

JFTC News

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2006 New Year's Reception

January 10, 2006

Address by Chairman Mikio Sasaki

Japan Foreign Trade Council, Inc. held a New Year's Reception at Hotel New Otani on January 10, 2006 with some 300 participants from member companies, organizations, government offices and foreign embassies in Japan.



The following is the speech made by Mikio Sasaki, the Chairman of JFTC (the Chairman of the Board, Mitsubishi Corporation);

Happy New Year, Your Excellencies, distinguished guests, ladies and gentlemen.

First, let me thank you all for taking time out of your busy schedules to join our New Year's Reception, which has become an annual event for the Japan Foreign Trade Council.

I also wish to express my sincere appreciation for your continued understanding and support of the council's activities.

The Japanese economy is also finally recovering and looks to be back on track. While certain trends remain unclear, such as energy and natural resource prices and the US economy, overall, prospects look bright from hereon. For four consecutive years since 2002, total imports and exports have increased, and the year-end outlook for 2005 is that it will surpass the year-end results for 2004, reaching 120 trillion yen. Average monthly trade is approaching ten trillion yen. The outlook for fiscal year 2006, which the council announced last December, also anticipates continued

increases in trade.

Expectations on trading circles are growing all the more. I believe the role of traders will also become more important from hereon. I hope that together we can take encouragement from these environmental factors and make an even greater leap forward in 2006.

Looking back over the past year, considerable progress was made with negotiations on economic partnership agreements, which we in the Japan Foreign Trade Council and the business community as a whole have long been calling for. We are therefore delighted with the steady results that have been achieved. In April, the EPA between Japan and Mexico went into effect, and negotiations have been launched for a comprehensive EPA with ASEAN. This past year saw remarkable progress in bilateral EPAs involving Japan, including negotiating with Malaysia, Indonesia, Thailand, Chile, India, Switzerland, Australia and Vietnam. I would like to take this opportunity to express my deep respect for the tremendous efforts the government has made here.

On the other hand, at the WTO Ministerial Conference held in Hong Kong towards the end of last year, numerous issues were postponed for further deliberation, the deadline for comprehensive negotiations being the end of this year.

Construction of a bilateral or regional EPA network, and multilateral endeavors through the WTO, are two ways to drive free trade.

This year will bring about a stronger and closer bilateral EPA network for Japan. At the same time, 2006 will be a pivotal year in progressing WTO-related endeavors and the establishment of a new system for free trade.

Japan Foreign Trade Council also has great expectations of the government, and intends to continue making the necessary proposals and requests.

Last year there were significant developments for the Japan Foreign Trade Council. Briefly, these included proposals made to the government for the rapid conclusion of EPAs, simplification of the rules of origin, and computerization of procedures. In addition, together

with other organizations we had long been pressing the government to conclude the FAL Convention, which lays down international rules for the simplification of trade procedures. In September this was finally concluded, and came into effect in November.

Another focus of our attention was social security agreements, whose objective is to facilitate the movement of people. The Japan Foreign Trade Council has long been lobbying the government and legislature for these, and made considerable progress last year. Agreements with the Republic of Korea and the United States came into effect, and we expect agreements with France and Belgium to take effect during the course of this year.

We also took steps to develop the present trading environment. These included revising the Shosha's Corporate Code of Conduct, which introduced the concept of corporate social responsibility into trading-company management and can be regarded as the "constitution" of the Japanese trading community. We also conducted the JFTC Essay Competition on the theme of "Globalization and Japanese Companies", the Awards Ceremony for which will be held later on.

I had a chance to read over the winning essays. The grand prize winner developed the argument that Japanese companies should not rely on the government or foreign countries to create international rules, but should take an active and responsible role in doing so themselves. I think this is well-timed advice for Japanese companies.

I would like to now say a few words about the Action for a Better International Community, or "ABIC," a nonprofit organization that the Council took the lead in establishing. Last year ABIC marked its fifth anniversary, and thanks to your understanding and support its activities have become widely known. With a core of former shosha employees, it currently has more than 1,500 active members, all of whom engage in an array of activities in the front line of domestic and overseas economic and cultural interchange.

Ladies and gentlemen, I would like to thank all of you for your kind cooperation, and it is my sincere hope that ABIC will receive your support from hereon as well.

The Japan Foreign Trade Council will continue this year to facilitate Japan's trading and other external economic activities, and will devote its efforts to enhancing the business environment for all of you constantly striving for "the Global Frontier". Your continued understanding and cooperation will be greatly appreciated.

To conclude, I would like to wish you a very happy new year, and my hopes that 2006 will prove a fruitful

and prosperous year for all of us.

Thank you very much.

Seeking the Further Development and Strengthening of Economic Partnership Agreements

Mikio Sasaki

**Chairman, Japan Foreign Trade Council, Inc.
Chairman, Mitsubishi Corporation**

Happy New Year to you.

The Japanese economy has at last entered a recovery phase, and I feel sure that, like me, you have seen in the new year with fresh determination to make it a year of dynamic progress.

Looking back over 2005, great progress was made in the Economic Partnership Agreement (EPA) negotiations that Japanese business circles have long clamored for, and steady results were achieved. The EPA between Japan and Mexico came into effect from April. Major elements of bilateral EPA agreements were reached with Malaysia in May and Thailand in September, and a formal agreement with Malaysia was concluded in December. The Japan Foreign Trade Council applauds these developments, and we would like to express our appreciation to the government authorities for their persistent efforts.

In parallel with these achievements, negotiations also began on a comprehensive economic partnership agreement with ASEAN in April and on a bilateral agreement with Indonesia in July. In November, Japan and Chile reached an agreement to start bilateral negotiations. What is more, a joint study group including industry, government, and academia was launched with India in July, intergovernmental study groups were established with Switzerland in October and with Australia in November, and an agreement was reached to hold a joint study meeting with Vietnam in December.

We are delighted that efforts toward expanding Japan's network of EPAs have begun in earnest. Nevertheless, the progress during 2005 was not all smooth as the year did leave various outstanding issues including the standstill in the bilateral negotiations with South Korea and renegotiations with the Philippines after an outline agreement had already been reached in principle.

In recent years, the heightening of economic interdependence within the East Asian region has also

been drawing attention. The percentage of intra-regional trade in East Asia has already surpassed that among the NAFTA (North American Free Trade Agreement) countries, and is approaching that within the EU. The first East Asia Summit was held in Malaysia last December where, as you know, leaders confirmed the importance of strengthening intra-regional economic ties.

In addition to supporting this strengthening of regional partnerships, the role of ASEAN cannot be overlooked to keep balanced the development of Asia. ASEAN concluded a framework agreement on comprehensive economic cooperation with China in November 2002, and the staged reduction of customs duties under that agreement has already begun. ASEAN also concluded a framework agreement on comprehensive economic cooperation with India in October 2003, and those negotiations have been moving forward.

Sparked by these advances, ASEAN began negotiating comprehensive Free Trade Agreements (FTAs) or EPAs with South Korea and with Australia and New Zealand together last February, and then with Japan last April. Many Japanese enterprises already have a network of production plants within ASEAN nations and are building up structures for cooperation and the division of works inside ASEAN, but products that are made in Japan are not included under the 40% content rule in value for gaining the most preferential tariff within AFTA (the ASEAN Free Trade Area). We strongly hope that the problem of tariff barriers to the movement of goods within ASEAN will soon be resolved under the comprehensive EPA agreement between ASEAN and Japan.

Turning to global trade environment, the number of FTAs has been rapidly expanding and roughly doubled over the past five years while the Doha round of WTO negotiations has remained in slow progress. There were 142 FTAs as of November 2005 (according to a JETRO survey), including 17 regional FTAs. As the globalization of the economy proceeds and corporate activities become increasingly borderless, enterprises are seeking a business environment that facilitates freer and more flexible business activities. Efforts are expected to go beyond addressing tariff barriers to encompass smoother administrative procedures, the development of rules on investment and intellectual property, and the smoother flow of people, goods, and money overall.

At the same time, we also think it is important for Japan to advance high-quality economic partnerships that are based on a middle- to long-term perspective, not only to seek direct economic benefits for Japan, but also to contribute to the economic development of our partners

in the region as a whole, such as through ODA assistance, for example.

In 2006 we look forward to further deep discussions regarding Japan's national strategy on extending economic partnership agreements with fast growing countries such as the BRICs (Brazil, Russia, India, and China) taking into account energy, natural resource and food security factors. We sincerely hope that 2006 will be a year in which Japan further develops and strengthens its economic partnership agreements.

Award Winner of JFTC Essay Competition 2005

Japan Foreign Trade Council, Inc., sponsor of the "JFTC Essay Competition 2005," is very pleased to announce that we received a total of 134 submissions from 30 different countries for the competition 2005.

After a strict screening of all the essays, the four essays below have been selected as the winners of the competition in 2005. We would like to express our congratulations to the winners and thank all the participants for taking part.

Referees:

- Chair: Dr. Iwao NAKATANI, Director of Research, Mitsubishi UFJ Research and Consulting Co., Ltd. and President of Tama University
- Vice Chairs: Professor Yoko WAKE, Faculty of Business and Commerce, Keio University
- Vice Chairs: Mr. Kazuo MORI, Deputy Editorial Page Editor, Nihon Keizai Shimbun, Inc.

Following are the summaries of the Award-Winning Essays.

[Grand Prize]

Advocacy for 'Corporate Foreign Policy'

Mr. Akihiko TAMURA (Japanese, 38 years old)
(the original text is Japanese)

The era of globalization is an "age of uncertainty." To enhance predictability, orders and rules at an international level are being sought with regard to a wide range of economic affairs, from trade to investment, currency and standards. To build the orders and rules, which enable us to address problems that may arise in the future, a preemptive approach backed by imagination is required. It is noted, however, that Japan, public or private, has not necessarily been proficient in such an approach.



From the left, Pro. Wake, Dr. Nakatani, Mr. Yoda, Mr. Tamura, Mr. Inasawa, Chairman Mr Sasaki, Mr. Mori



Ms. Lauma

Globalization has also brought a change in the composition of players in the international order. In addition to sovereign states, which have been traditionally its constituents, non-governmental organizations (NGO) and corporations have also emerged as its key players. The borderline between the public and private sectors has thus become blurred. This means that corporations are now directly responsible for the creation and maintenance of the international order. The international order is common property, and it is of a public nature to build and maintain that order. Western corporations precede Japanese counterparts in their involvement in activities for the public interests of the international society.

In light of the above two points, this essay advocates that Japanese corporations should be more actively engaged in constructing the international orders, and particularly the international economic orders and rules, to the extent that they function as the primary constituents. This philosophy is summed up in the term “corporate foreign policy.” “Corporate foreign policy” is not simply acts performed by corporations to achieve public interests. It rather refers to an initiative through which corporations strive to spread a web of orders and rules throughout the international economic environment as much as possible. The orders and rules may take a form of self-imposed disciplines on the part of corporations. They may take a form of having corporations exercise a substantive influence on the intergovernmental regime. The form of the corporate involvement and the enforceability of the rules vary depending on issues which the rules seek to address.

[Prize for Excellence]

Globalization’s New Face — Corporate Social Responsibility

Ms. Lauma SKRUZMANE (Latvian, 23 years old)

Having swept world markets with the efficiency of their manufacturing methods, Japanese corporations are now facing the need to adjust to new conditions of the globalized market place. This essay looks at Japanese companies and the new face of globalization – Corporate Social Responsibility (CSR). Even though, CSR has been a recently heatedly discussed concept in the West, this essay argues that for Japanese companies there is no such novelty attached to addressing issues coming under the umbrella of the CSR. Japanese companies have embraced the core CSR principle of raising the value of the company by caring for all stakeholders involved in the framework of their domestic and overseas operations already for quite a considerable time. Meanwhile, Western companies have tended to focus on short-term profit generation for their shareholders paying little attention to the overall stakeholders. Japan has emerged as a world leader for environmentally conscious corporate management. However, workforce related issues of CSR seem to be largely overlooked. Should Japan be able to realize its vision of a strong economy with a strong society that utilizes the energies of a diverse range of individuals, much more of Japanese CSR initiatives must be directed towards addressing human resources issues.

Intercultural Management Skills: What Japanese Corporations Need to Know

Mr. Makoto YODA (Japanese, 47 years old)
(the original text is Japanese)

Japanese expatriates stationed in overseas offices of Japanese corporations often complain that locally hired

staff members under their supervision fail to do "*ho-renso*," an acronym for *hokoku* (to report), *renraku* (to inform) and *sodan* (to consult). People incapable of such a routine, they say, cannot be entrusted with important jobs.

What they don't realize, however, is the fact that it is not until they were hired by a company and received training that they began doing *horenso* themselves. Forgetting that it is a practice they acquired through learning, they simply expect overseas employees to have it. If they want their staff to do *horenso*, they need to be aware of the need to explain what it is, why it is necessary and what effects it achieves.

To be aware is one of the skills that are the building blocks of what this thesis calls Intercultural Management Skills, an ability to convey one's intent to people of different cultural backgrounds and to build interpersonal relations based on trust. This thesis elucidates three major intercultural managerial skills—to be aware, to explain and to persevere—and attempts to demonstrate their importance to the Japanese and Japanese corporations of the future. With "intercultural" as a key word, it discusses what the Japanese corporation and the Japanese ought to be in an age of globalization.

Globalization of Regional Corporations: Case Studies and Future Avenues

Mr. Sadaka INASAWA (Japanese, 29 years old)
(the original text is Japanese)

For some time now, globalization has been spreading among corporations throughout the world, but Japanese regional corporations have seldom been mentioned in that context. Active efforts toward globalization are required, however, to revitalize such corporations and the regions where they are located.

This essay discusses how regional corporations can achieve globalization not just from the perspective of goods and assets which have often been discussed in the past, but also from the standpoint of people and information. In particular, the following three avenues of globalization form the core of the essay: regional efforts through cooperation among industry, government, and academia; attraction of foreign companies to the regions; and human resources measures related to foreign students.

Regarding regional efforts through cooperation among industry, government, and academia, this essay touches

on regional corporations that share resources, including human resources and facilities, and cites cases in Nagoya and Kyushu. Regarding the attraction of foreign companies to the regions, this essay cites, based on a survey, changes in the awareness of both the companies being invited to the region and the regions extending the invitation and shows that momentum is rising in the regional areas of Japan to attract foreign companies with different languages and cultures. Regarding human resources measures related to foreign students, this essay discusses the active introduction and use of internship systems in addition to employment; as a preliminary stage before hiring, internships offer the merits of enhancing mutual understanding.

Through these kinds of efforts, regional corporations could play an independent role in the regional economy. It could also be an opportunity for breakthroughs that can transform the economic structure often seen in the regional areas of Japan, that of dependence on the government.

Bilingual "Japan's Foreign Trade 2006"

Japan Foreign Trade Council, Inc. will publish "Foreign Trade 2006" (*Nihon Boeki no Genjo 2006*) at the end of March this year. This is the latest edition of the booklet published annually since 1976.

Foreign Trade 2006 is written bilingually in Japanese and English. JFTC hopes that the new booklet will be useful for a variety of peoples including foreign businessmen, government officials, etc.

* "Foreign Trade 2006" (¥1,000 including tax) is available for purchase at large book stores and government book centers. Inquiry for mail order should be addressed to jar@jftc.or.jp or by phone: 03-3435-5959, by Fax: 03-3435-5979.



The final part of "SHOSHA" Today & Tomorrow describing the future vision of Japanese Trading company will appear in next issue.

What is "SHOSHA"?

SHOSHA is consistently changing to meet the requirements of each era. Its function, activities and vision are explained in detail in English at <http://www.jftc.or.jp/shosha/english/index.html>

JFTC MONTHLY REPORT ON-LINE — Titles

JFTC publishes monthly reports covering wide variety of topics for the members and subscribers.
The following contents are available from the website (<http://www.jftc.or.jp/>) though written in Japanese.

From January issue

1. New Year's Special Contribution

- Seeking the further development and strengthening of Economic Partnership Agreements
... Mikio Sasaki, JFTC Chairman, Chairman of the Board, Mitsubishi Corporation
- At the beginning of the year of restoration ... Shohei Utsuda, JFTC Vice-Chairman, President & CEO, Mitsui, Co. Ltd.
- Frontier of 21st Century ... Nobuo Katsumata, JFTC Vice-Chairman, President & CEO, Marubeni Corporation
- Pay attention to the new potential of Vietnam ... Motoyuki Oka, JFTC Vice-Chairman, President & CEO, Sumitomo Corporation
- Regeneration of Japan in the World ... Eizo Kobayashi, JFTC Vice-Chairman, President & CEO, ITOCHU Corporation
- Thinking the reason behind strength ... Akio Dobashi, JFTC Vice-Chairman, President & CEO, Sojitz Corporation

2. Forecast for 2006 by the Executive Directors of JFTC, "The world economy and Japan's economy"

3. Round-table talks by fresh economists of shosha, "The world economy and Japan's trade"

4. International Letter – Singapore, the multiple country

From February issue

1. Foreword

- Population decrease in Japan ... Gashun Amaya, JFTC Executive Director, President & CEO, Sumikin Bussan Corporation

2. Special Articles on Russia – "Diplomatic strategy on economy, energy strategy, positioning of East Siberia and Far East"

- Putin's policy on China and Japan ... Koji Hitachi, the editor of Russian Opinion Site, Tokyo Foundation
- Russia's energy strategy for natural gas
... Masumi Motomura, Chief Economist, Oil & Gas Business Environment Research Group, Japan Oil, Gas and Metals National Corporation
- Japan-Russia energy cooperation in East Siberia and Far East
... Susumu Yoshida, Chairman & Director, Economic Research Institute for Northeast Asia
- Business environment of Far East Russia
... Hideomi Teranishi, General Manager, Representative of Mitsui and Co., Ltd. in Vladivostok and Khabarovsk
- Russia's automobile industry outlook and expectations on foreign investment
... Yasushi Okuyama, Delegate of Far East/Russian residence, Sumitomo Corporation
- Outline of Economic Special Area in Russia
... Michitaka Hattori, Japan Association of Trade with Russia & Central-Eastern Europe, Institute for Russian & East European Economic Studies

3. International Letter – Together with Russia ... Noriyuki Kitamura, Executive Vice President, Representative of Sojitz Corporation in Moscow

4. The Angles – "Expectation on WTO negotiations"

- ... Kazuhiko Iizuka, Manager, External Relations, Corporate Strategy & Research Dept., Mitsubishi Corporation

REGULAR MEMBERS OF JFTC

Companies (Total 46)

ASSOCIATED LUMBER & TRADING CO., LTD., CHORI CO., LTD., CBC CO., LTD., D. NAGATA CO., LTD., HANWA CO., LTD.
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SMILE CORP., SOJITZ CORPORATION, SUMIKIN BUSSAN CORPORATION, SUMITOMO CORPORATION, T. CHATANI & CO., LTD., THE TOSHO CO., LTD.
TOKYO BOEKI LTD., TOMEN CORPORATION, TOSHOKU LTD., TOHO BUSSAN KAISHA, LTD., TOYOTA TSUSHO CORPORATION, Y. NISHIDA & CO., LTD.
YAGI & CO., LTD., YAGI TSUSHO LTD., YUASA TRADING CO., LTD.

Associations (Total 26)

COSMETIC IMPORTERS ASSOCIATION OF JAPAN, FUKUOKA FOREIGN TRADE ASSOCIATION,
INTERNATIONAL DEVELOPMENT ASSOCIATION OF THE FURNITURE INDUSTRY OF JAPAN, JAPAN AUTOMOBILE IMPORTERS ASSOCIATION,
THE JAPAN BANANA IMPORTERS ASSOCIATION, JAPAN CHEMICAL EXPORTERS' ASSOCIATION, JAPAN CHEMICAL IMPORTERS' ASSOCIATION,
JAPAN EEL IMPORTERS ASSOCIATION, JAPAN ELECTRONIC PRODUCTS IMPORTERS ASSOCIATION, JAPAN FISH TRADERS ASSOCIATION,
JAPAN FOREIGN TRADERS ASSOCIATION, INC., JAPAN MACHINE TOOL IMPORTERS' ASSOCIATION, JAPAN MACHINERY EXPORTERS' ASSOCIATION,
JAPAN OVERSEAS ROLLING STOCK ASSOCIATION, JAPAN PAPER IMPORTERS' ASSOCIATION, JAPAN SHEEP CASING IMPORTERS ASSOCIATION,
JAPAN SHIP EXPORTERS' ASSOCIATION, JAPAN TEXTILE EXPORTERS ASSOCIATION, THE JAPAN TEXTILES IMPORTERS ASSOCIATION,
JAPAN WATCH IMPORTERS' ASSOCIATION, JAPAN WINES AND SPIRITS IMPORTERS ASSOCIATION, KOBE FOREIGN TRADE ASSOCIATION,
KYOTO FOREIGN TRADE ASSOCIATION, THE RUBBER TRADE ASSOCIATION OF JAPAN, TOKYO TRADE AND INDUSTRY ASSOCIATION,
THE YOKOHAMA FOREIGN TRADE ASSOCIATION

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