

The Strategic Importance of the Japan-Singapore New-Age Economic Partnership Agreement (JSEPA)

By Eric Teo Chu Cheow

January 2003

The Japan-Singapore “New Age” Economic Partnership Agreement (JSEPA) was substantially agreed to by the two governments, after almost two years of discussions and negotiations, in October 2001. It was officially signed in January 2002 and entered into force on 30 November 2002.

Significantly, JSEPA was Japan’s first such EPA with a third country; subsequently, negotiations (which are still in progress) were begun with Mexico in November 2002, and a joint study group was launched in July 2002 with South Korea. Meanwhile, in November 2002, Japan signed a joint declaration with ASEAN (as an entity) to achieve “a partnership, including elements of a possible free-trade area within the next ten years.” Working groups have also been established separately with Thailand and the Philippines to look into eventual EPAs between Japan and Thailand, and Japan and the Philippines. Finally, in November 2002 an East Asian Study Group, which had been studying ways of strengthening economic relations between the ASEAN countries and Japan, China and South Korea (including a possible FTA), submitted its report to the ASEAN+3 Summit in Phnom Penh. A feasibility study on the establishment of an East Asia Free Trade Area (EAFTA) has now been entrusted to the ASEAN+3 Economic Ministers. Japan looks set to participate actively in a web of EPAs and FTAs within the Asia-Pacific region.

On the other hand, Singapore also looks set to enhance its own role as a precursor and champion of the building of a web of FTAs across the world, while still maintaining as its priority the realization of global free trade through the WTO. Singapore has already signed and implemented EPA/FTAs with Japan, New Zealand, EFTA and the United States. Intensive discussions are now being carried out with Mexico, Canada, South Korea and Australia, and Singapore hopes to begin talks with the EU, one of its major trading partners, in the near future. As part of ASEAN, Singapore has also begun serious negotiations with China to establish an ASEAN-China FTA within the next nine years; ASEAN-India and ASEAN-South Korea EPAs are also on the cards.

Given this context, the JSEPA holds significance for at least **four reasons**, not only for Japan and Singapore, but also in the present global context, with the apparent stalling of negotiations in the WTO.

Firstly, Japan and Singapore could demonstrate constructively and concretely that having an EPA does not downplay the overarching priority of attaining global free trade through the WTO. In fact, bilateral EPAs could contribute towards this global ambition actively and constructively as part of a building-block process. There is a need to convince skeptics in Brussels and Kuala Lumpur that bilateral EPAs and FTAs can play a significant role in this regard. EPAs and FTAs do help break down tariffs and should be expanded in a web-like fashion, ideally via the WTO mechanisms, so as to attain global free trade. Singapore is especially delighted to have sealed the JSEPA with Japan, since recently it has also managed to conclude a subsequent Singapore-United States FTA, thereby essentially “locking in” its two most important trading partners.

Secondly, the successful conclusion and implementation of the JSEPA clearly illustrates the paramount importance of both sides’ political will and commitment to success. Political will is crucial, especially in overcoming certain sectors of the population which may eventually lose out when the FTA is implemented; others, however, would benefit from an FTA. Sectorial lobbies and union pressure can be expected to be immense, but political leadership must be strong and vigilant

enough to overcome these important obstacles, especially in the current context of increasing democracy in Asia. The leadership must seek to explain and convince the population as a whole of the real and tangible benefits of an FTA/EPA, while helping, at least in the initial phase and in the short term, to “cushion” the negative effects on affected groups and sectors.

Thirdly, for internal political reasons, the implementation of an EPA/FTA could also be a golden opportunity for governments to undertake the onerous tasks of economic reform and restructuring, especially when these will undoubtedly prove painful. Within this context the necessary restructuring of Japan’s five “principal lobbies” could be undertaken, but only with strong political will and resolve. Singapore’s radical economic restructuring is also being helped by the implementation of its FTAs, for example in its “protected” domestic financial sector. Furthermore, in order for an EPA/FTA to be implemented effectively, reforms also have to be undertaken in areas beyond tariffs and economics, viz. in the legal, judicial and administrative systems. Japan and Singapore did not have problems in this particular area of reform, but for some other regional countries, an EPA/FTA could be the much-needed impetus for this kind of massive “clean-up,” which would ultimately be beneficial to the countries in question. In a way, globalization has forced certain changes on all of us, and implementing reforms through the opening up of the economy is ultimately a necessary way forward, as is being amply demonstrated today by China.

Lastly, the JSEPA could now serve as a model for the ASEAN-Japan EPA, although JSEPA has been spared the “burden” of negotiations over agriculture, which is likely to be one of the thorniest issues that will arise in ASEAN-Japan negotiations. (Likewise, the ASEAN-China FTA can also be expected to hinge heavily on, or falter over, the agricultural sector, even though the agricultural lobby in China does not exhibit anything approaching the tenacity and radicalism of the Japanese farming lobby.) It has been made known publicly that the JSEPA could be a worthwhile model for use in the future, as Japan weaves its own web of bilateral EPA/FTAs with various ASEAN countries (such as Thailand and the Philippines), while in parallel negotiating an eventual ASEAN-Japan EPA with ASEAN as a whole. In fact, it is reported that Malaysia—the ASEAN member that initially opposed bilateral FTAs the most—will be holding technical talks with Japan in March 2003 with a view to the eventual launch of Japan-Malaysia FTA negotiations.

The JSEPA has been hailed as a milestone in Japan-Singapore bilateral relations, as it ushers in a period of economic pragmatism while offering a new future. It has certainly been ushered in during an unfortunate economic phase for both the Japanese and Singaporean economies. Japan is still mired in slow growth as the spectre of a double-dip recession hangs persistently over an economy which has undoubtedly not risen from the doldrums. At the same time, Singapore’s economy has slowed down considerably, owing to both regional and international factors. Nevertheless, both governments are committed to seeing the implementation of JSEPA through with political resolve, in the fervent hope that the JSEPA can in due course contribute effectively to the uplift of both economies and serve other longer-term strategic goals for the East Asian region.

About the Author

Dr Eric Teo Chu Cheow, a business consultant and strategist based in Singapore, is also Council Secretary of the Singapore Institute for International Affairs (SIIA) and a Resource Panel Member of the Singapore Parliamentary Committee on Defence and Foreign Affairs.