

# JSEPA (Japan-Singapore Economic Partnership Agreement) and Future Trade Policy

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## 1. Adoption of Multi-Layered Approach in Trade Policy

On October 22, 2000, Japan and Singapore announced that negotiations towards the conclusion of an Economic Partnership Agreement (EPA) would begin in January 2001 and would be concluded within the same year at the latest. This means that Japanese trade policy has adopted a multi-layered approach also utilizing bilateral agreements, while it will still be fundamentally based on the World Trade Organization (WTO).

Japanese trade policy has given

priority to the WTO principles of rule of law, multilateralism and non-discrimination, and Japan has consistently been one of the greatest beneficiaries of the multilateral free trading system throughout the country's economic growth after WWII. Moreover, Japan has not participated in any regional trade agreements (RTAs), and it has indirectly kept the formation of RTAs by other countries or regions in check in such ways as participating in discussions in the CRTA (Committee on Regional Trade Agreements).

In recent years, however, discussions about concluding Free Trade Agreements

(FTAs) have become increasingly popular in Japan. The major issue is that Japan should adopt a multi-layered approach in which multilateral, regional and bilateral frameworks are combined to the best advantage, while keeping WTO policies as the base. Regional and bilateral frameworks could complement the WTO and function as important sub-systems for enhancing the stability of global ones through liberalizing trade and investment within the region and by making rules in new fields where the WTO has no rules.



Photo : REUTERS • SUN

Singapore's Prime Minister Goh Chok Tong (left) makes a toast with Japanese Prime Minister Mori Yoshiro (right) during a luncheon at the latter's official residence in Tokyo on October 22, 2000. Goh flew to Tokyo to launch negotiations for a free-trade agreement between both countries.

## 2. Reasons for Adding FTAs to Policy Options

### 1) Background

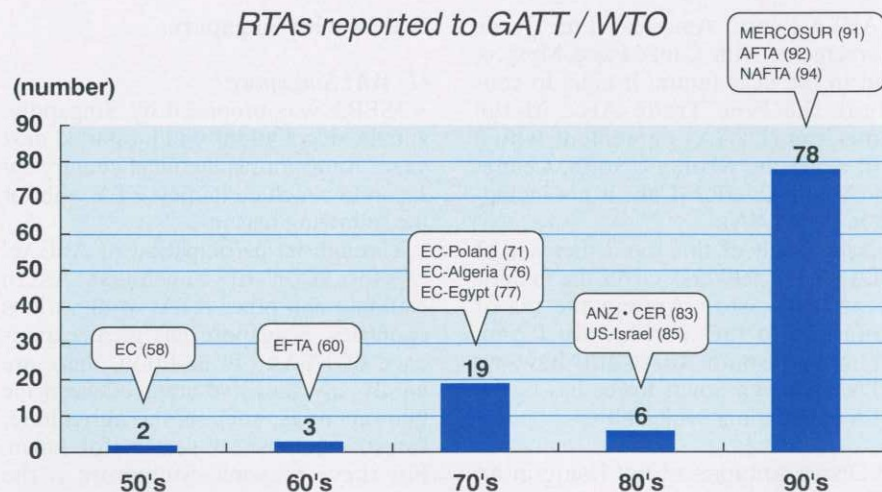
At present, economic globalization is proceeding at breakneck speed. The movement of people, money and information is highly dynamic and borderless. Now is no longer a time when countries choose companies; it is the companies who make decisions on which country to set up in based on the advantages of their systems. For this reason, countries are now competing with each other to create attractive business environments through the provision of such advantageous systems.

In our present age, the source of wealth is not the resources that a country possesses, but the intellectual added value. In other words, it is very important to combine resources effectively and create totally new value. It is people of talent who create the intellectual added value, and countries are required to provide an efficient and flexible market which enables the commercialization of their innovations. Consequently, it is necessary for each country to promote the liberalization of trade and investment, as well as to concentrate on deregulation and structural reforms.

### 2) Advantages of FTAs

#### (1) Creation of conducive business environments

The conclusion of an FTA enables each country to provide a business environment which is highly suited to the needs of the new age. Through comparison and harmonization of the systems in each country, an FTA also provides opportunities to promote reform in areas which are lagging in respective countries. Moreover, an FTA enables painful reforms to be promoted easily at the political level through making equivalent concessions in each country regarding the liberalization of trade and investments, which are basically major benefits for each country.



Source: WTO "Regionalism and the world trading system"

Remarks: RTAs are counted by the year of effect.

cf. RTAs consist of Free Trade Agreements, Custom Unions, Monetary Unions, etc.

#### (2) Revitalization of domestic economies

FTAs will bring scale merits for the companies in the region by borderless market integration through the removal of trade barriers. This will increase direct investment in the region by making regional markets more attractive for companies from outside. Further, exposure to competition with companies in the other countries in the FTA will raise productivity in the individual countries.

#### (3) Complementing WTO systems

The conclusion of an FTA will make countries more ready for the future multilateral trade liberalization, and it may very well help to maintain and promote the WTO systems. It has the synergistic effect of stimulating the formation of FTAs between other countries outside the grouping of the existing FTAs. If the participating countries increase in number, or if the FTA integrates with other ones, the FTA will come closer to the worldwide liberalization.

Moreover, FTAs can get results more rapidly than multilateral agreements because one can choose appropriate partners for forming the agreements. On the contrary, complex interests of the member countries often make multilateral negotiations stagnant.

FTAs provide maneuverability in agreement on rules for new areas which have not been targeted by WTO rules. They also complement fundamental WTO systems by expanding the use of such rules throughout a wider region, and they present possibilities for creating a model for future rules in the WTO. For example, rules for dispute settlement and those relating to the services sector in the US-Canada FTA have been reflected in the WTO agreement. Since such FTAs raise enthusiasm for multilateral negotiations in the countries outside their areas and serve to advance such negotiations, they have contributed greatly to the maintenance and development of WTO systems.

### 3) Recent history of FTAs in the world

Since the beginning of the 1990's, FTAs have increased rapidly in all parts of the globe. Countries that promote WTO systems such as the US and European countries have positively promoted FTAs. The European Union (EU) has increased the number of its members to 15 from the initial 6 and is considering further expansion by allowing East European countries to join. In the Americas, the US has concluded the

NAFTA (North American Free Trade Agreement) with Canada and Mexico, and in the near future, it aims to conclude the Free Trade Area of the Americas (FTAA) agreement which will cover the whole of North, Central and South America (Cuba is not included in the FTAA).

As a result of this rapid increase of FTAs, FTA networks cover the majority of the world. Among the major countries of the world, only Japan, China and South Korea still have no FTA, and even South Korea has begun FTA negotiations with Chile.

#### 4) Disadvantages of not being in an FTA

In the regional market created by an FTA, companies from outside the region have to compete with companies under disadvantageous conditions. The ultimate answer is liberalization under the WTO that will equalize the conditions for competition including companies from outside the region, but such a process will take a long time. Thus, in order to maintain the competitiveness of their own industries, various countries have adopted multi-layered approaches incorporating bilateral and regional FTAs in addition to their efforts towards liberalization under the WTO.

There are already cases in which Japanese companies are at a disadvantage to those of other industrialized nations, because Japan is not in any regional economic integration. For instance, in the Mexican market, after the Maquiladora system was abolished in November 2000, a maximum 15% duty could be imposed on components procured from Japan. Japanese auto makers, electronics and electrical equipment manufacturers operating in Mexico were put at a serious disadvantage to companies that have no tariffs to pay at all because of FTAs. There have thus been strong demands from the Japanese companies to conclude an FTA with Mexico.

### 3. EPA with Singapore

#### (1) Why Singapore?

JSEPA was proposed by Singapore, and the negotiations will be started next year. Singapore is the ideal country for Japan to conclude its first FTA with for the following reasons.

Through its participation in ASEAN (Association of Southeast Asian Nations) and other RTAs with various countries, Singapore has great experience of FTAs. In addition, there are hardly any sensitive areas between the two countries, such as the agriculture, forestry and fishery sectors for Japan. For these reasons, Singapore is the country with which negotiations have the greatest chance of success.

The merits of concluding an FTA with Singapore, however, would be more than just easy negotiations. Singapore has Information Technology (IT) and other cutting-edge industries and its government has the reputation of practicing state management in an efficient and strategic manner. Moreover, it is possible to explore various strategies for the economic integration because Japan and Singapore are not so different in income levels and the functions of both governments are highly developed. Besides, Singapore has systems in many areas that could provide a frame of reference for Japan.

#### (2) Details of JSEPA

Up till now, the primary purpose of FTAs was to liberalize trade by eliminating tariffs. In JSEPA, the scope has been drastically expanded. It aims to establish an attractive, flexible business environment transcending international borders by promoting a very wide range of economic activities encompassing the transfer of human resources, capital and information as well as trade in goods. Thus, it not only addresses the traditional element of elimination of tariffs but also includes all issues that have been targeted by existing FTAs: liberalization of investment rules and trade in services, harmonization of competition policies, mutual recognition of standards/certification, a mechanism for

dispute settlement, etc.

Furthermore, JSEPA contains new elements: harmonization of rules for electronic commerce, one-stop service in trade-related procedures utilizing IT, facilitation of human resource movements, and bilateral cooperation stimulating trade between the two countries.

It has been deemed appropriate to call this agreement an EPA (Economic Partnership Agreement) rather than an FTA because it goes well beyond the scope of traditional FTAs, and strengthens partnership over the whole range of economic activities.

#### (3) Expectations of JSEPA

In order to promote economic activities by creating an attractive and flexible business environment, JSEPA intends liberalization and bilateral cooperation in an extremely wide range of areas. It will thus be necessary for Japan to make great efforts towards deregulation and streamlining administrative procedures. In terms of creating a competitive business environment, this EPA has the same purpose as that of the structural reforms being attempted by Japan and other countries to stimulate their own economies. Liberalization and bilateral cooperation implemented under JSEPA are expected to push forward economic structural reforms inside Japan. Promoting the EPA alongside Japan's domestic structural reforms should assist in revitalizing the Japanese economy.

Thus, JSEPA will be not only a strategic cornerstone for Japan to achieve a multi-layered trade policy but also an opportunity to stimulate Japanese economy through structural reform. I believe the negotiations in 2001 will be successful, and the agreement will bring great benefits for both Japan and Singapore. **MITI**

Remarks: This article reflects the personal opinions of Eguchi Masato, and does not represent the official opinion of MITI or the government of Japan.

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