone Corporation, provided that the ratio of voting rights held directly or indirectly does not exceed one-third and that there are nationality requirements for directors.

(D) Distribution Services

Parties may engage in commission agency, wholesale, retail and franchise operations in Japan, except for the number of

licenses for wholesale, retail and commission agency services related to alcoholic beverages, which are restricted.

(E) Health Services

Japan is opening access to hospitals, and Parties may engage in services related to human health. However, only an association of business proprietors or a federation of such associations approved by the Ministry of Health, Labor and Welfare under Japanese laws and regulations, which is required to establish an office in Japan, may conduct labor insurance business entrusted by business owners.

(F) Financial Services

In the financial sector, Japan has set out specific reservations and restrictions in the fields of banking, insurance and securities in the form of a Negative List. Other than these restrictions, financial institutions of Contracting Parties will be treated on equal terms with local financial service suppliers. Banking services: The deposit insurance system only covers financial institutions which have head offices in the jurisdiction of Japan. The deposit insurance system does not cover deposits taken in branches of foreign banks. Insurance and insurance-related services: Insurance contracts for goods transported within Japan and for Japanese-registered vessels not used for international maritime transport, and any liability arising therefrom, require in principle commercial presence.

(G) Education Services

In Japan, Parties may engage in primary, secondary, and tertiary education, but higher education services must be provided by a formal educational institution, which must be established by a non-profit legal person established to provide educational services under the laws and regulations of Japan.

(H) Transport Services

In the field of transport, Japan has set out using a Negative List

the specific reservations and restrictions in the field of air transport, international maritime transport, water transport, freight forwarding auxiliary services. Other than these restrictions, Parties can engage in most maritime transport, pipeline transport, road and railway transport.

Air transport services: Foreign airlines are required to obtain permission from the Minister of Land, Infrastructure, Transport and Tourism to conduct international air transport business in order to use foreign aircraft for air transportation of passengers or cargoes to and from Japan for remuneration, and foreign aircraft may not be used for flights between points within Japan. Japanese pilots are required to be Japanese nationals.

International maritime transport: International maritime transport services (including services of passenger transport and freight transport) are provided through the establishment of a registered company operating a fleet flying the Japanese flag, with restrictions on nationality. Pilots directing ships in the same pilotage district are required to establish a pilotage association for the pilotage district.

Railway transport sector: this does not include the manufacture of vehicles or parts for the railway transport industry.

Road transport: A person who intends to conduct road passenger or road freight transport business is required to establish a place of business in Japan and obtain permission from or submit notification to the Minister of Land, Infrastructure, Transport and Tourism.

Water transport: If an ocean-going ship operator of another Party is prejudiced against Japanese ocean-going ship operators, it may be restricted or prohibited from entering Japanese ports or loading or unloading cargoes in Japan. Unless otherwise provided by Japanese laws and regulations and international agreements to

which Japan is a Party, ships flying the Japanese flag are prohibited from entering ports in Japan that are not open to foreign commerce and from carrying cargoes and passengers between ports in Japan.

Freight forwarding auxiliary services: A person who intends to conduct customs brokerage business must have a place of business in Japan and obtain permission from the Minister of Finance. A person who intends to conduct freight forwarding business is required to have an office in Japan and be registered with, or licensed or approved by, the Ministry of Land, Infrastructure, Transport and Tourism.

(I) Other Services

Japan has largely removed restrictions on the environment, tourism, and entertainment sectors, which means that the above-mentioned areas will be completely open to Party service suppliers.

IV. Trade-in-Services Opportunities Brought by the RCEP to Japan

Japan has comparative advantages in construction services, financial services, and intellectual property royalties, and is less competitive in other service industries, but has more competitive advantages in modern service industries. Its development of modern service industries is mainly attributed to: first, Japan has adopted a progressive liberalizing policy for financial and insurance industries, vigorously supporting its high value-added modern service industries, and introducing advanced technology from developed countries, which has enhanced the country's international competitiveness in this sector. Second, Japan has been committed to scientific and technological research and development, which is important in improving competitiveness and achieving high added value in its service industries. Lastly, Japan

has always attached importance to the cultivation and importing of high-quality human resources. This explains Japan's competitiveness in trade in services in general and in modern capital and knowledge-intensive industries in particular.

The implementation of the RCEP also promotes foreign cooperation in trade in services, facilitates the use of professional talents, and strengthens cooperation with universities, social organizations, industrial organizations and other outstanding talent cultivation bases. The service platform built by the RCEP can quickly adapt to consumer preferences moving from offline to online after COVID-19, facilitate enterprises to actively explore digital transformation, develop digital trade in services based on the Internet, establish cross-border digital channels, turning the COVID-19 pandemic into an opportunity to develop Internet-based trade in services.

In general, the implementation of the RCEP will improve market access for trade in services, expand the scope of protection offered to trade in services, improve transparency, and promote the facilitation and integration of such trade in the region. It will also greatly enhance the confidence of each Party's enterprises engaged in cross-border trade in services, and provide strong protection for such trade activities.

Section 3 Bilateral Investment

The RCEP is the first economic cooperation agreement signed by Japan with China and South Korea, and the 15 Parties together account for about 30% of the world's GDP and population. The Japanese government expects the Agreement to boost Japan's GDP by 2.7% and increase employment by about 570,000[25]. Analyzing the current status of Japan's bilateral investment with

[25]Source: Ministry of Finance, Japan: https://www.mof.go.jp/english/statistics/index.html.

other RCEP Parties will help clarify Japan's investment position among them and provide background support for further investment decisions.

I. The Current Status of Japan's Investments in Other RCEP Parties

Statistics have shown that Japan has a strong relationship with the other RCEP Parties in terms of bilateral investment interactions. The stock of Japanese investments in other RCEP Parties reached US$338.759 billion by the end of 2019, an increase of 8.1% year-on-year. Similarly, by the end of 2019, investment flows between Japan and other RCEP Parties amounted to USD 43.508 billion, an increase of 26.4% year-on-year. Japan has close investment and trade ties with South Korea and the ASEAN, and the Japanese government has forecast that the RCEP will significantly boost employment in the Japanese economy. This section will analyze the current status of Japan's investment in other RCEP Parties by examining bilateral investment data, and then go on to briefly analyze the scale of investment between Japan and the ASEAN.

Looking at the overall investment stock, Japan's outward FDI stock in 2019 was US$176.993 billion, up 12.78% year-on-year. Japan's FDI stock in the other RCEP Parties reached US$338.759 billion, accounting for 19.15% of Japan's outward FDI stock in that year. Japan's FDI stock in other RCEP Parties basically showed stable growth from 2014 to 2019, especially from 2018 to 2019, when the investment stock increased by about US$200.428 billion. However, due to the faster growth rate of Japan's outward FDI stock, there is a relatively small change in the proportion of RCEP investment to total investment, showing a declining trend on the whole.

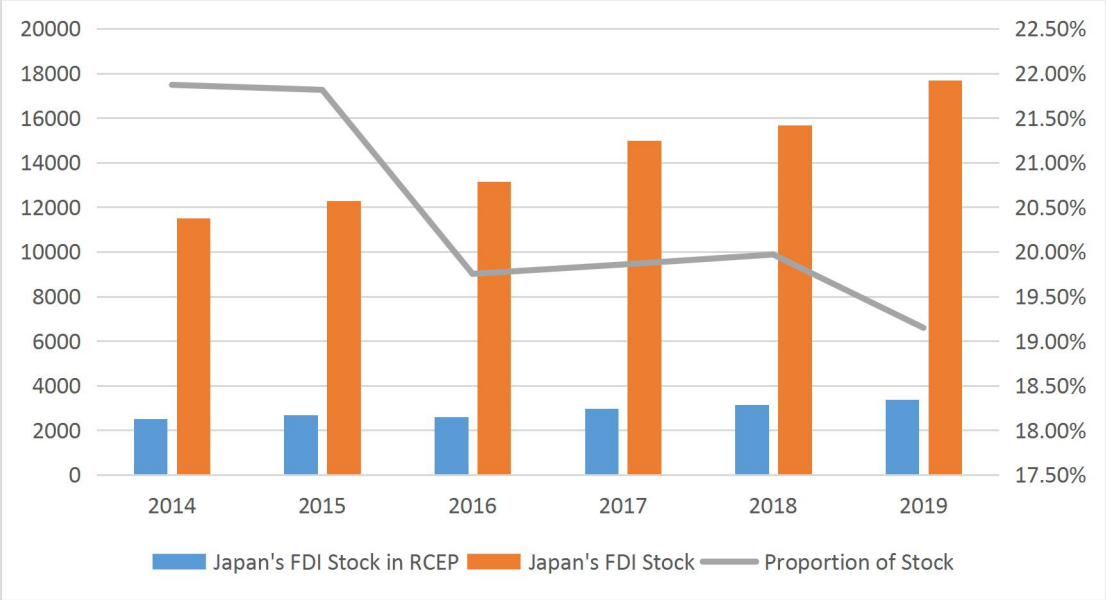

Figure 10.3.1 Japan's FDI Stock and its Proportion in Other RCEP Parties, 2014-2019 (USD 100 million)
Source: OECD database.

In terms of investment flows, Japan's outward FDI flows in 2019 were US$226.573 billion, an increase of US$83.497 billion or 58.36% from the previous year. Japan's direct investment flows to other RCEP Parties amounted to US$43.508 billion, totaling 19.20% of Japan's outward FDI flows in that year. Japan's direct investment flows to other RCEP Parties remained basically stable from 2014 to 2019, except for 2016, while its FDI flows basically remained approximately US$28 billion in 2014, 2015 and 2017, and its share around 18%. There was a significant decline in Japan's direct investment flows to other RCEP Parties in 2016, down to -US$196.78 million, followed by a rebound in share in 2017. Compared to the overall increase of US$13.276 billion in Japanese outward FDI in 2016, the proportion of investment in the RCEP fell to -0.13% of the overall share that year. In 2017, it returned to normal, after which it remained relatively stable.

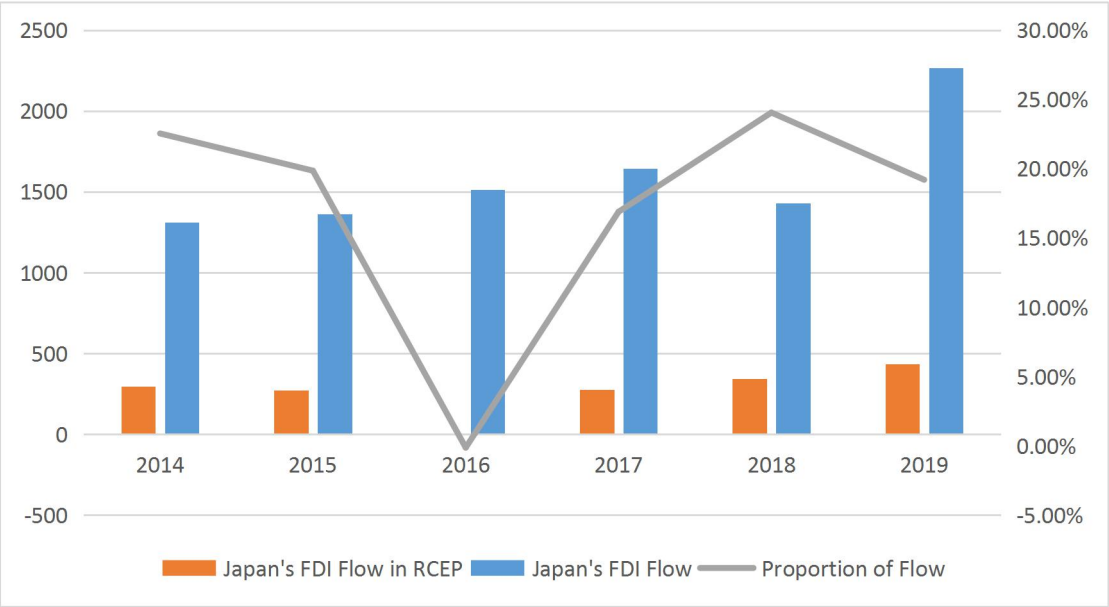

Figure 10.3.2 Japan's FDI Flows and their Proportion in the Other RCEP Parties, 2014-2019 (USD 100 million)
Source: OECD database.

Looking at individual countries, the RCEP Parties accounted for five of Japan's top 20 destinations (regions) for outward FDI stock in 2019, namely China, Singapore, Thailand, Australia, and Indonesia. China topped the list with a cumulative absorption of US$127.571 billion from Japan, with Singapore in second place with a total foreign direct investment absorption of US$81.874 billion. One can see that the other RCEP Parties occupy very important strategic positions as Japan's outbound investment destinations.

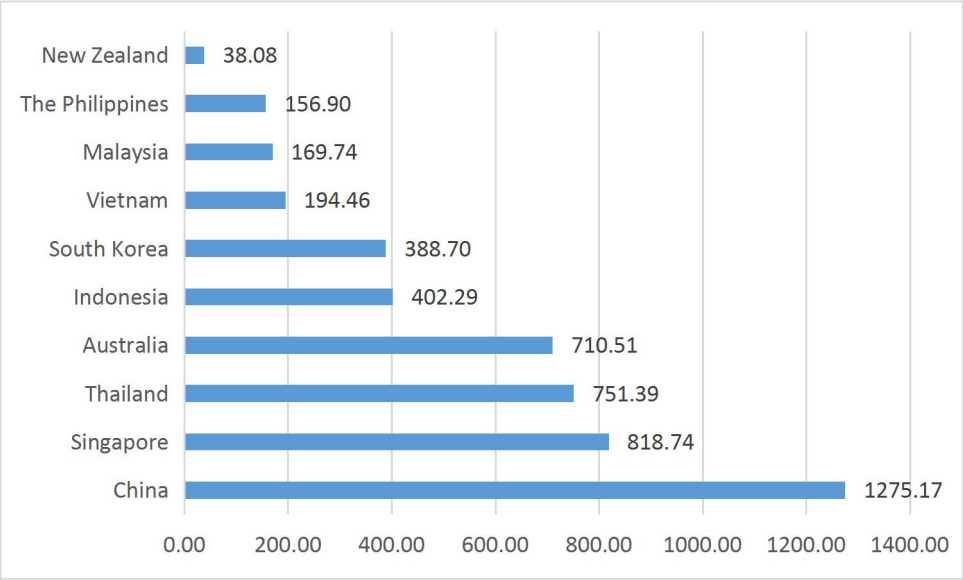

Figure 10.3.3 Japan's FDI Stock in other RCEP Parties at the end of 2019 (USD 100 million)
Source: OECD database.

Looking at specific industries, Japan's outward FDI is mainly concentrated in the manufacturing industry, according to statistics of the Ministry of Finance of Japan. In 2020, Japan's manufacturing outward FDI was 65.389 billion yen, among which food, chemical medicine, transportation machinery and electrical machinery are the main industries. Among non-manufacturing industries, the communication industry and finance and insurance industry are the main outward investment industries. China, as the largest recipient of Japanese manufacturing industry investment, attracted a total of US$6.444 billion of Japan-related investment in 2020, mainly concentrated in the transportation machinery industry. Singapore, as the largest recipient of Japan's investment in non-manufacturing sectors, attracted a total of $4.719 billion in Japan-related investment in 2020, mainly in the retail and wholesale and financial and insurance sectors. The signing of the RCEP will further strengthen the trade and investment ties between Japan and other Parties, driving Japan's advantageous industries, such as its precision instrument manufacturing, financial and insurance industries, to expand foreign investment and boost the country's economic growth, and will also increase employment.

Looking at the ASEAN Parties, Japan is the ASEAN's top source of foreign investment. Since 2013, Japan and the U.S. have been the top two foreign investor countries in the ASEAN respectively. In recent years, Japan has surpassed the U.S. to become the ASEAN's top foreign investor country. In 2019, Japan's direct investment flows to the ASEAN Parties were $31.273 billion, up 16.24% year-on-year, accounting for 13.8% of Japan's total FDI flows in 2019. From 2014 to 2019, the cumulative stock of Japanese investment in the ASEAN was US$116.327 billion. The ASEAN accounts for three of Japan's top 10 investor countries (regions) for outward FDI flows—namely Singapore, Indonesia and Thailand. As of 2019, Japan has invested the most in Singapore and Indonesia and the least in the Philippines and Brunei.

Looking at the other RCEP Parties, China receives the largest stock of Japan's FDI, with Australia in second place and South Korea and New Zealand in third and fourth place respectively. Japan's main investment sector in Australia is the food industry, and Japan's investment flows to Australia in this sector were US$10.918 billion in 2020. The main investment sectors in South Korea are communications and financial and insurance industries, with Japanese investment flows to South Korea in 2020 amounting to US$462 million and US$475 million respectively. Its main investment sector in New Zealand is the financial and insurance industry, and investment flows from Japan to New Zealand in this sector were US$438 million in 2020.

II. The Current Status of Other RCEP Parties' Investments in Japan

The other RCEP Parties' actual foreign investment in Japan is growing and accounts for a relatively high percentage of the major sources of investment in Japan. As the RCEP continues to liberalize market access for investments using the Negative Lists,

the fields in which the other RCEP Parties are investing in Japan will continue to expand. The ease of investment and confidence in intra-regional investment will continue to rise.

In terms of investment stock, the other RCEP Parties' direct FDI stock in Japan as of 2019 is given in a ranking in Figure 9.3.4. Singapore, South Korea and China far exceeded the other RCEP Parties in terms of investment stock, at US$20.225 billion, US$8.831 billion, and US$2.655 billion respectively, compared to fourth place Australia at US$927 million. As of 2019, Singapore has been the largest source of foreign investment in Japan for seven consecutive years, while Japanese investment stock in Singapore has continued to occupy the top two positions. Singapore's MAS and Japan's FSA announced in 2020 the establishment of a cooperation framework to jointly promote financial technology innovation. This has enhanced the investment partnership between the two countries in the advantageous financial sectors. South Korea and China are also important foreign investor countries for Japan, and play an important role in stimulating Japan's economy. Due to the geographical proximity and cultural ties between Japan, Korea and China, with convenient transport and logistics and frequent personnel exchanges, they have natural advantages in foreign investment. At the same time, the economies and industrial technologies of these countries are at different stages of development, which is conducive to achieving complementary advantages and mutual benefits. For example, the Japanese SBI Group, founded in 1999, is the largest fintech group in Japan as well as Asia, and its fund management and fintech R&D companies established in southwest China have provided a huge boost to the financial economies of both southwest China (e.g. Chengdu) and Japan.

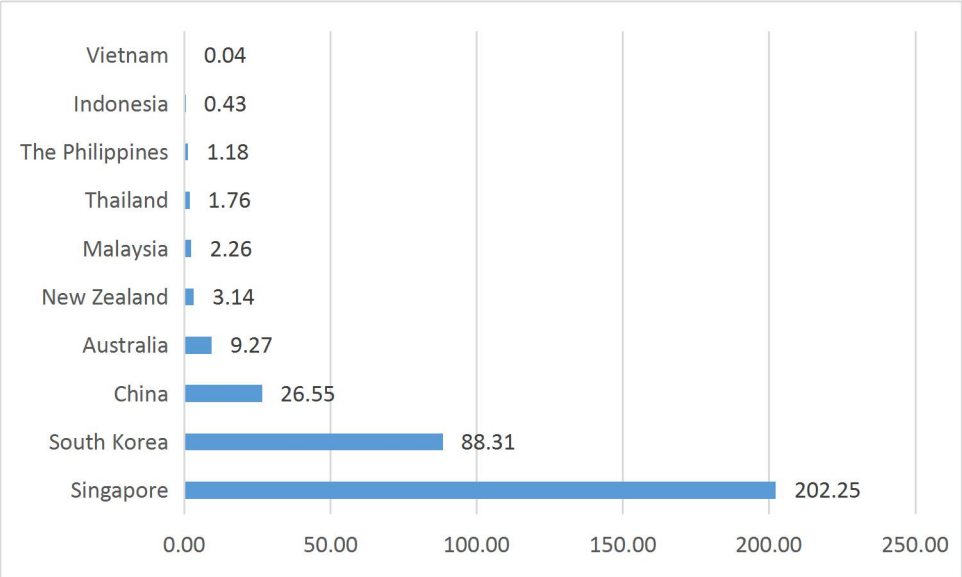

Figure 10.3.4 The FDI stock of Other RCEP Parties in Japan, 2019 (USD 100 million)
Sources: OECD database and the Ministry of Finance, Japan.

In terms of investment flows, Japan attracted US$14.548 billion in FDI flows in 2019, up 57.19% year-on-year, breaking the declining FDI trend for the past three years and accounting for 1.1% of the global total. In 2019, three of the top 10 countries (regions) in terms of investment flows to Japan were RCEP Parties, namely South Korea, China and Australia in that order, while Singapore, which is the top country in terms of investment stock in Japan, was ranked 10th in terms of investment flows to Japan among the other RCEP Parties, at -US$$655 million.

Looking at individual countries, Singapore ranked first among the other RCEP Parties' investments in Japan, with an FDI stock of US$20.2 billion, while South Korea and China ranked second and third with US$8.831 billion and US$2.655 billion respectively. There was a big gap in the investment stock of other RCEP Parties behind them. The total investment stock of Singapore, South Korea and China accounted for 94.6% of the total investment in Japan by other RCEP Parties. According to statistics, one can see easily that the Philippines, Indonesia and Vietnam are destination countries for Japan's investments rather than source investors in Japan.

Looking at specific industries, among the non-RCEP Parties in

2020, the United States, France, Switzerland and other countries invested a considerable amount in Japan, mainly concentrated in the chemical and pharmaceutical, as well as the financial and insurance industries. Among the RCEP Parties, Singapore's investment flows to Japan were as high as US$2.776 billion, mainly concentrated in the financial and insurance industry and electrical and machinery industry. China's investment flows to Japan were US$1.279 billion, mainly concentrated in the electrical and machinery industry and the chemical and pharmaceutical industries. Each Party mainly concentrated their investments in Japanese industries with comparative advantages.

From the perspective of the ASEAN, from 2017 to 2019, the ASEAN investment stock in Japan was stable, basically staying around 9%. In 2017, ASEAN investment in Japan accounted for 7.14% of the total FDI flows to Japan. In 2018, ASEAN investment in Japan accounted for 10.55% of the total FDI flows to Japan. In 2019, ASEAN investment in Japan accounted for 9.41% of the total FDI flows to Japan. In 2020, ASEAN investment in Japan mainly focused on the electrical and machinery industry and the insurance and financial industry, with a total investment value of US$9 billion or so. Despite the outbreak of COVID-19 in 2020, ASEAN investment in Japan remained stable due to the Japanese government's efficient anti-COVID-19 measures. Since Japan is not a member of the ASEAN and has close trade and investment ties with Singapore and South Korea, the signing of the RCEP in 2020 will help foster Japan's relations with the other RCEP Parties and further enhance their investment and economic development.

From the perspective of other RCEP Parties, the top four investor countries with the highest investment stocks in Japan are: Singapore, South Korea, China and Australia. In total, they account for more than 98% of the actual foreign investment stock in Japan.

In terms of FDI flows, South Korea, China and Australia occupy the top three positions respectively, indicating that they have close investment ties with Japan.

III. The Current Status of Japan's Openness to Foreign Investment

According to the *World Investment Report 2021*, Japan attracted foreign investment flows of US$10.254 billion in 2020, down 29.54% from 2019. The foreign investment stock grew from US$214.88 billion in 2010 to US$243.046 billion in 2020, an increase of 13.1%. Due to COVID-19, total global FDI declined sharply in 2020, shrinking by 42% compared to 2019 to the lowest level since the 1990s. In comparison, Japan outperformed the world on the whole in 2020 in attracting FDI.

According to the 2020 edition of the World Bank's *Doing Business Report* for 190 countries and regions, Japan ranked 29th overall, up five places from the previous year, ranked as follows in each category: starting a business (106th), dealing with construction permits (18th), getting electricity (14th), registering property (43rd), getting credit (94th), protecting minority investors (57th), paying taxes (51st), trading across borders (57th), enforcing contracts (50th), and resolving insolvency (3rd). According to the analysis, this ranking is still far from the Abe government's goal of "being one of the top 3 developed countries by 2020" and shows that Japan is relatively slow in reforming its business regulations. According to the *2019 FDI Confidence Index* released by Kearney Management Consulting, Japan ranked sixth among the world's most attractive countries for investment. The Japan External Trade Organization (JETRO) conducted a survey in 2018, analyzing Japan's business environment as evaluated by foreign companies. The results show that Japan's highly profitable market, outstanding domestic companies and research institutions whom they can work

with as partners, and social stability are the most attractive factors to foreign companies.

Japan adheres to the principle of "liberalization in principle, with restricted exceptions" in foreign investment management, so foreign capital is allowed to enter freely in most industries, and there are no industries that are explicitly prohibited in absolute terms. Japan restricts industries that may threaten national security and are not fully liberalized. According to the Foreign Exchange Law, foreign investors are subject to prior approval if they invest in core industries that involve national security, public order, public safety, or economic operations. In addition to the provisions of the Foreign Exchange Law, there are specific access restrictions for foreign investment under industrial regulations in the mining, communications, broadcasting, logistics, and air transport sectors.

The central government of Japan has no special regulations to encourage foreign investment in industries. Local governments, according to their own industry pattern and development plans, can attract more investment to form better industrial clusters by providing one-stop services, introducing experts, providing subsidies on equal terms as Japanese enterprises, and preferential taxation. At present, foreign enterprises investing in Japan are mainly concentrated prefectures like Tokyo, the Osaka Prefecture and the Kanagawa Prefecture. For example, Osaka implements key investment policies for promoting the biotechnology, precision technology, semiconductor, electronic parts and electronic facilities sectors; the Kanagawa Prefecture implements key investment policies for promoting the automobile, IT, semiconductor, biotechnology and environmental conservation sectors; the Hyogo Prefecture implements key investment policies for promoting the fine processing, assembly, semiconductor and regenerative medical sectors. Japan has not introduced separate fiscal

incentives for foreign enterprises at the central government level. Existing policies such as tax incentives for relocating a company's head office or R&D institutions to a local district, for future investment, and scientific and technological R&D are equally applicable to domestic and foreign investors. Any foreign investing company that meets the conditions can submit an application.

At the taxation level, Japan has a territorial taxation system for corporate entities, and corporate entities engaged in economic activities in Japan are taxed in Japan on the profits generated from their economic activities. The taxing authorities are the national and local governments (prefectures and municipalities), and the taxable objects are the global income of Japanese corporations and the income of foreign corporations generated in Japanese territories, and the taxing authority has the right to impose tax on each taxable object. When the taxation object includes profits earned outside of Japan, a provision for foreign tax credit is established to avoid double taxation, and the tax paid outside of Japan can be deducted from the tax payable in Japan to a certain extent. Multinational companies conducting business in Japan can calculate and pay the tax due when they receive a certain amount of taxable income by processing tax withholding at the source or submitting a declaration of payment. Japan was the first country to sign a bilateral tax agreement with China. In order to avoid double taxation and tax evasion, the Chinese government and the Japanese government signed the Sino-Japanese Tax Treaty in 1984, and after the revision of China's foreign investment law in 1991, both governments reaffirmed and mutually recognized certain amended provisions. In China, the tax types applicable to this Agreement are mainly individual income tax, Sino-foreign joint venture income tax, foreign corporate income tax and local income tax. In Japan, the tax types applicable are mainly income tax, corporate tax and resident tax.

The tax authorities of China and Japan agree to adjust the scope of application through consultation, taking note of the actual situation. Japan not only has systematic and specific tax laws, but also practical and rigorous administration for enforcing substantive tax laws.

On April 7, 2020, the Japanese government announced a tax policy to support the prevention and control of COVID-19, as part of an emergency economic assistance program in response to the pandemic. The primary tax measures are as follows:

1) Deferred payments. A special policy allows businesses with a significant decline in gross receipts to defer state and local taxes and social security contributions for an additional year without imposing collateral and late fees. The payment period may be extended by up to one year if the taxpayer's gross income decreases significantly (by at least 20% compared to the same period in the previous year) for a certain period (one month or more) starting on February 1, 2020, due to COVID-19, and if the taxpayer has difficulties paying taxes or social security contributions immediately. The above policies apply to state taxation, local taxation, and social security contributions due and payable between February 1, 2020 and January 31, 2021. They will also apply retroactively to payments due prior to the effective date of these policies.

2) Net operating losses are carried forward. At present, small and medium-sized companies with a registered capital of up to 100 million yen can carry forward their net operating losses for tax refunds. The carry-forward system for net operating losses will be extended to medium-sized companies with a registered capital of up to 1 billion yen. These policies will apply to net operating losses incurred between February 1, 2020 and January 31, 2022.

3) Capital investments used by SMEs for telecommuting. The

purchase of telecommuting facilities by SMEs will be counted as capital investment. Special depreciation or tax credits will be allowed to enhance the business management of SMEs.

4) An operating entity may elect to choose again whether or not to pay consumption tax. If over a period of time (1 month or more), an operating entity's gross revenues decline significantly (by at least 50% compared to the same period in the previous year), the entity is permitted to choose again whether or not to pay consumption tax, regardless of whether the tax period has begun.

5) Reduction of local real estate taxes and urban planning taxes. If the SME's turnover decreases by 30% to 50% (compared to the same period in the previous year) in the three months between February and October 2020, the tax base will be reduced by half when calculating the local real estate tax and urban planning tax payable in 2021, on depreciable assets owned by the SME and buildings used for business. If the SME's turnover decreases by at least 50%, the tax base will be reduced to zero.

6) Local property tax for productivity enhancement. To promote capital investment by SMEs, the scope of depreciable assets subject to the low tax rate will be extended to buildings and structures of enterprises, in order to improve their productivity. These special policies will be extended for two years until March 31, 2023.

7) Exemption from stamp duty on special loan contracts. Contract documents of financial institutions offering preferential loans to business entities affected by COVID-19 are exempt from stamp duty. The Japanese government has been actively working to attract investments by foreign companies in Japan since the early 1990s. In order to attract such foreign investments in Japan, the Japanese government has actively enhanced government services, reduced institutional transaction costs and improved the

ease of doing business in Japan. It has improved the national fiscal support system, reduced the tax burden on enterprises, relaxed restrictions on foreigners coming to Japan, actively imported foreign talents, and tasked the JETRO with establishing a professional team for promoting investment, working with local governments to provide foreign companies with "nanny services". At the industry level, the Japanese government currently has no industry incentives for foreign companies. At the regional level, in order to attract foreign investment, the local governments in Japan have formulated preferential policies to encourage investment such as offering tax incentives (which include business tax exemptions and real estate tax reductions), subsidies, land and building facilities, and financing loans. For example, in the Kanto region, the financial and tax support policy for foreign companies is subsidizing one-third of the total rental costs for office space in the first year of operation. The subsidy is capped at 600,000 yen for up to five employees and 1.8 million yen for more than five employees. In Osaka, the Kansai region, foreign companies can set up a Japanese legal person head office within the Osaka Prefecture and receive a subsidy of up to 100 million yen for the purchase of property and facilities, or up to 60 million yen for the rental cost of a factory building.

IV. Interpreting Japan's Investment Commitments Under the RCEP

In Annex III of the RCEP, Japan has elaborated on its foreign investment restrictions in two major areas, trade in services and non-services trade, using a Negative List completely for its Schedule of Reservations and Non-conforming Measures for Services and Investment. See Section 2 of this chapter for an interpretation of Japan's trade-in-services commitments. All of Japan's non-services investments are restricted in the form of a

Negative List and are presented as List A and List B under Annex III. List A defines the concept of foreign investors (all investors except for those from Japan), what foreign investors may not invest in (i.e., may not operate in Japan for profit in any form) and Japanese ownership (i.e., foreign ownership may not exceed 49% through direct or indirect investment). Lists A and B are both applicable to manufacturing, agriculture, forestry and fishing, mining and quarrying, and all such sectors or combinations thereof for which reservations are made. In List B, Japan has further elaborated or clarified the existing measures.

Manufacturing. The prior notification requirement and screening procedures under the *Foreign Exchange and Foreign Trade Law* apply to foreign investors who intend to make investments in the manufacturing of electronic parts and devices, electronic circuits and information services industry, pharmaceutical and medical devices manufacturing, and leather and leather products manufacturing.

Agriculture, Forestry and Fisheries. The prior notification requirement and screening procedures under the *Foreign Exchange and Foreign Trade Law* apply to foreign investors who intend to make investments in agriculture, forestry, fisheries, and related services. Screening is conducted from the viewpoint of whether the investment is likely to have a significant adverse impact on the smooth operation of the Japanese economy, and depending on the screening result, the investor may be required to change the content of the investment or discontinue the investment process.

Mining and quarrying of stone and gravel. Japan's Negative List stipulates that only a Japanese national or a Japanese legal person can have mining rights or mining lease rights.

All Sectors. Japan reserves the right when transferring or

disposing of its equity interests in, or the assets of, a state enterprise or a governmental entity, to: 1. prohibit investors of another Party or its investments from restricting or imposing restrictions on the ownership of such interests or assets; 2. impose limitations on the ability of investors of another Party or their investments as owners of such interests or assets to control any resulting enterprise; or 3. adopt or maintain any measure relating to the nationality of executives, managers or members of the board of directors of any resulting enterprise.

V. Opportunities Brought by the RCEP to Investment in Japan

The sudden and unexpected COVID-19 pandemic has had a serious impact on the Japanese economy. Preliminary statistics released by the Cabinet Office on August 17, 2020, show that Japan's real GDP fell by 7.8% in the second quarter from a year earlier and by 27.8% on a year-on-year basis, the largest decline since comparable data became available, as a result of COVID-19. In addition, according to the data from Japan's National Employment Agency, 70,000 people were unemployed nationwide due to COVID-19 as of November 2020. This impact means that Japan urgently needs to introduce active policies to restore economic development. The RCEP is like a shot in the arm for Japan, providing greater convenience in all aspects. The RCEP needs to take into account the economic development of its Contracting Parties, but with tariff exemption on more than 90% of all goods, the tariff exemptions have approached the level of the Trans-Pacific Partnership (TPP). Japan's economy is highly dependent on international markets, and with the signing of the Agreement, Japan will be integrated into one of the world's most dynamic and promising markets with a population of over 2 billion. Japan's high-quality goods and advanced technology will carry

Japanese culture and standards into the markets of all Contracting Parties. Japan will also have access to all kinds of natural resources and high-end human resources that are in short supply domestically.

For example, with the signing of the RCEP, tariffs on Japanese exports to China and South Korea will be reduced. Japan's exports to China amounted to about 14.7 trillion yen in 2019, with semiconductors and automobile-related sectors ranked at the top. According to the RCEP text, 87% of the auto parts exported to China will be exempted from tariffs, showing a welcoming attitude to Japanese auto parts manufacturers. According to the official website of the Japanese Ministry of Foreign Affairs, upon joining the RCEP, 88% of Japanese exports to Southeast Asia, Australia and New Zealand will be subjected to tariff reductions in the future. In South Korea, 81% of Japanese goods will have their tariffs reduced. For China and South Korea, 86% and 92% of their exports to Japan respectively, will be given tariff reductions. Japan's trade with China and South Korea in total accounts for about 30% of Japan's total foreign trade. In 2019, Japan's trade with China accounted for 21.3% of its total foreign trade, and that with South Korea accounted for 5.3%. With the involvement of ASEAN Parties this time, a new trade framework has been formed. In addition, the RCEP has further optimized the investment environment by regulating development rules on intellectual property protection and the digital economy in Asia for the first time. According to statistics, Japan has more than 40,000 investment enterprises in the Contracting Parties of this Agreement.

The tariffs imposed by the Parties on Japanese electric motors and battery parts, steel products, scallops, and alcoholic beverages will all be withdrawn. Meanwhile, the import tariffs imposed by Japan on five important categories, such as rice, beef, pork, and

dairy products, have not been withdrawn. In addition, Japan's demands in investment, e-commerce, and intellectual property protection have all been met accordingly.

Japan's tariff reduction rates for imports of agricultural, forestry and fishery products are not high due to the abundance of such agricultural products in the Asian region. To protect its agricultural industry, the Japanese Diet adopted a resolution to exempt five key agricultural products, namely rice, wheat, pork and beef, dairy products and sugar, from such opening. At the same time, the tax reduction transition period in the Agreement is long: 11 years for food and 20 years for alcoholic beverages. Therefore, Japan still has a lot of potential for improvement under the RCEP and can further liberalize trade with its Contracting Parties in the above-mentioned areas in the future.

The RCEP is of great importance to Japan which is currently promoting free trade. The formation of this huge FTA, which covers the Asia-Pacific region and includes Japan's top trading partner, China, and its third-largest trading partner, South Korea, accounting for 30% of the world's population and GDP, will help counter the growing trend of global trade protectionism by reducing tariffs within the region, harmonizing trade rules, and stimulating trade and investment.