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THE MAKING OF ASIA'S FIRST BILATERAL FTA:
ORIGINS AND REGIONAL IMPLICATIONS OF THE
JAPAN–SINGAPORE ECONOMIC PARTNERSHIP
AGREEMENT

Takashi Terada



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Japan–Singapore Economic Partnership
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THE MAKING OF ASIA'S FIRST BILATERAL FTA: ORIGINS AND REGIONAL IMPLICATIONS OF THE JAPAN–SINGAPORE ECONOMIC PARTNERSHIP AGREEMENT *

Japanese Prime Minister Junichiro Koizumi ushered in a new era in Japan's international trade policy in January 2002 when he and his Singaporean counterpart, Goh Chok Tong, signed the Japan-Singapore Economic Partnership Agreement (JSEPA), the first bilateral Free Trade Agreement (FTA) signed between Asian countries. This trade strategy also reflected Japan's interest in launching its so-called 'multi-layered trade policy' which meant the pursuit of bilateral and regional trading arrangements, including FTAs, in an attempt to complement multilateralism based on the GATT/WTO to reinvigorate efforts to achieve global trade liberalisation.

This paper aims to examine how and why Japan and Singapore decided to pursue FTAs, what interests both perceived in their pursuit of FTAs, what elements contributed to both countries being linked in this trade policy arrangement, and what implications the JSEPA has had for the FTA movement in East Asia. It argues that the JSEPA was made possible mainly through Singapore's initial offer to exclude agricultural products from tariff elimination. But Japan faced problems in seeking FTAs with other ASEAN countries which were less developed than Singapore and had a higher proportion of agricultural exports, as the exclusion of specific agricultural products, such as rice and sugar, would contradict Japan's claim that its FTAs would bolster the WTO-based multilateral system. The proliferation of FTAs in East Asia may generate a 'spaghetti-bowl' effect with varying rules of origin that may divert and distort trade, but the 'new age' aspects of the Japan-Singapore agreement will also have some positive economic effects. Although the preferential trade elements of the agreement are detrimental, the smaller portion of tariff elimination results in a smaller trade diversion effect on trading partners. Therefore, the Japan-Singapore agreement carries symbolic meaning in terms of trade policy debates as well as signifying a paradigm shift in Japan's international trade policy.

Introduction

Japanese Prime Minister Junichiro Koizumi's visit to Singapore in January 2002 ushered in a new era in Japan's international trade policy. Koizumi and his Singaporean counterpart, Goh Chok Tong, signed the Japan-Singapore Economic Partnership Agreement (JSEPA). This was the first bilateral Free Trade Agreement (FTA) signed by Asian countries that provided not only for the elimination of tariffs, but also for other measures including the liberalisation of investment rules, the harmonisation of



competition policies, and the mutual recognition of standards. This was also Japan's first FTA. The conclusion of the JSEPA meant that the fundamental significance of the free trade spirit and of the potential benefits to be obtained from bilateral economic cooperation for further growth had been mutually acknowledged by both nations. In fact, when the negotiations for trade liberalisation in global and regional levels bogged down, Singapore swiftly engaged in planning for and forging a vast array of FTAs, culminating in the creation of an FTA groundswell in the East Asian region. This was made possible mainly because of Singapore's trade structure, which comprises few sectors that need protection at home, allowing 99.9 per cent of its imports to be tariff-free. It is this trade bilateralism that subsequently contributed to Singapore being recognised as a major mover in the international trade arena, despite its small size. This is evidenced by the fact that it has concluded FTAs with New Zealand (2000), Japan (2002), the European Free Trade Association (comprising Switzerland, Iceland, Liechtenstein and Norway) (2002), Australia (2003), the United States (2003), Jordan (2004), India (2005) and South Korea (2005). Singapore is presently engaged in FTA negotiations with countries including Bahrain, Mexico, Canada, Panama, Peru and Sri Lanka.

After the JSEPA, Japan signed FTAs with Mexico and the Philippines in 2004, and is expected to conclude treaties with Malaysia, Thailand, and South Korea subsequently. Yet Japan is perceived as not developing its interest in FTA very easily or promptly. This is partly because Japan long had a 'cast-iron commitment to the multilateral trading system' (*Reuters* 25 October 2000). Japan was labelled 'the staunchest multilateralist' (*New York Times* 9 November 2001), due to its exclusive focus on global trade bodies — such as the General Agreement on Tariff and Trade (GATT) and its successor, the World Trade Organisation (WTO) — for the purposes of facilitating global trade liberalisation. In effect, Japan had long criticised FTAs as discriminatory against non-members and detrimental to the maintenance of the GATT/WTO-based international trading system. Thus, for many years FTAs were widely perceived among the trade policy intellectuals in Japan to be the last trade policy option that Japan would make. Japan's decision to deviate from its traditional stance on international trade policy by negotiating a FTA was thus a surprise. Singapore lent Japan a hand for such a major trade policy change by proposing an agriculture-free FTA, which Japan could negotiate more easily for than other FTA partners like Mexico and Thailand. These countries showed a strong interest in the liberalisation of such agricultural products as pork and rice, respectively. It was claimed that the JSEPA added a considerable enrichment to bilateral relations, as Yasuhisa Shiozaki, Chairman of the Foreign Affairs Division, of the Liberal Democratic Party's Policy Research Council said that 'Japan was jolted into action by Singapore' (cited in *Straits Times* 26 October 2000).



This paper aims to examine how and why Japan and Singapore decided to pursue FTAs, what interests both perceived in their pursuit of FTAs, what elements contributed to both countries being linked in this trade policy arrangement, and what implications the JSEPA has had for the FTA movement in East Asia. The paper focuses on the political momentum that led Japan and Singapore towards the bilateral trade policy approach and on the political processes that contributed to the birth of this Asia's first bilateral FTA, rather than delving into the general economic effect of FTAs such as the desirability of bilateral agreements over multilateral approaches.

Features of FTAs

With their legally-binding provisions for the reciprocal exchange of preferences which discriminate against non-partner countries, FTAs are allowed to be exempted from the GATT Article 1-based Most Favoured Nations (MFN) principle, which was set up within the GATT system to avoid trade discrimination against the third states by granting equal treatment to all, as far as they meet the following conditions: FTAs must 1) not raise barriers to trade with countries outside the region, 2) eliminate barriers to trade with countries inside the region with respect to 'substantially all' the trade, and 3) be completed 'within a reasonable length of time'. The main positive effect of FTAs is an increase in non-members' exports to members because of enhanced economic growth and the trade modification of members. The higher economic growth is mainly due to an increase in economic transactions. Stronger competition and a reduction of the transaction costs by the harmonisation of regulations and standardisation of specifications amongst members can be attained through the formation of FTAs. Trade modification — defined as the diversification of import sources led by transformed trade patterns after integration — becomes larger as the economic growth of members becomes higher and trade relations between members and non-members are made complementary.

The main negative effects of FTAs are a decrease in non-members' exports to members, the deterioration of the terms of trade for non-members, and a reduction in members' consumer welfare because of trade diversion to other members. That is, FTAs may cause non-members' exports to members to fall by increasing trade among members through the removal of trade barriers only among the members, which disadvantages non-member exporters and may replace more efficiently produced trade with less efficiently produced goods and services. In addition, when the economic size of the integration through FTAs is large and the non-members' supply curve is upward sloping, the members' export price is lowered, so the terms of trade with non-members deteriorate (Viner 1950 and Eithier 1988). In addition, the growth of bilateral and regional FTAs may lead to the so-called spaghetti bowl



effect of ‘complex trade regulations and commitments that are difficult to disentangle and make it difficult to proceed to broader trade liberalisation’ (Edmonds and Verbiest 2002: 3).

Kemp and Wan (1995) point out that the negative effect on non-members caused by the trade diversion effect can be neutralised if the trade protection level for non-members is lowered so as to make the terms of trade uniform between members and non-members. However, it is widely perceived to be difficult to generalise about whether the overall economic effect of FTAs on either members or non-members is positive or negative.¹ This is because each effect largely depends on the pre-integration situation, such as the level of members’ trade barriers and the content of agreements. This judgment would be even more difficult if we took into consideration the effect on foreign direct investment by the enterprises of non-members. For instance, non-member enterprises are likely to increase disproportionately their direct investment in member economies that conclude a FTA and to transfer their bases for production from their countries and third countries to the FTA countries. In this case, while the negative effect of increasing unemployment in non-member countries would emerge, we would see a positive effect in that the increase of foreign direct investment in the FTA member countries could lead to the entranced economic growth of the FTA countries, which could result in increased exports, as a whole, to the FTA countries.

As discussed later, Japan had long emphasised the negative side of FTAs. The managed trading system and discriminatory integrations of the inter-war period caused Japan to become frustrated with and isolated from the old Empire system, and drove it to try to create discriminatory integration by force. So Japan understood that the growing number of discriminatory FTAs in the current international arena would produce dissatisfied countries, which would in turn be urged to strengthen the managed or discriminatory trading system. Changing norms in Japan’s international trade policy was thus a prerequisite for any nation, including Singapore, seeking to conclude a FTA with Japan, as discussed below.

Major impetuses behind Singapore’s FTA strategy

Singapore has enjoyed the world’s highest ratio of trade to gross domestic product (GDP), about 300 per cent. This fact accounts for its active diplomatic endeavours to facilitate the trade liberalisation movements in the GATT/WTO-based multilateral trading system, as well as its efforts at regional levels such as ASEAN, the Pacific Economic Cooperation Council (PECC) and the Asia–Pacific Economic Cooperation (APEC) forum. Singapore’s commitment to global and regional trade liberalisation is testified to by these efforts. It was Singapore that hosted the inaugural WTO Ministerial Conference



in December 1996, and offered to host the Secretariats of both PECC and APEC. However, both regional and multilateral negotiations became inert in the late 1990s: the Asian financial crisis in 1997 had held up the pace of ASEAN members' liberalisation movement and sapped ASEAN's collective strength, while APEC became unwieldy and ill-equipped to handle trade issues effectively, due mainly to the failure of its Early Voluntary Sectoral Liberalisation (EVSL) program in the second half of the 1990s. In the multilateral arena, the WTO became increasingly ineffectual in trade liberalisation talks. This was evident in the 1999 Ministerial Meeting in Seattle when the growing influence of developing countries and Non-Government Organisations (NGOs) were strong enough to hamper the liberalisation movement in the WTO, which operated under a consensus-based decision-making approach among its nearly 150 members.

Singapore's interest in bilateral FTAs eventually emerged as a fallback tool, since FTAs were believed to be more effective in promoting trade liberalisation. Singapore hoped such a trading arrangement could be useful in securing larger markets on a preferential basis, by attracting more Foreign Direct Investment (FDI), strengthening its position as a transportation hub, and circumventing future protectionist and discriminatory tendencies (Rajan, Sen and Siregar, 2001: 10). In fact, in view of potential cost savings to be accrued from Singapore's attempt to conclude additional FTAs, more foreign companies are expected to transfer their production bases to Singapore (*Straits Times*, 23 March 2003). As Prime Minister Goh (2001) said, in WTO and APEC, even when a consensus is reached, it is one formed on the 'lowest common denominator', which holds back more developed economies for the sake of the less developed. In some areas where no consensus could be reached, a few members would be left out. In comparison, bilateral FTAs could overcome these sorts of problems by having only to meet the requirements of the two nations. Singapore's determination in pursuit of FTAs was epitomised by Goh's statement made at the APEC Summit held in Brunei on 15 November 2000: 'those who can run faster should run faster. They should not be restrained by those who don't want to run at all' (cited in *Asia Week*, 8 December 2000).

However, Singapore's active engagement in pursuit of FTAs, reflected in the above statement, were viewed as insensitive since other ASEAN economies were struggling to recover from the adverse effect of the Asian financial crisis. This contributed to Singapore's image as a self-righteous member who cared little about its neighbours. Singapore's policy orientation towards FTAs, without consultations with other ASEAN members, made some regional leaders unhappy. Malaysian Prime Minister Mahathir stated that 'moves by Singapore to negotiate separate free-trade agreement, were worrisome' (cited in *Straits Times*, 27 February 2001), while Malaysian Trade Minister, Rafidah Aziz noted that Malaysia was 'not interested in having bilateral FTAs with anybody' (cited in *Straits Times*, 15 March



2001). Yet, as discussed later, Malaysia subsequently came to express interest in negotiating a FTA with Japan, a nation that had been one of the top trading partners and aid donors for Malaysia over the years. This is an example of the direct effects caused by Singapore's FTA initiative in East Asia.

Singapore's growing interest in FTAs was spurred not only by trade and economic elements, but also by strategic considerations. Singapore tended to believe that FTAs with major economies would secure their position in Southeast Asia by strengthening ties with the FTA partners outside the region. Leifer (2000: 26) argued that Singapore was born with an innate vulnerability arising from its geopolitical circumstances wedged between big Islamic countries like Malaysia and Indonesia. A useful way to counter this vulnerability derives from the concept of the balance of power that is 'directed to finding and employing ways of compensating for and reshaping to advantage a regional distribution of power,' which includes 'liberal internationalism in economic policy.' For instance, in November 2000, then Indonesian President Wahid, unhappy with Singapore's rejection of his proposal to include East Timor and Papua New Guinea in ASEAN, urged Malaysia to form an alliance with the idea of cutting off Singapore's water supply. This was one of the many unfavourable remarks against Singapore, and allowed Singaporeans to see that their security could be easily jeopardised by their neighbouring nations. Antagonism towards Singapore in Malaysia and Indonesia has been its primary political fear. Political unpredictability in both countries has an adversarial impact on Singapore's foreign policy approaches. Therefore, 'the multiple involvements of important extra-regional states have been encouraged as a practical way of coping with vulnerability' (Leifer 2000: 26). Raymond Lim, Minister of State for Trade and Industry and Foreign Affairs, supports this view by maintaining that 'our FTAs allow important nations like Japan and the United States to anchor their presence in the region and ensure that they remain stakeholders here' (cited in *Straits Times*, 3 March 2003). This statement indicates that a FTA's function is to act as an incentive for powerful FTA partners and to continue their commitment and goodwill to Singapore and Southeast Asia, which is conducive to regional stability and prosperity.

Singapore leaders also tend to emphasise the constant need to stay ahead of neighbours and competitors. Former Deputy Prime Minister Lee pointed out that should Singapore be overtaken and made irrelevant, its 'influence and international standing will go down' (Leifer 2000: 21). FTAs are expected to help Singapore overcome its innate inability to call effectively for diplomatic and economic changes in Southeast Asia. This way of thinking has driven Singapore to be actively engaged in the promotion of regional and multilateral forums, in which Singapore's initiatives would be taken more seriously, especially in Southeast Asia (assuming it succeeded in gaining support from like-minded member countries). Singapore has recently discovered that Thailand is such a regional partner. After



Thaksin Shinawatra came into power in January 2001, Thailand changed its foreign economic policy and began to pursue FTAs vigorously. Bilateral ties between Singapore and Thailand were described as maturing into a 'special strategic partnership' (cited in *Straits Times* 19 January 2005). The Singapore–Thailand partnership, founded on their enthusiasm in the pursuit of FTAs, is now instrumental in creating a regional atmosphere that pursues more active engagement in trade and investment liberalisation. It is also responsible for encouraging ASEAN to be integrated for the creation of an ASEAN Economic Community, built on a regional free trade area to be completed by 2015. Thailand has emerged as a regional country that can effectively lend weight to Singapore's voice in the region by backing Singapore's policy initiatives.

Why Japan?

Singapore expected the JSEPA to bring more direct benefits to bilateral economic relations with Japan. Japan is the second largest economy in the world, and there is an imposing presence of Japanese companies in Singapore. Major Japanese manufacturers such as Sony, Panasonic, Hitachi or Nippon Electric Corporation (NEC) have set up their operational headquarters in Singapore, forging strong and long economic and business networks. A FTA with Japan was thus perceived as strengthening these business ties and economic relations through the formalisation of those *de facto* extensive, deep business, and economic links. For instance, the JSEPA grants Japan-based companies national treatment in Singapore, and allows those companies to freely transfer funds related to investment in and out of Singapore. Since the 1980s, Japan has consistently been one of Singapore's top three trading partners. In 1999, when the idea of a JSEPA was still muted, Japan was Singapore's third largest trading partner, contributing to 12 per cent of Singapore's total merchandise trade. On average, it constituted about 20 per cent of Singapore's total imports (MOFA 2000b). In fact, Japan is the second largest investor in Singapore's manufacturing sector, but Singapore's investments in Japan have been relatively low. So the JSEPA was expected to play a catalyst role in increasing Singapore's economic and business presence in the Japanese market.

Singapore's prosperity has been closely associated to the economic growth of Southeast Asia, as well as investment and trade with the major economies outside the region. Thus, the prosperity of the region also has a strong impact on Singapore's economy. This was evident in the 1997 Asian financial crisis, which seriously hampered ASEAN's economic growth. Given the fact that Japan had also been an important source of investment, capital, and technology, and a major export market for ASEAN economies, Singapore wanted to anchor Japan's engagement in Southeast Asian economies. In other



words, Singapore's FTA initiatives with Japan, as well as other major economies like the United States, were expected to mobilise wider economic links and cooperation with economies in Southeast Asia, creating greater trade and investment flows for ASEAN members, helping regional economic growth, and creating more employment.

As Singapore's founding father Lee Kuan Yew noted, this point is considered especially significant, as the JSEPA was thought to be useful to counter the economic threat posed by China, who has attracted more FDI after entering the WTO in 2001 (cited in *Jiji Press News*, 5 September 2001). China's economic rise is boosting its influence in the region, having a substantial impact on regional economic flows and ties. Also, China's portion of Asia's FDI inflows is rising. For example, Japan's FDI in China during the first half of fiscal 2003 was 35.5 per cent on a year-on-year basis, but its FDI in ASEAN fell 14.6 per cent during the same period (Kwan 2004). This has a worrying effect on the rest of ASEAN economies. The JSEPA was expected to act as an important catalyst in promoting Japanese investment in Singapore, blazing the trail for other ASEAN members to attract more Japanese investment through FTAs.

Japan and multi-layered trade policy

As mentioned earlier, Japan as the staunchest multilateralist had criticised FTAs as discriminatory, so what factors drove Japan to develop its interest in promoting its FTAs and how was this new trade policy initiative employed by Japan? Characterised as discriminatory, inward-looking, or exclusive by a constellation of governments and academic publications and speeches, Japan saw FTAs as detrimental to the GATT/WTO-based free international trading system from which Japan had substantially benefited during its post-war growth. For instance, the 1994 Diplomatic Bluebook, annually published by Ministry of Foreign Affairs (MOFA), clearly criticised FTAs, representing a consensus over the Japanese trade policy:

The process of regional integration and cooperation could tend to lack transparency to extra-regional countries. Institutional regional integrations, such as customs unions and free trade zones, in particular, would inevitably create discriminatory treatments against countries outside the region ... Japan has been asserting that regional integration and cooperation must proceed in a manner consistent with the GATT, and without creating discriminatory effects against extra-regional countries, and thereby contribute to world prosperity.²



Its strong belief in the significance of GATT/WTO-based multilateralism contributed to Japan being one of the few developed nations that rejected joining any FTA until the late 1990s.

Accordingly, a substantial change in Japan's international trade policy was a necessary condition for Singapore — which had already been involved in other FTA arrangements, such as the ASEAN Free Trade Area (AFTA) — to be able to negotiate a FTA with Japan. In other words, for its commitment to the establishment of FTAs with any country, including Singapore, Japan needed to employ a so-called multi-layered trade policy. This meant the pursuit of bilateral and regional trading arrangements, including FTAs, in an attempt to complement multilateralism based on the GATT/WTO to reinvigorate efforts to achieve global trade liberalisation, culminating in overturning its negative appraisals of FTAs.

An initial opportunity that spurred Japan into deciding to pursue a multi-layered trade policy was provided by the emergence of potential FTA partners, such as Mexico and South Korea. These nations expressed an interest in signing a FTA with Japan in 1998. Mexico, the first nation to approach Japan, provided the thrust for the Ministry of International Trade and Industry (MITI) to consider the possibility of forming a FTA in mid-1998. Noboru Hatakeyama (1996), former Vice Minister of International Affairs at MITI and Chairman of JETRO, began to promote FTAs as an option for Japan's international trade policy to achieve its goal of trade liberalisation. In his memoirs, Hatakeyama insisted that Japan should consider a trade policy that involved bilateral and regional arrangements despite these arrangements being discriminatory and even though this was an approach that Japan itself had long criticised. While stressing that FTAs were 'legal' as stipulated in GATT Article 24, he suggested that Japan could not try to be a 'saint', implying that Japan should also be allowed, like other countries, to have FTAs, should face the reality of growing bilateral and regional FTA networks in the world, and should remove this 'taboo' surrounding Japanese trade policy over many years by pursuing a multilayered trade policy. The need to make more options for promoting trade liberalisation accordingly came to be gradually shared by many officials in MITI after Mexico approached Japan for a FTA in mid-1998 and the multi-layered trade policy was seen as an imminent policy option in a situation under which global approaches to trade liberalisation were bogged down. Japan's interest in pursuing FTAs was further encouraged when it decided to negotiate a FTA with South Korea, as a mark of a new Japan–South Korea relationship, at the initiative of the newly-elected South Korean president Kim Dae-Jung, who visited Japan in October 1998. Japan and South Korea then agreed to set up a study group to examine the feasibility of a bilateral FTA.



Origins of the JSEPA

Singapore's approach to Japan for a FTA followed those policy developments in Japan. In June of 1999, seeing a shift towards multi-layered trade policy in Japan, Chew Tai Soo, Singapore's Ambassador to Japan, brought up the idea of a FTA between Singapore and Japan with MITI and with Hatakeyama. Hatakeyama visited Singapore in October 1999, during which Lee Hsien Loong, Deputy Prime Minister and George Yeo, Trade Minister, once again expressed Singapore's interest in a FTA with Japan, sounding out the possibility of agreement on a FTA during Prime Minister Goh's visit to Japan in two months time (personal interview with Hatakeyama). This courtship of Japan, however, initially invited only 'negative and, at best, skeptical' responses from Japan (Munakata 2001: 19), as there was still lingering opposition to changing trade policy direction by concluding FTAs.

However, Singapore's explanation of how it fought for a FTA during intensive talks in the first half of November 1999 were judged to be persuasive and influential in changing Japan's opposition to a FTA. Singapore hoped to:

- 1) help the accumulation of FTAs among APEC economies, which would lead to the development of an APEC-wide free trade area; the realisation of the Bogor goals of APEC liberalisation;
- 2) make FTAs contribute to global trade liberalisation, so they would not be detrimental to the multilateral trading system;
- 3) make FTAs encourage Japanese presence in the region as a way to balance U.S., Chinese, and Japanese influence;
- 4) act more independently of other ASEAN members in order to advance its economic interest, given that the unity of ASEAN declined after the Asian financial crisis;
- 5) stimulate other members to actively pursue liberalisation and economic reform so as to increase the attractiveness of the region as a whole to outside investors. (Munakata 2001: 21).

According to Munakata (2001: 23), a senior MITI official involved in the talks with Singapore, what especially struck the Japanese officials was that Japan should also secure policy options to 'complement the WTO'; this approach helped Japan conclude that 'negative reactions from other countries, if any, would be manageable'. Although a common view in Japan was that agricultural liberalisation was the largest obstacle in Japan's attempt at concluding FTAs as discussed later, Singapore's small quantity of agricultural exports was expected to make it much easier for Japan to negotiate with Singapore first, with the expectation that it would serve as a test case for the subsequent negotiations with agricultural exporters such as Mexico.



Finally, in December 1999, Prime Minister Goh Chok Tong met with Prime Minister Obuchi in Tokyo, and both leaders agreed to embark on a joint study on the possibility of a FTA between their countries. Receiving a positive result from the study group, in November 2000 Goh and his counterpart Yoshiro Mori launched official negotiations for the JSEPA, followed by the first negotiation in March 2001, which was completed in November of the same year. This story illustrates Singapore's role as a catalyst in the development of Japan's multi-layered trade policy.

Preparations

As Hisamitsu Arai, then Vice Minister of Ministry of Economy, Trade and Industry, (METI, formerly MITI) admitted, the speed of progress towards the completion of the FTA with Singapore was 'very fast' (cited in *Straits Times*, 26 October 2000). One of the reasons behind the relatively smooth completion of the agreement was Singapore's intention not to include the sensitive Japanese agricultural liberalisation issue. Hatakeyama commented that 'our preference is to have free trade agreements with countries that do not have strong agricultural sectors' (cited in *Straits Times*, 21 September 2000). In fact, Singapore displayed little interest in incorporating agricultural liberalisation into its FTA with Japan, despite Japan's 30.7 per cent tariff imposed on milk products, Singapore's largest exported item to Japan (*Nihon Keizai Shimbun* 15 October 2000). This offer from Singapore was most welcome, as Japan's stance was to minimise any adverse effect that may have accrued on the farming sector by removing tariffs on agricultural items as demanded by any FTA.

Despite the fact that Singapore was not interested in agricultural liberalisation in Japan, Singapore's representatives visited the Ministry of Agriculture, Forestry and Fishery (MAFF) in mid-1999 to clearly convey Singapore's intentions on the treatment of Japan's agricultural products in the proposed FTA. The tactics Singapore employed were conducive to creating the view in Japan that Singapore was actually one of the few nations that did not provoke resistance from the farming sector at home. It is no exaggeration to say that it was this factor that made Japan decide to commence the official negotiations with Singapore as their first FTA partner. At that time there was a prevailing view among the relevant officials that Japan would not have been able to sign any FTA in the future unless it successfully concluded the FTA negotiations with Singapore (personal interview with Naoko Munakata, 15 December 2004), reflecting a consensus that agricultural would be the largest hurdle to Japan's FTA negotiations in the future.

The fact that Singapore was not really interested in agricultural liberalisation in Japan also helped the negotiations to be more smoothly concluded, as it was tactically useful in concealing a real problem in the negotiation. Singapore's targets for liberalisation in Japan's market were petroleum and textile



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products, which appeared difficult to be realised. Katsuhiko Umehara, one of the main negotiators from MITI, commented that there was no trouble on agricultural issues between Japan and Singapore in the FTA negotiations (personal interview 11 April 2002, Tokyo). Yet the media focused on the difficulty faced by foreign products in penetrating the Japanese agricultural market, such as the symbolic case of Singapore's goldfish, which was reported in such a way as to cause a delay in the negotiations. This misleading media coverage tended to distort the public attention away from the real negotiation agenda, which turned out to be instrumental as a negotiation tactic that Japan employed in order to smooth over the negotiations with as little fuss as possible from the public, as a senior official of MAFF confessed (personal interview, 15 April 2002, Tokyo).

Another factor that helped the JSEPA negotiations to be smoothly concluded was the efforts by the study group, the establishment of which was agreed to by Goh and Obuchi in December 1999, to 'examine the feasibility and desirability of establishing a free trade agreement between the two countries' (MOFA 2000a). Singapore's deputy chief negotiator, Pan Kin Keong, said that 'talks with Japan have progressed faster than those with New Zealand primarily because of the preparatory work that had been done for the joint study' (cited in *Straits Times* 2 February 2001). Given that there was as yet no firm consensus about such a trade policy approach, Japan preferred to advance carefully by organising the joint study group (comprised of director-level government officials, academics and business leaders) before beginning with the official negotiations, following the case of South Korea. In Japan, three directors from the Ministries of Foreign Affairs, International Trade and Industry, and Finance served as co-chairmen. MAFF's participation — by dispatching a director to the study group as an official member — was unusual because of its traditional policy stance that trade liberalisation talks should be implemented only within the GATT/WTO framework. This change reflected MAFF's preparedness to become more substantially involved in future FTA negotiations, which would inevitably involve agricultural liberalisation. A MAFF senior official (personal interview above) stated that 'we potentially came to believe it would be better to directly talk to our trading partners about the difficulty and complexity of agricultural liberalisation in Japan, rather than sitting at home and accepting criticisms.'

The study group members had five meetings, and produced a report in September 2000. Its recommendations were threefold: 1) enter into formal negotiations with a view to concluding an economic partnership agreement between the two countries, 2) the negotiations begin at an earliest possible timing and conclude within a reasonably short period of time so as not to lose momentum, and 3) given that the scope of negotiations would go beyond the focus of a traditional free trade agreement, the resulting government-to-government agreement should henceforth be referred to as the Japan–



Singapore Economic Agreement for a New Age Partnership’, or the JSEPA (MOFA 2000a). Significantly, the fact that the senior government officials joined the representatives from the private sectors in the study group before the commencement of the official negotiations indicated Japan’s determination to sign a FTA with Singapore. Its commitment to the JSEPA was demonstrated by the fact that Japan dispatched as many as 43 officials for the first round of the negotiations held in Singapore in March 2001.

Why Singapore?

It is little wonder that Japan and Singapore would react differently under the same or similar circumstances due to fundamental differences in normative beliefs about foreign policies, given that Japan and Singapore differ greatly in terms of ethnic composition, population, history, and territorial size. Yet rationales behind Japan’s initial interest in FTAs were rather similar to those of Singapore. These similar views and perceptions on regional and global economic environments predisposed them towards certain common policies such as FTAs. Japan, as a trade-dependent nation, was aware, like Singapore, that it most greatly benefited from the global trade liberalisation movement developed in the GATT/WTO framework. In this context, as Drysdale (1988: 231) highlights, ‘without ... the GATT framework, Japan would hardly have been able to achieve the economic growth and trade expansion that it achieved in the first two decades or so immediately after the War’. Japan has also become an active participant in major regional economic institutions. For instance, Japan, together with Australia, took an initiative in the establishment of PECC and APEC in 1980 and 1989 to promote open regionalism, which incorporated the MFN treatment stipulated in GATT Article 1 to avoid trade discrimination against the third states by granting equal treatment to all (Terada 2001). Yet, when trade liberalisation talks were bogged down, Japan, like Singapore, found it necessary to find an alternative approach. As Goh explained, ‘a new WTO round is not so significant as we consider, we would be put on a disadvantageous situation without FTA’ (*Asahi Shimbun* 23 October 2000). MITI Vice-Minister Hisamitsu Arai also admitted that ‘if Japan were to rely only on the WTO, we will not be able to liberalise for the next few years until the next global round of trade talks. Japan will be left behind in terms of competitiveness’ (cited in *Straits Times* 26 October 2000).

The fact that Japan and Singapore are two of the few developed economies in Asia, enjoying similar levels of economic development, was another factor that made it possible for Japan to see Singapore as a desirable FTA partner. Japan ranked fifth in terms of GNP per capita in the world, while Singapore ranked sixth, when the FTA movement commenced in 2000. Both countries had relatively



similar industrial structures, dominated by service sectors, and this resulted in the JSEPA including new elements, as Prime Minister Goh said in his opening speech at the signing ceremony:

What we have signed is not a conventional free trade agreement focusing only on the liberalisation of trade in goods and services, and investment. This New Age partnership also encompasses cooperation in key growth areas such as info-comm technology, science and technology, financial services, tourism and human resource development. Such a broad-based and comprehensive agreement will allow our two countries to reap maximum benefits, more than that from a traditional FTA. I believe that it will herald a new era of economic ties between our two countries. (Goh, 2002a)

In short, the JSEPA aimed primarily at establishing an attractive and flexible business environment, transcending international borders, between the two nations. It did this by promoting a wide range of economic activities encompassing the transfer of human resources, capital, information, and trade in goods and services (see appendix 1). The JSEPA can thus be distinguished from a traditional FTA that is designed simply to liberalise mutual trade among the signatories through eliminating tariffs.

Yet the creation of the new title of Economic Partnership Agreement (EPA) did not always involve positive elements, as the negotiation process took into consideration Japan's intention to exclude some politically sensitive products such as agriculture. Japan, especially the Prime Minister's Office, reportedly wanted to stick to the name EPA, rather than FTA, which it believed might give the impression to the agricultural sector that all products would be liberalised in the agreement without exception if it strictly followed the GATT rule, culminating in generating a strong resistance to FTA negotiations. 'Economic integration agreement' was once considered as an alternative title, but the connotation of integration was believed to be too strong, and EPA was eventually chosen (*Asahi Shimbun* 12 October 2000). The process of choosing the title of the agreement clearly demonstrated the largest drawback for Japan in promoting its FTA policy. This will be discussed below.

Features of trade policy-making in Singapore and Japan

One of the distinctive elements in Japan and Singapore's FTA policy lies in their policy-making systems, a feature which has caused the different speed in pursuit of FTAs between Japan and Singapore. Sally (2004: 23–4) claims that Singapore's trade policy was 'effectively depoliticised', and implemented in 'technocratic fashion', indicating that 'trade bureaucracy, largely insulated from interest group pressure, can speedily implement policy objectives'. Japan's trade policy, on the contrary, is substan-



tially politicised. This often provokes intervention by politicians, reflecting their voters' preferences. A case in point is Japan's reluctance to open its agricultural sector. Despite the fact that the sector contributes only 1.5 per cent to its GDP, the agricultural sector has been considered a sacred cow in Japan, partly because farmers have long supported the ruling Liberal Democratic Party (LDP). The Central Union of Agricultural Cooperatives, or *Zenchu*, has been one of the most powerful pressure groups in Japanese politics. For instance, a protest was organised by *Zenchu* to put pressure on the government with the idea of influencing Japan's final decision on the 2003 WTO ministerial meeting in Cancun, Mexico. The combined LDP and *Zenchu* delegation constituted the largest delegation among WTO member countries attending the Cancun meeting, where they sought a wider acceptance of Japan's position of opposing proposed tariff caps on high-tariff agricultural products, including rice. *Zenchu* also organised a march at Hibiya Park in Tokyo, composed of 10,000 farmers and citizens, who held placards saying that the substantial tariff cuts being proposed in the WTO would lead to the collapse of Japanese agriculture (*Kyodo News*, 2 January 2004). MAFF bureaucrats, LDP politicians, and *Zenchu* have been engaged in the construction of the so-called 'iron triangle', bringing together formidable power to pressure the government not to reduce tariffs on agricultural products in Japan resulting in the maintenance of substantially high tariffs on some of them (see Table 1).

Yet more economists and opinion leaders in Japan have increasingly argued that Japan should urgently establish more FTAs, especially with ASEAN, following China's commitment in 2002 to sign a FTA agreement with ASEAN. Japanese leaders, especially Prime Minister Koizumi, think that FTAs can be utilised as a useful vehicle to promote structural reform, a catchword of the Koizumi administration. In other words, FTAs are believed to present an opportunity for Japan to promote reforms in areas where it is lagging, through the comparison and harmonisation of Japan's system with those of other nations. Despite fierce opposition from agricultural lobbying groups and LDP Diet members who support farmers' interests, the impetus for FTAs produces a greater public awareness of the need for agricultural reform. For instance, the Council for Economic and Fiscal Policy (CEFP) (newly established in 2001 to promote the Prime Minister's initiatives in economic policy-making) acknowledges the urgency of promoting FTAs, despite any special economic interests, from the viewpoint of benefiting the Japanese public as a whole. This position was a major factor that delicately influenced a change in Koizumi's stance on FTAs. He indicated Japan's willingness to negotiate FTAs in his speech in Hainan Island, China in 2002, three months after his Singapore speech in which he avoided referring to FTAs.³ In summary, the Koizumi administration has taken the view that the liberalisation and bilateral cooperation entailed in FTAs increase pressure in Japan to hasten structural reforms, including agricultural liberalisation. The speeding up of structural reforms and the entry into



Table 1 Agricultural products on which Japan imposes high tariffs

Item	Tariff rate (%)
Konnyaku potato	1705
String bean	1083
Rice	778
Peanut	593
Butter	482
Sugar	325
Barley	256
Wheat	252
Flour	249
Silk	245
Starch	234
Beef	50

Source: *Nihon Keizai Shimbun*, 7 November 2005.

effect of multiple FTAs are then seen as instrumental in the revitalisation of the stagnant Japanese economy. One of the influential FTA supporters in Japan, which promotes this view, is the Japan Federation of Economic Organisations or Nippon Keidanren. Nippon Keidanren often publishes reports and suggestions on government economic policy, including FTAs. For instance, it released *Expectations for the Japan–Singapore Free Trade Agreement* on 2 October 2000 to encourage the agreement to be reached sooner. This followed its major FTA proposal *Urgent Call for Active Promotion of Free Trade Agreements*, launched on 18 July 2000. Such moves indicate this powerful lobby group’s keen role of injecting business perspectives into Japan’s foreign economic policy. Hiroshi Okuda, its Chairman, visited the Philippines, Malaysia, Thailand and Indonesia in November 2004 to promote FTAs between Japan and these ASEAN members. Symbolically, Okuda carried his message directly to the four leaders by setting up the meetings with them, a privilege that proves the power of this business organisation.

The presence of lobbying groups’ activities in Singapore’s trade policy-making is not apparent. Singapore is not an agriculture-free nation; horticulture is fairly well developed and Singapore is the third-largest exporter of cut orchids (after Thailand and Malaysia) where the main market is Japan. These orchids account for some US\$18 million (60 per cent) of Singapore’s exports in 2002 (*Straits Times*, 20 September 2003). Yet, the political influence of the agricultural sector is substantially limited,



unlike in Japan. Moreover, Singapore's trade policy-making is viewed as lacking a systematic process of business input. Sally (2004: 27) regards it as the 'Achilles heel' of Singapore's trade policy-making, due mainly to 'the passivity of the business sector'. This may make it difficult for Singapore to 'digest the real business preferences and information', and to enjoy 'business feedbacks at home'. This illustrates the asymmetrical situation with regard to the influence of business society on government policy in Japan and Singapore. One of the reasons behind the slight business interest in exercising an influence on the government's economic policy in Singapore lies in the excessive economic reach of the government in the market. In Singapore numerous government-linked companies (GLCs) exist in which former and current ministers and members of the People's Action Party (PAP) are involved, representing their great market power to the detriment of smaller private companies in Singapore. It is the United States, not Japan, that has the market principle 'embedded in reforms as a way to increase access for American companies to the domestic market for banking, insurance and other professional services' through protracted negotiations (Rodan 2005). This may indicate that the more Singapore concludes FTAs with developed and market-oriented economies, the stronger the pressure Singapore will receive to liberalise and deregulate its service industry

Economic effects of the JSEPA

George Yeo, Singapore's Minister of Trade and Industry, maintains that political leaders are not driven by 'abstract benefits spread over millions of people' (cited in *Straits Times* 16 November 2000). It was widely believed in Japan and Singapore that the JSEPA should bring some visible results, especially for the purposes of upholding both countries' attempt to promote FTAs with other countries. Identification of possible tangible benefits to both signatories from the JSEPA was important, especially for Japan, as Singapore was an almost tariff-free nation. It thus cast some doubt on the effect of the JSEPA in terms of tariff elimination and trade expansion. Japan, therefore, needed to emphasise the benefits by referring to trade figures, no matter how small the effect might have been. While the negotiations were progressing, FTA advocates in Japan, like Hatakeyama, tended to emphasise the significance of tariff elimination in Singapore's beer market, one of the four products on which Singapore had imposed tariffs (personal interview above). In fact, beer exports from Japan increased by 1.45 per cent to 69.7 million yen (11 December 2003). When the JSEPA was signed in 2002, tariffs on goods covering 98.5 per cent of total trade between the two nations were abolished, as compared to 65 per cent previously. Singapore agreed to remove tariffs on all imports from Japan, while Japan increased its zero tariff commitments to Singapore by more than twice the amount previously imposed, from 3,087 to 6,938 products (from 34 per cent to 77 per cent) (Ministry of Trade and Industry Singapore, 2004: 5). This



gave Singapore's exports to Japan a cost advantage over the same products from other countries, which included pharmaceuticals, electronics, transport equipment, chemicals and petroleum, fabricated metal, plastic, and instrumentation equipment. It is estimated that the yearly savings for Singapore in five years' time was assessed to increase from S\$60 million to S\$300 million (Pang 2002).

According to the joint review of the JSEPA, involving the Ministers of Foreign Affairs and Trade and Industry from the two countries, held in Tokyo in December 2003, 69 companies in Singapore were able to export their products, especially plastics, without tariffs to Japan under the JSEPA, saving S\$4.8 million. Japan's exports of beer and other alcoholic products rose by 7 per cent, despite weak economic growth in both countries. (*Straits Times* 12 December 2003). SL Packaging, a manufacturer of plastic products in Singapore, exported about S\$8 million worth of products, such as garbage bags, to Japan in 2003. The company claimed tariff savings of 3.9 per cent from the JSEPA were 'significant', while plastic resin maker Teijin Polycarbonate would save S\$500,000 (*Straits Times* 1 November 2003). In Japan, the Kirin Brewery considered the price of its *Ichiban Shibori* beer for sale in Singapore, priced at about 250 yen a can, would be reduced due to the JSEPA, which abolished Singapore's tariff on imported beer (80 Singaporean cents per litre). Kirin's costs were cut by approximately 20 yen for each 350-millilitre can. Because of this, the Asahi Breweries shifted the exporting base of its beers to Singapore, from China to Japan (*Daily Yomiuri*, 1 December 2002).

In addition to these tariff elimination effects, the mutual recognition of standards is also expected to bring some tangible benefits to both countries. This clause commits Singapore and Japan to recognising the testing and certification of products, such as electrical/electronics, telecom and pharmaceutical products. Singapore products can be tested only once at home before entering the Japanese market directly, cutting the processing time to the market. It was reported that Singapore exporters could save about S\$10,000 per piece of electrical/electronic equipment and about S\$12,000 per piece of telecom equipment, while Singapore dealers who imported Japanese goods into Singapore would enjoy about 95 per cent in cost-savings and 80 per cent in time savings in registering these goods (*Straits Times* 14 January 2002).

Yet, in terms of the quantity of the trade, the JSEPA does not necessarily have an impact on Singapore exporters. This is especially true when comparing the US-Singapore FTA, under which Singapore exporters would be able to save US\$110 million dollars per year in tariffs they would no longer need to pay. This would boost Singapore's economic output by at least 0.7 per cent a year, while providing Singapore companies with access to a wider North American market, thanks to the North American Free Trade Agreement (NAFTA) (*Straits Times* 25 August 2002). Drysdale (2004) regarded the JSEPA as 'trivial' in terms of its impact on the Japanese economy and considered it as 'an extremely



limited instrument' for achieving domestic economic reform. Thus, it will take time for the effectiveness of the JSEPA to be acknowledged, probably not until the public finds visible merit in new-age economic cooperation issues like bilateral harmonisation of standards in e-commerce transactions.

Regional implications

Prime Minister Goh expressed his hope that the JSEPA would 'have a positive demonstration effect on other countries and would hopefully give impetus towards the creation of more FTAs' (cited in *Straits Times* 23 October 2000). Yoshiji Nogami, then Vice Minister of the Ministry of Foreign Affairs in Japan, also commented that 'an agreement with Singapore alone would not carry enough weight. We need something that will give us a bigger bang' (cited in *Straits Times* 25 October 2000). So, it was a shared view by Japan and Singapore that the JSEPA was not the end, but a sort of means for stimulating the trade liberalisation movement in East Asia, which had fallen inert after the 1997 Asian financial crisis. In fact, China's interest in concluding a FTA with ASEAN was spurred by Japan's interest in an FTA with South Korea and the announcement of the JSEPA negotiations (Terada 2003). The policy shift by Japan led China to feel isolated in the FTA movement in East Asia. China ultimately joined it by proposing an FTA with ASEAN in October 2000, which was officially agreed on in November 2001. Koizumi's Singapore speech and the agreement for the establishment of a Japan-ASEAN Comprehensive Economic Partnership agreement were a response to the China-ASEAN FTA proposal. The JSEPA also prompted Malaysia and Indonesia — believed to be the least enthusiastic nations about bilateral FTAs in the region — to develop their interest in FTAs by studying all the pros and cons of the JSEPA, according to Umehara, Director of METI, (cited in Terada 2003). Hatakeyama (2003) also supported this view by arguing, 'had it not been for the start of the JSEPA, there would not have been such strong movements in this area towards FTAs, including those between ASEAN and China'. China's and Japan's FTA approaches to ASEAN also contributed to South Korea developing an interest in pursuing the same path, as its Trade Minister Hwang Doo-yun (*Business Times* 15 September 2002) revealed in Brunei, September 2002, leading to the final agreement on the establishment of FTA between South Korea and ASEAN in 2004. These 'domino effects' of FTAs in East Asia were impelled mainly because of FTA's exclusive nature and major benefits accrued, such as tariff eliminations at the expense of the third parties. Companies of non-FTA partners would be greatly disadvantaged in competing with other firms from FTA partners, whose products enjoyed tariff-free privileges, leading to the creation of a trade diversion effect.



Pacific Economic Papers

The expanding FTA networks in East Asia urged both nations to push another field of shared interest: the creation of an East Asian community. It was Japanese Prime Minister Koizumi (2002) who started urging regional countries to ‘act together and advance together’, envisaging the creation of an East Asian community in his January 2002 speech in Singapore. The Tokyo Declaration launched by Japanese and ASEAN leaders in December 2003, described the new framework as ‘an important channel to promote cooperation and regional economic integration networks in East Asia to attain the goals of sustainable development and common prosperity’ and this approach has been seen as instrumental in the ultimate establishment of an East Asian Community (Tokyo Declaration, 2003). Prime Minister Goh (2002b) responded to Koizumi’s proposal of this regional vision by swiftly acknowledging that ‘a nascent sense of an East Asian community’ was growing, and stated that ASEAN and three Northeast Asian countries should be committed to crystallising a common vision on the nature and direction of East Asian cooperation and regionalism. These shared visions on an East Asian community stem in part from their shared concerns, as George Yeo noted, that the proposed FTA between the Americas and an enlarged EU might ‘deal us out of [the] table ... Ultimately, trade matters are politically driven, very often by domestic politics and by fears and insecurities about the challenges a country faces’ (cited in *Straits Times* 16 November 2000). In the longer term, Singapore envisages closer links between Southeast and Northeast Asia, culminating in the formation of an East Asian community within which it hopes a regional FTA will be created, as elaborated by Goh (2000) in an interview with *Nikkei Business*:

... unless ASEAN, ourselves, get our act together, you may have a very wide income gap between Northeast Asia and Southeast Asia ... Then ASEAN will become a marginal group within Asia. That is unstable for Asia. We will therefore in ASEAN try and work to integrate all our economies ... We then hope to move into an East Asian Community ... Long-term, we will have some kind of East Asian Free Trade Area. If not, at least closer economic cooperation between the 3 countries [China, Japan and South Korea] and ASEAN. ASEAN will benefit from the growth in Northeast Asia.

This sort of belief sustained Goh’s bold proposal, articulated in 2003, of a Japan–China FTA with the aim of promoting the creation of an East Asian FTA (*Nihon Keizai Shimbun*, 8 October 2003). This indicated Singapore’s commitment to drive to establish FTAs in any level in which it was involved.

A fundamental question in this context is how an East Asian FTA can be created under the current circumstances, where there have been negotiations for a number of bilateral and plurilateral FTAs in



East Asia. A report published by the ASEAN–Japan Research Institute Meeting in 2003 advocated that a Japan–ASEAN FTA be used as a building block for creating a broader East Asian FTA. Since it appears difficult for all thirteen member countries to discuss an East Asian FTA at one time — partly because their priorities for FTAs are too diverse as a result of their different industrial structures — it may be more feasible for ASEAN to establish FTAs with its three Northeast Asian partners while waiting for China, Japan and South Korea to establish a triangle of bilateral FTAs. If the Northeast Asian FTA were to be established, as China initially proposed in the 2002 ASEAN + 3 meetings in Cambodia, it could be a better FTA partner for ASEAN and the FTA negotiations would probably be less complicated and less time consuming.

Japan is currently undertaking a ‘two-track’ approach to an FTA with ASEAN: bilateral FTAs (or economic partnership agreements) with the ‘developed’ ASEAN members such as Singapore, Malaysia, Thailand, the Philippines and Indonesia, and a wider FTA with ASEAN as a unit. However, ASEAN leaders are determined to stay economically united, and have expressed suspicions over Japan’s intent, with some claiming Japan’s ‘bilateral’ policy approaches could cause economic disintegration within ASEAN. Since the ASEAN Free Trade Area (AFTA) is not a customs union, individual members pursue their own independent trade policy toward non-members and do not impose a common external tariff. It is thus probable that a Japan–ASEAN FTA may be eventually established through the consolidation of the existing bilateral FTAs between Japan and ASEAN (Terada 2003b). Yet, the development of bilateral FTAs between Japan and ASEAN members make rules of origin requirements more complicated, given the fact that many Japanese firms such as Matsushita and Fujitsu are employing an ASEAN-wide operation system by setting up production bases in two or more ASEAN countries. With this business trend in Southeast Asia, an FTA between Japan and an integrated ASEAN would be preferable to Japanese and ASEAN companies, and this scenario would require better infrastructure in ASEAN such as a more liberalised distribution and transportation system and deregulated custom procedures. This process should involve Japan’s commitment toward assisting ASEAN integration with a focus on capacity building including development cooperation and technical assistance on behalf of less-developed members. Despite its integration efforts through the AFTA scheme, ASEAN is still a group of fragmented, relatively small economies unable to enjoy benefits from economies of scale in production. To play a central role in the creation of an East Asian community, ASEAN needs to work harder to become a unified actor and to achieve further integration of the ASEAN economic community, a prerequisite for its commitment to the negotiations with the three large Northeast Asian partners for an East Asian FTA. In the end, it seems essential for Japan to provide an overall policy strategy regarding its FTA policy with a view to coordinating bilateral and regional FTAs.



In short, Singapore has contributed to the ubiquitous FTA partnerships in the region and beyond, proving the validity of its strategy by targeting larger and more influential partners such as the United States and Japan as its FTA partners, exercising a greater influence in political preferences on liberalisations in Southeast Asia. Prime Minister Lee Hsien Loong noted Singapore's contribution: 'to say it is because of us may be too strong, but we set an example and we set people thinking. And I think that's also the reason why ASEAN itself is discussing FTAs. There is a demonstration effect' (cited in *Straits Times*, 1 December 2004).

Impacts on Japan's trade policy

One of the significant consequences flowing from the establishment of the JSEPA in terms of Japan's trade policy was that the FTA contributed to creating an initial basis for the establishment of Japan's multi-layered trade policy. This produced normative transformations in the relative importance of two areas of Japanese international trade policy. The first concerns multilateralism versus bilateralism: the absolute significance of non-discriminatory multilateralism was declining while its antithetic approach of bilateralism was gaining more importance. The second concerns the place of non-discriminatory APEC versus discriminatory regional arrangements in East Asia. APEC, in which Japan committed itself to open regionalism over years in line with the non-discriminatory GATT Article 1, had become ineffectual in terms of trade liberalisation, as Japan committed itself to promoting discriminatory regionalism in lines with GATT Article 24 such as the Japan-ASEAN or East Asian FTA. In this context, Japan's decision not to dispatch both its foreign affairs and trade ministers to the 2002 Mexico APEC meetings is one indication of the doubts that have surrounded APEC's course in recent times. Meanwhile, Prime Minister Koizumi suggested making 'the best use of ASEAN+3 'to secure prosperity and stability' in East Asia. ASEAN+3 became the institutional basis for the development of Japan-ASEAN and East Asian FTAs (Terada 2003). It should be stressed, however, that Japan still places the highest priority on the maintenance and development of the WTO-based multilateralism, and a changing element in this context is that its longstanding strict observance of GATT Article 1, a basis for its conventional claim on the non-discriminatory trade policy priority, has been replaced by its determination to strictly abide by the Article 24 instead. The strict observance of the Article 24 in its involvement in FTAs has become a new normative basis for Japan's assertion of WTO-based multilateralism and its pursuit of bilateral FTAs with some East Asian countries.

The JSEPA was viewed as providing Japan with an 'important intellectual springboard and model for the kind of FTAs and EPAs that Japan should aim for' as Watanabe (2004), a senior FTA negotiator from MOFA, maintained. Yet critics have labelled the JSEPA as incomplete due to the almost non-



existent agricultural component. One strong criticism stemmed from Singapore's very first FTA partner, New Zealand, as its Trade Negotiations Minister, Jim Sutton, remarked 'it is in our view that all sectors, including the most sensitive areas such as agriculture, be included in a free-trade agreement. Leaving politically sensitive sectors out of trade agreements makes it more difficult to deal with them in the future', despite the fact that Singapore High Commissioner to New Zealand, Tan Keng Jin, tried to rebut the criticism by responding that 'the JESPA is comprehensive, WTO-consistent and WTO-plus' (*National Business Review*, 7 March 2002). There was only a 14 per cent increase in the number of Japan's zero-tariff commitments with regards to agricultural products, and, moreover, the result of its commitment to the agreement had been already reached within the WTO framework. This meant that there was no agricultural product in the JSEPA from which Japan agreed to remove tariffs. In fact, ASEAN was also disappointed that the JSEPA allowed Japan to keep tariffs on more than 2,000 farm products, and through a series of meetings of the ASEAN-Japan Comprehensive Economic Partnership (AJCEP) Expert Group, which consisted of senior officials in charge of trade and economic affairs in Japan and ASEAN, the ASEAN side consistently emphasised that an AJCEP must include agricultural trade liberalisation, representing one of major interests of ASEAN concerning the agreement (personal interview with METI official, Singapore 25 March 2002).

GATT Article 24 stipulates that a FTA should liberalise trade in substantially all products, which is generally interpreted to mean that a signatory country should remove tariffs on more than 90 percent of imports from its FTA partner. Exempting them in possible FTAs with ASEAN as a whole would violate the GATT/WTO rule, an option that would be unacceptable to Japan. This indicates the dilemma Japan would face in its effort to conclude FTAs with ASEAN or individual ASEAN members, most of which are agricultural exporters; Thai and Vietnamese agricultural products accounted for more than 20 per cent of their total exports to Japan.

Therefore, Prime Minister Koizumi did not push the FTA option in his Singapore speech of January 2002, leaving concrete methods of accomplishing AJCEP unelaborated. This stance led George Yeo (2002), Singapore's Trade Minister, to lament in his speech (which immediately followed Koizumi's) that 'agriculture is politically sensitive in Japan and, for that reason, Prime Minister Koizumi did not see a FTA with Southeast Asia in the foreseeable future'. It is no wonder that general comments made by the media in Japan and the region said that Japan had allowed itself to lag behind China in terms of a leadership role in East Asian integration and that Japan might be eventually isolated in the East Asian FTA movement. This scenario would be likely if Japan continued to be opposed to agricultural liberalisation, especially because the failure of the WTO Ministerial Meeting in Cancun in 2003 further exposed the essential weakness of the WTO and reduced its members' confidence in its ability to bring about further trade liberalisation at the global level. It is true that Japan was able to agree



to negotiate FTAs with the Philippines, Malaysia and Thailand respectively, but these FTAs were made possible partly because Japan was allowed exclude some of the key agricultural imports from the FTA liberalisation scheme. Thailand, the world's largest rice exporter, agreed to exclude rice from its FTA with Japan, while the Philippines conceded to resume negotiations for tariff elimination on sugar in four years. The Japan–Malaysia FTA also excludes pineapples and milk products from Malaysia. Japan remains tied down by the politics of agricultural protection, which caused it to appear indecisive and unable to make a full commitment to trading relations with ASEAN. A Vietnamese official commented that Japan's FTA proposal seemed to be a hastily-put-together affair that was 'all show' and 'little substance' and that its main purpose, not stated, was to counter the FTA proposal floated by China to ASEAN (cited in *Business World*, February 27, 2002). As long as Japan keeps excluding agricultural products from FTAs with East Asian countries, it fails to achieve important objectives it envisages in pursuit of FTAs: structural reforms at domestic markets and contribution to invigorating the regional economies. This approach may reflect adversely on Japan's leadership and signify the waning influence of Japan in East Asia.

Conclusion

The impact of the East Asian financial crisis on most East Asian economies, with the notable exception of China, was substantial, causing the momentum in globally-oriented trade liberalisation to falter. Japan and Singapore were commonly urged to the path of entertaining a range of preferential and bilateral trade deals, despite their longstanding uncompromising commitment to the GATT/WTO-based multilateral system, and the eventual launch of the Doha Round of the WTO in 1999. APEC has also been perceived as losing its functional momentum after the Asian financial crisis and as failing to move forward in the EVSL program. Japan's decision not to dispatch both its foreign affairs and trade ministers to the 2002 Mexico APEC meetings is one indication of the doubts that have surrounded APEC's course in recent times. These structural changes had a great impact on the growing FTA movement in East Asia, and the formation of JSEPA served as a stimulus in this movement, conducive to signing more FTAs between like-minded countries like Thailand.

Bilateral agreements are effective for strengthening mutual relations through increased interaction, as they can facilitate mutual trust and understanding between two countries much more considerably than through a regional and global approach. The JSEPA thus plays a catalytic role in triggering the civil-level connections between the two nations through educational and research collaborations or business interactions. Singapore's FTA proposal to Japan by highlighted FTA's



function as complementary, rather than adversary, to WTO was especially important for Japan's decision to pursue multi-layered trade policy, as Munakata stressed earlier. Urata (2002: 79), a member of the Study Group, also argued the perceptual change in FTA's impact on WTO from negative to positive was a key factor behind the normative change in Japan's trade policy. The JSEPA was made possible by Singapore's initial offer to exclude agricultural products from the tariff elimination duty in its proposed FTA, since even exempting them in the FTA would not violate the 90-per-cent rule based on Article 24 of GATT, thanks to Singapore's disinterest in agricultural exports to Japan and the small quantity of bilateral agricultural trades that account for only 1.5 per cent of the total volume. Yet the exclusion of agricultural products from the JSEPA has not fully prepared Japan for potential problems when establishing future FTAs with other ASEAN countries. Most of the other ASEAN countries differ from Singapore, in that Singapore is much more developed and has much fewer agricultural exports. As was seen in its FTAs with Thailand and the Philippines, exclusion of some specific agricultural product like rice and sugar would be incompatible with Japan's insistence that its planned FTAs would bolster the WTO-based multilateral system in which developing countries have pushed for their proposals on radical agricultural liberalisation, causing the substantial delay in trade liberalisation talks. Instead of removing tariffs on agricultural products, Japan has granted import quotas and preferential lower tariffs to agricultural exporters, as was done in the case of the FTA with Mexico on pork and orange juices, and this approach of dealing with agricultural products in FTAs would make Japan's FTAs much less effective in terms of promoting reforms in Japan's agriculture.

It is true that the proliferation of FTAs in East Asia may generate the 'spaghetti-bowl' effect since each FTA partnership may have distinctive content, varying in rules and obligations, and a tangle of rules of origin may divert and distort trade. So, Singapore's aggressive pursuit of FTA policy initiated a 'domino effect', with more and more countries extending the circle of trade liberalisation in East Asia, scrambling into competing arrangements. Yet the traditional trade creation/diversion controversy over FTAs is 'neither easy nor comprehensive' (Low 2003: 115) especially given that many countries have pursued FTAs as a result of more political and strategic considerations, as was argued in the case of Singapore. Hertel, Walmsley and Itakura (2001) conclude that while the 'new age' aspects of the JSEPA are likely to have positive economic effects, the preferential trade elements are somehow detrimental. Yet the smaller portion of tariff elimination element in the JSEPA does not bring so considerable a trade diversion effect to trading partners. Therefore, the JSEPA carries more symbolic meaning in terms of this trade policy debate and its significance lies in the contribution to the paradigm shift in Japan's international trade policy.



Notes

- * This is a revised and longer version of a chapter in Tsu, Timothy (ed.) 'Japan and Singapore', McGraw-Hill, New York. 2006.
- 1 Economic modelling largely supports the theoretical view that the overall effect of bilateral liberalisation of barriers is less beneficial than global liberalisation.
- 2 http://www.mofa.go.jp/policy/other/bluebook/1994/c2_2_2.html
- 3 Koizumi (2002b) states, 'In the future, Japan will promote economic partnership or free trade agreements with other countries and sub-regions, in addition to our multilateral efforts centered on the WTO.'

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Appendix 1 Areas covered by agreement between Japan and the Republic of Singapore for a new-age economic partnership (JSEPA)

Liberalisation and Facilitation

Trade in goods

Tariff elimination for goods, introduction of bilateral safeguard measures, etc.

Rules of origin (ROO)

Preventing circumvention of goods from third countries, etc.

Customs procedures

Co-operation through information exchange for simplifying customs procedures, harmonising with international standards, etc.

Paperless trading

Co-operation to promote electronic filing and transfer of trade-related documents

Mutual recognition

Providing a framework which enables certain procedures required in the importing country to be undertaken in the exporting country.

Trade in services

Realisation of the liberalisation for more wide range of the service sectors than ones of General Agreement on Trade in Services (GATS), and expansion of scope of the beneficiaries of the Agreement, etc.

Investment

Ensurance of the national treatment for investments in principle, prohibit measures designed to inhibit investment, protect investors and investments, and establish dispute settlement procedures between a Party and an investor of the other Party, etc.

Movement of natural persons

Facilitation of the movement of natural persons between the two countries for business purposes and mutual recognition of professional qualifications.

Intellectual property (IP)

Facilitation of patenting process in Singapore, promotion of bilateral information exchange, etc.

Government procurement

Lowering the threshold values above which government procurement would be subject to the WTO Government Procurement discipline for goods and services (except construction services).

Competition

Co-operation between competition authorities will be conducted in order to control anti-competitive activities, etc.

Enhancing Economic Cooperation

Financial services

Promotion of regulatory co-operation through sharing information etc. between the two countries, facilitate the development of financial markets, including capital markets in both countries and in Asia, improve financial market infrastructure, etc.



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Information and Communications Technology (ICT)

Dissemination of ICT, creating favourable environment for promoting electronic commerce, co-operation on skill standards, protection of private information, co-operation towards bridging the digital divide, facilitation of the procedure for accreditation/recognition of Certification Authorities, etc.

Science and technology

Promotion of co-operation in development and research in the field of life sciences, environment and advanced technology, etc.

Human resource development

Promoting exchange of students and scholars, and exchange of government officials, etc. (c.f. Reference to the Joint Announcement on joint technical assistance for third-country human resource development)

Trade and investment promotion

Joint activities and information exchange to promote trade and investment activities by private enterprises of both countries, etc.

Small and medium enterprises (SMEs)

Co-operation in promoting SME's activities and facilitation of co-operation between SMEs of both countries.

Broadcasting

Promotion of co-operation in the broadcasting sector, through information exchange and sharing among the relevant authorities, etc.

Tourism

Information exchange concerning tourism promotion, etc. (c.f. The twinning of streets between Ginza and Orchard Road is mentioned)

Source: Ministry of Foreign Affairs, Japan <http://www.mofa.go.jp/region/asia-paci/singapore/area0201.html>



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