

**THE JAPAN-SINGAPORE “NEW AGE” ECONOMIC PARTNERSHIP  
AGREEMENT**

**by**

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## 1. Introduction

Bilateral trade agreements have become integral to Singapore's new commercial trade strategy which in turn is the cornerstone of the city-state's larger international economic policy. Such trade pacts appear to be increasingly regarded by policymakers as effective and expeditious instruments for achieving trade liberalisation among "like minded" trading partners.

While the *proposed* US-Singapore bilateral trade agreement is certainly not without its significance (being the first such one that the US may sign with an Asian economy)<sup>1</sup>, of particular relevance is the Japan-Singapore trade agreement which has recently been agreed to and is in the process of being implemented. While Singapore has already implemented a wide-ranging trade pact with New Zealand, this is the first trade pact that Japan has agreed to. The so-termed "Japan-Singapore Economic Partnership Agreement" or JSEPA for short has been viewed in many circles as a possible template for other trade agreement in Asia and therefore warrants closer examination.

The idea of the JSEPA was first mooted in December 1999 by the Singapore Prime Minister to his Japanese counterpart. A Joint Study Group was established to study the viability of the proposal. The group completed its work in September 2000 and the governments of Japan and Singapore entered into formal negotiations on a trade agreement in October of that year. Following a series of negotiating rounds, the Agreement was signed in January 2002 in Singapore and is to come into effect by the middle of this year once the legal and administrative procedures related to its implementation are completed by both countries<sup>2</sup>. The Agreement comprises a number of elements pertaining to the liberalisation and facilitation of trade in goods

and services and investment flows as well as a number of other elements dealing with broader economic cooperation<sup>3</sup>.

## **2. Trade in Goods**

**Tariffs:** The JSEPA eliminates tariffs on goods covering 98.5 percent of current trade between the two countries, much higher than the WTO zero-tariff commitments, which currently covers about 65 percent of current Japan-Singapore trade. Singapore has committed to grant zero-tariff treatment on all imports from Japan. In turn, Japan has more than doubled its zero-tariff commitments to Singapore from the current 34 percent to 77 percent of total tariff lines. While preferential tariff-free market access has been granted to an extensive range of products, agriculture is the one area where tariff concessions have lagged because of the extreme political sensitivity of this sector in Japan, on the one hand, and its relative unimportance to Singapore, on the other. Both countries are prohibited from maintaining any export duties that may distort bilateral trade.

**Customs Procedures and Paperless Trading:** Complex and non-uniform customs procedures are seen as a significant non-tariff barriers to the movement of goods across borders. The JSEPA commits both countries to improve the speed and efficiency of customs clearance of goods on a mutual basis by streamlining and simplifying existing procedures and via the use of informational technologies. The two countries have thus agreed to replace the current paper-based supporting trade documents with more cost-effective electronic versions. Steps will be taken to ensure that the necessary infrastructure is put in place to support “paperless trading”.

***Mutual Recognition:*** Differences in testing and certification standards is another important barrier to the trade in goods across borders. In recognition of this, both countries have agreed to take steps to ensure the mutual recognition of test results and certification by accredited conformity assessment bodies in either countries. Once this is in place, exporters can have their products tested and certified by assessment bodies locally and not have to duplicate the procedures in the importing country. Specific focus is on electrical and electronic and telecom products which is a major area of bilateral trade as well as pharmaceuticals. The latter is not only an area of growing importance in terms of bilateral trade but is also of strategic relevance in view of the rapidly ageing populations in both countries.

### **3. Trade in Services**

Since the services sector is of particular significance to both economies, the JSEPA discusses a number of provisions for the liberalisation and facilitation of transactions in this sector. The agreement thus includes commitments by both countries that go well beyond those agreed under the WTO (in over 130 sectors)<sup>4</sup>. Since non-tariff and non-quantitative barriers hinder cross-border services trade much more than tariff barriers, steps have been taken to ensure that “behind the border” impediments to trade and investment flows (i.e. trade facilitation measures) are eased. The committed sectors are subject to market access, national treatment and domestic regulation disciplines. Given the degree of internationalisation of the Singapore economy, the JSEPA has been extended to include permanent residents and multinational firms, which have “substantive business operations in Singapore”.

While a number of services sectors are expected to benefit from the agreement, it is noteworthy that four sectors have come in for special attention.

**Tourism:** In an effort to promote the tourism sectors in both countries, the JSEPA has proposed the establishment of a Joint Committee on Tourism. More concretely, the countries have agreed to a Memorandum of Understanding (MOU) on the twinning of Ginza and Orchard Road which are the premier shopping districts of Japan and Singapore, respectively. The aim of this is not only to promote the two areas to one another's citizens and those in third countries but also to undertake joint promotions and special events to showcase the arts and cultures of both Asian countries.

**Information, Communication Technology (ICT):** Both Japan and Singapore are among the leaders in ICT trade and its day-to-day utilisation<sup>5</sup>. Undoubtedly one of the reasons for the depiction of the JSEPA as being "New Age" is its emphasis on cooperation and facilitation of this sector. The JSEPA has put in place steps to: (a) fortify the market access in Japan for Singapore-based businesses delivering ICT products and services and vice versa; (b) augment the knowledge of business environments in both countries and a provide a more level playing field for businesses dealing in Telecommunication Services; (c) reduce technical and technological obstructions to ICT trade; (d) offer additional and alternative route to orderly Dispute Settlement; and (e) catalyse and facilitate the ongoing expansion of e-Commerce transactions.

**Broadband:** Cooperation in the area of media and broadcasting has also been identified as a key area of cooperation in which Japan and Singapore can help one

another in the development and provision of innovative media and broadcasting technologies.

*Financial Services:* Singapore, Tokyo and Hong Kong are the three important financial centers in Asia. In an effort to give one another's financial sectors a boost in terms of turnover and cost efficiency, the JSEPA has put in place a number of initiatives to enhance bilateral cooperation to promote financial sector and capital market development.

#### **4. Investment Facilitation and Movement of Natural Persons**

Singapore is highly dependent on FDI, and Japan is the second largest investor in the city-state<sup>6</sup>. Thus, the JSEPA also contains a set of detailed provisions on investment promotion and protection aimed at fostering an open international environment for cross-border investment and providing access to each other's markets. Issues covered include national treatment, prohibition of performance requirements, expropriation and compensation, transfers of profits and other funds, and investor-to-state dispute settlement mechanism and procedures. As with trade in services, the agreement spans both citizens and permanent residents of Singapore and encompasses firms formed in either Japan or Singapore which are owned or controlled by non-Singaporeans/Japanese and "engaged in substantive business operations". Steps have also been put in place to encourage cooperation and business alliances between small and medium sized enterprises (SMEs) between the two countries so as to gain greater market shares in one another's economies as well as penetrate in third country markets.

Trade in services and investments invariably require complementary movement of natural persons. The JSEPA will grant Singaporeans and permanent residents of Singapore guaranteed entry and stay in Japan to work and to administer their investments under fairly liberal conditions. Similarly, Japanese professionals will be able to practice in Singapore. Measures are also being taken towards the mutual recognition of professional qualifications.

Besides these measures and other specific ones to promote trade and investments (by enhancing facilities for export credit insurance and overseas investment reinsurance), the JSEPA has taken steps to: (a) promote mutual recognition of and cooperation with regard to competition policies; (b) put in place a set of procedures and regulations pertaining to government procurement; (c) undertake collaborative measures and cooperative activities on Intellectual Property (IP); (d) step up cooperation in Science and Technology and human resource development; (e) and establish provisions for orderly dispute settlement.

## **5. Concluding Remarks**

The foregoing provisions of the JSEPA are aimed at fortifying and revitalising the already strong linkages bilaterally as well as promoting joint Japan-Singapore trade and investments in third countries, and is expected to provide significant mutual benefits to the two participating countries. This may be reaped through gains from the elimination of tariffs on most products as well as cost savings due to less delay from the streamlining and harmonisation of customs procedures, development of orderly dispute settlement mechanisms, paperless trading, and mutual recognition of standards in the area of testing and certification. The agreement has also established

norms for the liberalisation and facilitation of trade and investment in the services sector. Given the relatively low penetration of FDI in this sector in Japan, Singapore, which has a growing comparative advantage here, can be expected to reap significant economic gains.

Significantly, this trade pact should also attract foreign companies to be based in Singapore, since under the JSEPA, foreign subsidiaries based in Singapore are to be treated in the same manner as indigenous Singapore companies with respect to all the provisions as discussed, and provides them with an opportunity to enter the Japanese market, especially in the services sector, where high entry barriers exist for foreign producers. This ought to further enhance Singapore's attractiveness as a destination for multinational companies (MNCs) to establish OHQs/RHQs.

Conversely, trade and investment diversion remains a real concern particularly with regard to the services sector. This could potentially hurt third countries if not the two countries directly concerned. In response, apart from repeatedly asserting the primacy of the multilateral trading system<sup>7</sup>, policy makers in both Japan and Singapore have often expressed the view that the JSEPA is open to other “like-minded” countries in Southeast Asia and elsewhere. Nonetheless, the presence of these “new” trade issues pertaining to harmonisation of investment and intellectual property rights regimes as well as the large-scale exclusion of agriculture products does make one doubt the extent to which these agreements can be extended to other countries<sup>8</sup>. This may limit the appropriateness of the JSEPA as a model for future trade arrangements<sup>9</sup>. The relatively lax and vague WTO rules regarding regional trade agreements ensures that the JSEPA is not inconsistent with them, but then again, virtually none of the other 170 trade pacts that dot the global trading system are either.

## Endnotes

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<sup>1</sup> See R. Rajan and R. Sen (2002). “Singapore’s New Commercial Trade Strategy: Examining the Pros and Cons of Bilateralism”, in Chang L.L. (ed.), Singapore Perspectives 2002, Singapore: Times Academic Press.

<sup>2</sup> “Japan Singapore Free Trade Pact to Start Mid-2002”, May 11, Reuters Ltd., Singapore.

<sup>3</sup> The discussion that follows is based on R. Rajan and R. Sen (2002). “The Japan-Singapore ‘New Age’ Economic Partnership Agreement: Background, Motivation and Implications”, Discussion Paper No.0208, CIES, University of Adelaide, March.

<sup>4</sup> Specific services that Japan has committed for liberalised trade under the JSEPA are professional services, construction services, computer services, distribution services, telecommunication services, financial services, and transport services.

<sup>5</sup> Service exports comprising ICT related activities accounted for nearly half of total service exports for Singapore and more than that amount for Japan in 1998.

<sup>6</sup> In 1999, the stock of Japanese direct investments in Singapore amounted to US\$ 15 billion or close to one fifth of the total stock of Singapore’s direct foreign equity investments. As a general trend, Japan’s investments in Singapore have been much higher than Singapore’s investments in Japan and have also been more evenly distributed across manufacturing and non-manufacturing sectors. The services sector has remained an important target for Japanese and Singapore investors in one another’s countries. See R. Rajan and R. Sen (2002). “Singapore’s New Commercial Trade Strategy: Examining the Pros and Cons of Bilateralism”, in Chang L.L. (ed.), Singapore Perspectives 2002, Singapore: Times Academic Press.

<sup>7</sup> For instance, Singapore Prime Minister, Goh Chok Tong, has reportedly noted that free trade agreements (FTAs) “should not be pursued at the expense of the multilateral trading system. We must continue to invest efforts towards the launch of a New Round (of multilateral trade negotiations), to ensure that the gap between FTAs and the WTO does not grow so wide that it becomes irreconcilable.” (Business Times, Singapore, December 5, 2000).

<sup>8</sup> Indeed, the absence of many sensitive areas between two countries like agriculture and forestry and fisheries appears to have been the main reason for Japan’s willingness to embark on a preferential trade agreement with Singapore. Other reasons might include similarity of income levels, geographic proximity as well as Singapore’s experience with negotiating agreements with other countries.

<sup>9</sup> In fact, while proclaiming the JSEPA as being “forward-looking” and “a model of cooperation for the region”, the Japanese Prime Minister, Junichiro Koizumi ruled out the possibility of extending the agreement to other Southeast Asian countries citing agriculture access as a potential problem area. See I. Low (2002). “Japan, Singapore Sign Landmark Trade Deal”, The Straits Times, Singapore, January 14. It is reported that similar exclusions to agricultural trade may be demanded by Japan in its FTA negotiations with Mexico, Korea, and Australia.