

## **SECTION TWO**

# **SCOPE OF ECONOMIC PARTNERSHIP**

## SECTION TWO – SCOPE OF ECONOMIC PARTNERSHIP

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### I. LIBERALISATION AND FACILITATION

#### TARIFFS

1. Many analysts believe that tariffs, functioning as a tax on importation, distort the competitive conditions for domestic and foreign companies. Because of their distortionary effects on resource allocation, they may have an adverse effect on consumer welfare, and at prohibitive levels, may even block out foreign imports altogether. However, it is noted that in many countries, tariffs are still a source, albeit diminishing, of government revenue, and are levied to protect domestic industries from foreign competition. Tariff elimination is a fundamental component of any FTA, and may help to expand trade.
2. Under the Uruguay Round (UR), Japan had bound close to 100% of its tariffs at a weighted average rate of 3.7%. Singapore, on the other hand, had bound approximately 70% of its tariffs at rates ranging mostly from 0 to 10%.

Table 1: Bound Tariff Structure by Sector<sup>1</sup>

Sector	Share of Bound Items in Total Imports (%)		Weighted Average Bound Tariffs (%)	
	Japan	Singapore	Japan	Singapore
Agriculture	99.9	100.0	16.9	9.0
Fish and fish products	98.0	99.7	3.9	9.9
Petroleum oils	0.4	0.0	4.4	-
Wood, pulp, paper and furniture	62.5	99.2	1.1	3.0
Textiles and clothing	100.0	77.6	7.2	9.8
Leather, rubber, footwear	100.0	57.2	8.3	10.0
Metals	100.0	74.3	0.5	4.6
Chemical and photographic supplies	100.0	99.8	1.9	5.7
Transport equipment	100.0	4.5	0.0	8.4
Non-electric machinery	100.0	78.7	0.0	4.9
Electric machinery	100.0	87.1	0.1	9.2
Mineral products, precious stones and metals	100.0	26.0	0.2	9.5
Manufactured articles not elsewhere specified	100.0	66.0	0.6	6.9

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<sup>1</sup> Source: The Uruguay Round – Statistics on Tariff Concessions Given and Received, J. Michael Finger, Merlinda D. Ingco, and Ulrich Reincke, 1996, World Bank.

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3. There is therefore scope for further tariff liberalisation under the proposed JSEPA. In this regard, the Joint Study Group agreed that Japan and Singapore could go beyond their UR tariff commitments by gradually eliminating their tariffs and increasing the scope of the bindings, taking into account the sensitivities of certain items.

4. The Joint Study Group further agreed on the following parameters for future negotiations that:

- a. negotiations would take into account the need to be consistent with GATT Article XXIV:8(b) i.e. the “substantially all trade” criterion;
- b. negotiations would address the sensitivities of items in particular sectors through, *inter alia*, exceptions and/or longer liberalisation timeframes;
- c. tariff concessions of both countries would be positively listed in their respective Schedules;
- d. the reduction/elimination of tariffs would be implemented through a phased approach with immediate liberalisation for most products and a phase-in of up to 10 years for others; and
- e. both countries shall endeavour, as far as possible, not to introduce new barriers to any imports during the negotiations.

5. The Joint Study Group agreed that the JSEPA may provide for a review of the tariff commitments with the aim of accelerating the pace of tariff elimination and/or broadening the product coverage, where possible.

6. The Joint Study Group requested that Singapore take a proactive role in ASEAN to implement CEPT-AFTA as soon as possible, and that Japan positively and effectively support Singapore in this respect.

7. The Joint Study Group took special note of the fact that agriculture, forestry and fishery products constituted a mere 1.7% of total bilateral trade between Japan and Singapore in 1999.<sup>2</sup> Japan’s imports of

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<sup>2</sup> Statistics source: Ministry of Finance, Japan. The coverage of agriculture, forestry and fishery is defined as follows:

- (a) agriculture: products listed in HS 1 to 24, excluding fish, plus products listed in paragraph 1(ii), Annex 1 of the WTO Agreement on Agriculture;
- (b) forestry: products listed in HS 44 and 46; and

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agricultural products from Singapore constituted only 0.5% of Japan's total imports of agricultural products in 1999. Singapore's imports of agricultural products from Japan were a mere 0.5% of Singapore's total imports and just 2.0% of Singapore's total imports of agricultural products in 1999.<sup>3</sup>

8. The Joint Study Group also noted that, in terms of economic value, the agricultural sector contributed 0.1% of Singapore's GDP and about 2.0% of total exports in 1999, the bulk of which were re-exports. The share of agriculture in Singapore's GDP and in total exports would not increase over time given the decline in the area of land available for farming. Approximately 90% of Singapore's good items are imported. The agricultural sector of Singapore is engaged mainly in the production of eggs, fish and vegetables for local consumption.

9. During the joint study, a concern was expressed from the Japanese side on agricultural, forestry and fishery sectors. A statement was made from the Japanese side that it was not prepared for further tariff reduction in these sectors in the framework of the JSEPA. Singapore participants expressed understanding of sensitivities on items in these sectors of Japan. In this light, the Joint Study Group agreed that, in the possible ensuing negotiations on the JSEPA, due consideration should be given to the need to address the problems mentioned above, while ensuring consistency with GATT Article XXIV 8: (b). The Joint Study Group hoped that there would be a mutually satisfactory resolution of the matter during the possible ensuing negotiations.

### **RULES OF ORIGIN**

10. Rules of Origin (ROO) are criteria used to determine where a product is made. ROO are divided into two categories: rules relating to preferential treatment and those relating to non-preferential treatment. Singapore does not apply any non-preferential ROO to imports. However, it applies preferential ROO under the ASEAN Free Trade Area (AFTA) based on the value-added criterion. Japan, on the other hand, maintains non-preferential ROO and preferential ROO under the Generalised System of Preferences (GSP) scheme, both of which are based primarily on the Change in Tariff Classification (CTC) criterion.

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(c) fishery: products listed in HS 1 to 24, excluding agriculture products therein.

<sup>3</sup> Statistics source: Trade development Board, Singapore. The coverage of agriculture is defined as products classified under HS 1 to 24 excluding HS 3.

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11. The Joint Study Group agreed that ROO would need to be developed under the JSEPA to allow only goods of primarily Japanese and Singapore origin to benefit from the tariff liberalisation. These rules should also prevent circumvention by goods from third countries.

12. At the same time, however, such rules should facilitate rather than impede trade. Accordingly, the rules should be clear, predictable and easy to use and administer. They should also take into account the operational patterns of companies in Japan and Singapore. These companies are typically tightly integrated into an intricate supply chain network throughout the region. Rules of origin developed should not be so tight as to exclude these companies from benefiting from the JSEPA.

### Origin-Conferment Criterion

13. The Joint Study Group examined several options:

#### *(a) WTO Rules of Origin*

14. Since 1995, the WTO Committee on Rules of Origin (CRO) has been working towards a set of criteria that would clearly define the “last substantial transformation” for each product line. This would allow origin to be conferred on the country where this process takes place. The merit of using this set of rules for the JSEPA is that it avoids duplication. Producers would eventually only need to comply with this multilateral ROO instead of the current situation of having to apply different ROO for different countries on a non-preferential basis.

15. However, the CRO has yet to arrive at a complete set of multilateral rules to confer origin. Agreements have only been reached on various product lines (so-called “Basket 1” decisions).<sup>4</sup> This is because the CRO exercise is highly complex and tedious, especially since each product line has to be carefully defined and the concerns of some 135 members taken on board.

#### *(b) Change in Tariff Classification*

16. The general Change in Tariff Classification (CTC) rule considers a product to have undergone sufficient manufacturing or processing if it falls in a heading (within the HS nomenclature) different from the headings applicable to each of the materials utilised. Thus, this method permits the precise and objective formulation of the conditions determining origin

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<sup>4</sup> The Harmonized Work Program at the CRO was supposed to be completed within three years of its initiation as foreseen by the Agreement on Rules of Origin.

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and ensures the predictability of the rules. If required to produce evidence, the manufacturer would usually not have difficulty in furnishing data establishing that the goods do in fact satisfy the conditions.

17. Two issues need to be negotiated if the CTC rule is to be used: (a) the general principle upon which products should be conferred Japan or Singapore origin; and (b) establishing lists of exceptions. (The preparation of the lists of exceptions is often difficult, as ongoing work at the WTO has shown. Moreover, such lists must be constantly updated to keep abreast of technical developments and economic conditions. Any descriptions of manufacturing or qualifying processes must not be unduly complicated to ensure that manufacturers do not inadvertently classify goods wrongly.)

### *(c) Value-added Criterion*

18. The value-added criterion is relatively less complex to negotiate. This method involves determining the extent of the manufacturing or processing undergone in a country by reference to the value added to the goods. It is simple to administer since production costs, such as materials, labour and overheads costs can be established from commercial records or documents, if available. The value-added rule also allows unassembled goods and goods classified in the same HS category as their parts (i.e. goods which do not meet the product-specific requirements) to qualify for preferential treatment if they contain enough Japan and/or Singapore value content.

19. However, it has been pointed out that this method may have some problems such as lack of predictability, due to fluctuations in exchange rates and changes in input prices. With globalisation, producers have diversified their supply sources for parts and materials. This means that the origin of parts or materials used in the production of a good could differ from time to time. Thus, it would be difficult to determine the precise origin of products even within the same product line of a single producer.

20. The Joint Study Group agreed that rules of origin would be a subject for future negotiations in the JSEPA. Taking into account the above concerns, the Joint Study Group assessed that it would be desirable to develop specific rules of origin for JSEPA on a product-by-product basis. This set of ROO could be formulated based on the WTO rules of origin, where appropriate. Japan and Singapore could start with developing specific ROO on the product lines in the category of “Basket 1” decisions. The work could include examining the appropriateness of the CRO’s Harmonisation Work Programme (HWP) results for the purpose of the JSEPA. It should also take into account the future development of the HWP.

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### Operation

21. The Joint Study Group further agreed on the need to develop operational procedures in the implementation of JSEPA ROO. Details would have to be considered in the course of future negotiations.

#### *(a) Certification*

22. In order to ensure that there is no circumvention, a set of origin certification procedures would have to be established, including those related to the issuing of a certificate of origin.<sup>5</sup> There should also be procedures for verification, transshipment, cooperation and dispute settlement in instances of doubt.

#### *(b) Review Mechanism*

23. The Joint Study Group endorsed the establishment of a review mechanism under the JSEPA to regularly update the ROO. This would ensure that future technological and economic developments, as well as amendments to the Harmonised System, would be reflected in the JSEPA ROO.

#### *(c) Advance Ruling*

24. For the purpose of trade facilitation and to ensure the transparency and predictability of the ROO, the JSEPA should allow companies to apply for and secure advance rulings.

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<sup>5</sup> Currently, Singapore manufacturers seeking preferential treatment are required to undergo a stringent authentication process:

Stage 1 – The authorising agency, TDB, conducts visits to the factory to verify if the processes carried out qualify under the negotiated terms of preferential ROO. The company will be eligible to claim preferential treatment as a Singapore manufacturer if this criterion is met.

Stage 2 – The manufacturer is required to submit a Cost Statement proving that the product has attained the local content requirement as negotiated under a preferential agreement. Only then will Singapore origin be conferred upon the product.

Stage 3 – TDB will issue an Authorised Certificate of Origin for products that qualify as Singapore origin under the preferential ROO. This Authorised Certification of Origin is required to accompany products claiming preferential treatment.

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### **CUSTOMS AND OTHER TRADE-RELATED PROCEDURES**

25. Noting the importance of consistent, transparent, accountable and simplified customs procedures in the promotion of bilateral trade between Japan and Singapore, the Joint Study Group urged the two Governments to put priority on realising the simplification of customs clearance and related procedures. The Joint Study Group also suggested that the following measures could be taken under the JSEPA.

#### **Risk Management**

26. Both Singapore Customs & Excise Department (CED) and Japan Customs and Tariff Bureau (JCTB) have in place Red and Green Lane facilities for the clearance of goods.

- a. For goods entering Singapore, CED designates two types of lanes for the clearance of goods, namely the Green Lane and the Red Lane. Goods channelled to the Green Lane are released without any physical examination or documentary verification. Goods channelled to the Red Lane are subject to documentary verification and/or physical examination.
- b. For goods entering Japan, JCTB classifies them into three categories, namely, Categories 1, 2 and 3. Goods of Category 1 are cleared without physical examination or documentary verification. Under Category 2, documentary verification is conducted and physical examination as well (as and where necessary and based on the results of documentary verification). Under Category 3, physical examination is conducted unless there are reasonable grounds for not doing so.

27. The key to the above selection facility is to identify risk of goods. Both CED and JCTB are currently adopting a risk management approach based on trade information submitted by the importers in their Customs declaration and the type of consignments.

- a. In Singapore, goods are grouped into two broad categories, namely high-risk goods and low-risk goods. Low-risk goods are channelled to the Green Lane. High-risk goods are channelled to the Red Lane. In assessing the risk, CED considers both qualitative and quantitative attributes such as:
  - i. the nature of the goods (i.e. commodity type, declared value);
  - ii. the compliance records of the importer; and

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- iii. ground intelligence.
  - b. In Japan, JCTB classifies goods into three categories, i.e., Categories 1, 2 and 3, on the same basis as above.
28. There are, however, different approaches for facilitating the release of goods in Japan and Singapore.
- a. In Singapore, the goods are released under a single window procedure, whereby the Customs duty and Goods and Services Tax (GST) are electronically paid and all other government agencies' procedural requirements are completed at the same time.
  - b. In Japan, in addition to computerising customs procedures, the "Simplified Procedure" will be implemented from March 2001. Under this procedure, physical examination and/or documentary verification for customs duty payment is, in principle, not required for imports by persons authorised by the Customs. This is made possible through measures including checking the importers' compliance record both upon authorisation and after clearance.
29. To further facilitate the clearance of low-risk goods, and to improve the predictability of cargo clearance, the Joint Study Group agreed that both Customs Administrations should exchange information on best practices relating to risk management techniques for customs clearance.
30. The Joint Study Group also agreed that both Customs Administrations should promote the application and improvement of risk management to other ASEAN countries. This would raise the quality of risk management within ASEAN and ensure a reasonable level of predictability for clearance, and thereby facilitate the entry of Japanese and Singapore goods into ASEAN countries. The Joint Study Group also agreed that the adoption of a common tariff nomenclature for ASEAN would complement the risk management initiative. The Joint Study Group agreed that the adoption of risk management techniques and implementation of a common tariff nomenclature within ASEAN could be pursued under the ASEAN Experts Committee on Customs Matters (ECCM) forum, through seminars and courses.<sup>6</sup> Japanese experts on

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<sup>6</sup> At the inaugural meeting of the ASEAN-Japan Director-Generals of Customs on 14 July 1999, it was agreed that the ASEAN ECCM would hold regular consultations with their Japanese counterpart at the ECCM to develop areas of technical cooperation.

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risk management and the Harmonised System could be invited to speak at the seminars and courses to be conducted under the auspices of Japan's technical cooperation programme.

### Intellectual Property Rights Protection

31. The Joint Study Group recognised the growing importance of intellectual property rights (IPR) protection, and agreed that the two Customs Administrations could exchange statistical information concerning goods under suspension of release in connection with suspected IPR infringement, subject to the national laws in each country and the provisions of the WTO Trade-related Aspects of Intellectual Property (TRIPS) Agreement.

### Exchange of Information regarding Best Practices on Customs Procedures and Enforcement Techniques

32. The Joint Study Group also agreed that cooperation between the two Customs Administrations could be further enhanced through the exchange of information regarding best practices relating to customs procedures and enforcement techniques, subject to the national laws in each country.

### Paperless Trading

33. Despite the advent of new technologies especially in the field of ICT, international trade is still heavily paper-based and continues to rely on postal and courier services for the transfer of documentation. According to United Nations estimates, trade documentation costs an average 7 percent of the total value of international trade. In other words, some US\$400 billion a year is spent administering paper-based systems and documentation. In addition, the loss or late arrival of trade documents is a common worry to traders who rely on postal or courier services to transfer their documents.

34. As such, proposals/initiatives that allow information to be filed and transferred electronically would significantly enhance the efficiency of information/document flow, confer benefits on businesses and facilitate trade. However, it is important that such electronic delivery systems do not compromise the confidentiality or integrity of the information/document submitted or transferred.

35. In this regard, the Joint Study Group noted that there was much merit in establishing an Electronic Trade Document Exchange System (ETDES). The Joint Study Group agreed to explore the possibilities of putting in place such a system under the JSEPA, which would confer advantages in speed, cost and security on trade transactions between

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the two countries. It would allow the seamless electronic transfer of all trade-related information and documents (e.g. invoices, bills of lading, etc) between importers and exporters in Japan and Singapore (i.e. “paperless trading”). Such a system would also safeguard the confidentiality and integrity of the documents or information exchanged.

36. The document exchange servers to be set up in Japan and Singapore are meant for traders to deposit all the necessary information and documents pertaining to a particular trade transaction. These information and documents will then be electronically channelled to the relevant parties, as authorised by the traders. An example of a possible configuration of the ETDES is elaborated at Annex 1.

37. In this connection, the Singapore side also presented TradeNet, an electronic one-stop service system for clearance procedures, and TradeNet Plus, an extensive electronic network system covering all trade-related activities. The Japanese side explained their recent efforts toward the one-stop service and development of the G7 initiative on electronic data interchange (EDI) standardisation in customs procedure and its Trade & Settlement Electronic Data Interchange (TEDI) project. Both countries are exchanging information on these initiatives, bearing in mind various aspects including efficiency, operation, control and cost implications.

### **MUTUAL RECOGNITION**

38. The Joint Study Group proposed that Japan and Singapore could study the feasibility of establishing a mutual recognition agreement (MRA) under the JSEPA.

39. The Joint Study Group agreed that there was a strong case for both countries to establish a MRA, since Japan and Singapore already maintain standards and conformance infrastructures of high quality and technical competence. Moreover, both countries would stand to gain in terms of:

- a. trade facilitation – a MRA would facilitate trade between Japan and Singapore by (i) reducing the costs associated with duplicative testing and certification and (ii) shortening the time-to-market for products covered under the MRA. (The latter is especially critical for technologically advanced products with short life cycles); and
- b. greater investments – a MRA would also help to position Japan and Singapore as the conformity assessment hubs in

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this region and thereby also help to draw more investments and trade into each country.

40. The Joint Study Group also agreed that both countries could undertake a feasibility study to review each country's standards and conformance infrastructure, and to determine the possible types of mutual recognition as well as the possible sectors that could be covered under the MRA. The findings of such a study would provide useful inputs for the negotiation of a MRA under the JSEPA.

### **NON-TARIFF MEASURES**

41. The Joint Study Group agreed to identify non-tariff measures (NTMs) in each other's regime that might unduly affect bilateral trade and explore the possibility of eliminating them or introducing disciplines to ensure that these NTMs do not act as unnecessary obstacles to trade. This process of identifying NTMs need only be started when the two countries begin JSEPA negotiations.

### **ANTI-DUMPING/COUNTERVAILING DUTY/EMERGENCY SAFEGUARDS**

42. To underscore Japan's and Singapore's shared philosophy against protectionist and arbitrary use of such unilateral remedies in the international trading system and to contribute towards the WTO's objective of promoting freer trade, the Joint Study Group noted that it would be desirable to establish model anti-dumping (AD)/countervailing duty (CVD)/safeguard rules in the JSEPA. The two countries could explore the possibility of going beyond the WTO framework in these areas.

43. The Joint Study Group identified four alternatives, which could be considered in the JSEPA.

- a. Since both Japan and Singapore have rarely taken AD actions and have never initiated any CVD actions, both countries could consider not applying AD actions except where it pertains to predatory pricing. The two countries could also work towards a framework to exempt each other from future CVD actions and safeguard measures taken by the other party.
- b. Both countries could consider not applying AD actions

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against each other's exports under the JSEPA while maintaining CVD actions and safeguard measures, on condition that both countries take appropriate measures against anti-competitive business practices such as predatory pricing and establish a cooperation mechanism in the field of competition policy.

- c. Both countries could model the JSEPA provisions on AD/CVD/safeguards along the WTO rules but strengthen them to bring greater discipline to the use of such measures and minimise the opportunities to use these measures in an arbitrary or protectionist manner. This could take the form of higher thresholds (e.g. higher de-minimis margin and/or import volume), shorter duration for imposition of duties and/or use of a competition test on actions brought by one country on imports of the other.
- d. Both countries could simply affirm their rights and obligations in the WTO Agreements on AD, CVD and Safeguards.

44. The Joint Study Group, however, acknowledged that whilst non-application of AD/CVD/safeguards would have a significant positive demonstration effect, there were differing interpretations regarding its consistency with the WTO MFN obligation. In addition, the Joint Study Group noted that businesses might be concerned if the ability of either country to impose AD/CVD/safeguard measures were removed completely.

45. The Joint Study Group agreed that this would be a subject for further negotiations in the JSEPA.

### **SERVICES**

46. Presently, around 20% of total world trade are in services, but this takes into account only cross-border trade.<sup>7</sup> In considering the significance of trade in services, it is necessary also to take into account trade through commercial presence and movement of natural persons. There is tremendous potential for growth in services trade. Already, technology has rendered more and more services exportable. Many of the services spawned by technological progress have high value-added and knowledge content.

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<sup>7</sup> Source: WTO Annual Report 1999, International Trade Statistics.

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47. Today, the services sector is increasingly sophisticated with strong links to the manufacturing sector. Services provide the connections, coordination and support for the manufacturing process and often generate demand for new industrial products.

48. The services sector is integral to a country's overall competitiveness. First, infrastructure services such as finance, telecommunications and information processing permeate the entire economic structure. Secondly, in most countries, the services sector is the largest single contributor to economic growth and employment. In Japan, services accounted for 64.5% of its GDP and 62% of employment in 1998.<sup>8</sup> In Singapore, the sector contributed 63% of GDP and 70% of employment in 1998.<sup>9</sup>

49. In both countries, however, a gap still exists between their export competitiveness in goods and their export competitiveness in services. This gap is clear from the following table, based on 1998 figures provided by the WTO. There is untapped potential in the services sectors of both countries.

Table 2: WTO Ranking of Trade in Goods and Services

	<i>Merchandise Trade</i>	<i>Services Trade</i>
<i>Japan</i>	3 <sup>rd</sup> Largest Exporter in the World (7.2% of total world merchandise trade)	6 <sup>th</sup> Largest Exporter in the World (4.7% of total world services trade)
<i>Singapore</i>	14 <sup>th</sup> Largest Exporter in the World (2.0% of total world merchandise trade)	17 <sup>th</sup> Largest Exporter in the World (1.4% of total world services trade)

50. Singapore has therefore in recent years channelled efforts into developing itself into a premier services hub. Singapore has fully opened up its telecommunications sector and has begun liberalising its financial, legal and media services sectors. A review of the other services sectors, including utilities, will be undertaken in the next few years. On its part, Japan has taken great strides in creating and promoting a pro-competitive market environment for services, including telecommunication services.

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<sup>8</sup> Source: Economic Planning Agency (EPA), Japan

<sup>9</sup> Source: Ministry of Trade and Industry (MTI), Singapore

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51. The Joint Study Group therefore strongly endorsed the inclusion of liberalisation of trade in services in the JSEPA. The Joint Study Group regarded services liberalisation and cooperation as key elements that would greatly enhance the economic value of the JSEPA to the Japanese and Singapore business communities, and promote the growth of the services sector of both countries.

### Possible Negotiating Parameters

52. The Joint Study Group agreed that the JSEPA would establish a framework of principles and rules for trade in services. The aim is to expand bilateral trade in services under conditions of transparency and progressive liberalisation.

53. The Joint Study Group further agreed that:

- a. the negotiations shall cover all services sectors and all modes of supply, with the exception of hard rights in air transport services and cabotage in maritime transport services;
- b. the negotiating framework will be modelled after the GATS;
- c. the GATS hybrid listing approach, which is familiar to both countries, will be employed;<sup>10</sup>
- d. the commitments by both countries shall cover a wide spectrum of services sectors to ensure consistency with the substantial sectoral coverage requirement in GATS Article V.1(a). Nevertheless, priority could be given to sectors that are either critical to the infrastructure of a country or are the growth areas of the future, for example, information and communications technology, financial services and professional services;
- e. the commitments of each country under the JSEPA should be GATS-plus bearing fully in mind the need to be consistent with GATS Article V. The negotiated commitments should be implemented either immediately upon entry into force of the JSEPA, or within a reasonable period; and
- f. a built-in review process for further liberalisation can be

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<sup>10</sup> The GATS uses a positive list approach to identify sectoral coverage and then a negative list to indicate limitations to market access and national treatment commitments in respect of sectors listed in schedules.

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included into the framework.

54. In particular, the Joint Study Group agreed that the JSEPA negotiations should cover liberalisation of the financial services sector. The Joint Study Group recognised the importance of improving the efficiency and competitiveness of the two countries' financial markets, and the opportunities for both countries that could result from the creation of an environment conducive to the expansion of trade in financial services between the two countries and Asia. Both countries should work towards significant improvements of their GATS commitments in financial services under the JSEPA. The Joint Study Group suggested that the approach of the GATS Annex on Financial Services be adopted. The GATS Understanding on Commitments in Financial Services might also be a useful basis to start discussions under the JSEPA.

55. The Joint Study Group also noted that there already existed excellent bilateral maritime links, which could be enhanced so as to facilitate the movement of goods between the two countries and to help realise the full benefits of a JSEPA. Regretting the suspension of negotiations in the WTO on the maritime transport services, the Joint Study Group agreed that this sector should be included in the commitments under the JSEPA.

### **INVESTMENT**

56. Worldwide investments have increased significantly in recent years. However, some countries still impose restrictions on foreign investment to protect domestic industries and/or to prevent the outflow of foreign reserves. There lacks a comprehensive and legally-binding regional or multilateral investment agreement that provides for the liberalisation and protection of foreign investments.

57. Japan and Singapore are relatively open economies with attractive investment regimes. Both countries enjoy strong inward investment flows. To create even more favourable conditions for bilateral economic activities, and to stimulate bilateral business initiatives and investment flows between the two countries, the Joint Study Group agreed to establish an exemplary investment framework with progressive liberalisation of investment regulations, that could be propagated to other countries in the future.

58. Such an exemplary investment framework would include the following elements:

- a. principles of National Treatment and Most Favoured Nation

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treatment which would form the cornerstone of the investment framework;

- b. provisions on expropriation and compensation to prevent indiscriminate expropriation and/or unfair compensation of foreign investments, which would instil confidence in investors;
- c. provisions on transparency as it is important that foreign investors are not subjected to arbitrary rules and regulations;
- d. provisions to allow investors to freely repatriate and transfer funds related to foreign investments (such as profits, dividends, royalties, loan payments and liquidations) into freely convertible currency;
- e. provisions to facilitate dispute resolution through consultation and negotiations between the parties (which include the States and their investors) for foreign investment or failing this, through arbitration procedures acceptable to both parties;
- f. provisions to prohibit performance requirements which are likely to have distorting effects on business activities; and
- g. provisions for a joint committee to periodically review the implementation of the investment framework and to discuss any other matters in connection with investments between both countries.

59. The Joint Study Group noted the importance, under the JSEPA, of facilitating the movement of professionals between the two countries, and the employment and training of skilled personnel, including nationals of third countries, by Japanese enterprises in Singapore and Singapore enterprises in Japan.

### **INTELLECTUAL PROPERTY**

60. The Joint Study Group recognised the importance of intellectual property protection in the new knowledge-based economy. In such an environment, intellectual property, relative to physical assets or financial capital, is gaining importance as a factor of economic competitiveness and success.

61. The WTO TRIPS Agreement is widely recognised to be the most comprehensive international agreement on IPR in terms of coverage. In

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this regard, the Joint Study Group agreed that the WTO TRIPS Agreement could govern and apply to intellectual property issues arising from the JSEPA.

62. In light of the recent accession of Japan to the Protocol Relating to the Madrid Agreement concerning the International Registration of Marks, the Joint Study Group agreed that the accession of Singapore to the same Protocol could facilitate the registration of marks filed from one of the two countries to the other.

### **GOVERNMENT PROCUREMENT**

63. Both countries are already party to the WTO Government Procurement Agreement. The Joint Study Group agreed that the WTO Agreement could govern and apply to all government procurement issues arising from the JSEPA.

64. Building upon this common denominator, the Joint Study Group agreed that both countries could explore further cooperation in the following two areas.

- a. Japan and Singapore could share their experiences and expertise in developing e-commerce systems for government procurement. While the general principles governing government procurement are similar, the detailed process, workflow and methodology of implementation, including the approach to interfacing or integrating with the government's and the private sector suppliers' financial systems, could differ substantially. Specific areas in electronic procurement that could be explored include:
  - i. the functional specifications of the electronic procurement system;
  - ii. the development approach;
  - iii. security concerns;
  - iv. the systems deployment strategy;
  - v. registration of participating suppliers;
  - vi. a Trading Partner Agreement for electronic trading; and
  - vii. setting up of training and technical support centre.

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- b. Japan and Singapore could co-ordinate efforts and organise workshops to assist other ASEAN countries in this area. The workshops could either be sponsored by international fora or jointly financed by Japan and Singapore. The Joint Study Group noted that both countries were already actively contributing to enhancing the knowledge of less developed countries in government procurement by providing lecturers at various workshops, such as those sponsored by APEC and ASEM.

### **COMPETITION POLICY**

65. Today, anti-competitive practices in domestic markets constitute possible trade barriers. There may therefore be an increasing need for each country to deal with anti-competitive practices.

66. With globalisation, anti-competitive practices could affect the conditions of competition in both countries. Under such circumstances, it may be difficult for a single government to correctly assess the distortionary effects on trade, and to effectively deter anti-competitive practices that have cross-border effects. To unilaterally eliminate them through competition laws or trade measures may be ineffective.

67. Japan and Singapore have been successful in ensuring freer and fairer competition in their markets. To maximise the benefits that would accrue to the two countries, the Joint Study Group agreed on the need to, under the JSEPA, establish a framework on competition policy to deal with anti-competitive practices that may have an adverse impact on trade between the two countries.

68. This framework on competition policy would include the following elements:

- a. to promote freer and fairer competition in trade between the countries;
- b. to minimise trade distortions between the two countries, each country shall take appropriate measures as it deems fit, against anti-competitive business practices; and
- c. to make efforts to cooperate in areas such as notification, consultation and technical assistance, with a view to

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facilitating effective and smooth implementation of this framework, and promoting a common understanding of more effective ways to address anti-competitive business practices.

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### **II. BILATERAL COOPERATION**

#### **FINANCIAL SERVICES**

69. Rapid technological advances in the financial sector are breaching geographic, industry and regulatory barriers. Technology has now made possible more sophisticated and swift distribution networks that interact with parties globally, offering a broad range of financial products. The rapid consolidation of global financial players is also changing the international financial landscape.

70. Recognising the importance of responding positively to the global trends and uncertainties, the Joint Study Group recommended that, in addition to liberalisation of trade in financial services, bilateral cooperation in financial services should be strengthened.

71. The Joint Study Group discussed many ideas as possible areas for future cooperation. Such ideas included regulatory issues, capital market linkages, improvement of market infrastructure, development of regional bond markets and technical assistance to third countries. The Joint Study Group recognised that the ideas discussed would need further careful deliberation by experts and various relevant agencies and parties. Noting the preliminary nature of many of the suggestions discussed, the Joint Study Group agreed that it would be worthwhile for monetary and financial authorities of both countries to hold bilateral discussions on those issues that would be appropriate for more substantive discussion, taking into account changing circumstances (Annex 2 outlines the Joint Study Group's discussions).

72. The Joint Study Group also agreed that the above-mentioned bilateral discussions should complement on-going multilateral initiatives in similar areas.

#### **INFORMATION AND COMMUNICATIONS SERVICES**

73. Info-communication technologies and services have transformed the global economy, leading many to call this era the Information Age. The convergence of telecommunications and information technology has created new issues for governments around the world, as has the growth and pervasive power of the Internet.<sup>11</sup> In the Digital Economy, reliable

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<sup>11</sup> As at December 1998, there were 95.4 million Internet users around the world. By the end of 1999, an additional 35.2 million will come online. Over 56% of the world's

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access to as well as prompt delivery, efficient management and skilled use of information have become cornerstones of economic growth.

74. The sector has been fundamentally changed by the advent of market liberalisation and robust competition. As the number of service offerings and business possibilities mushrooms, operators have sought to consolidate their market power via mergers and alliances. The role that governments play has, in turn, evolved into that of protector of consumers, arbiter of fair competition and promoter of info-communications development.

75. Electronic commerce has also revolutionised the way in which trade is conducted. By leveraging on technology, buyers and sellers can overcome obstacles of size, language and geography, and bypass traditional intermediaries to have truly global market reach in a more cost-effective manner. As a result, conventional value chains are being dismantled and reassembled in totally new ways.

76. The Joint Study Group acknowledged that the info-communications sector is essentially industry and technology driven. It noted, however, that Governments still had an important role to play. The following areas could be the focus of cooperation under the JSEPA:

- a. enhancing the security of the communications infrastructure and the level of trust in its use for new applications;
- b. creating legal and regulatory certainty for electronic transactions (including enforcing the privacy of consumers and the protection of their personal data);
- c. ensuring the effective and efficient management of competition in a converged and dynamic info-communications sector; and
- d. educating users and promoting their use of e-commerce and the Internet (including by having Governments as model users and considering a moratorium on customs duties on electronic transmissions).

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Internet users today reside in the US and Canada. However, it is anticipated that by 2002, North America's share will shrink to just over 34.8%. Europe will be home to 84 million users, or 29.9% of the world's total. Asia will have over 60 million users, or 21.5% of the world's total (Source: The eGlobal Report, Jul 99). This present Asian Internet population is expected to grow to 400 million by 2005 (Source: Paul Budde Communication, NUA Internet Surveys, 9 Jun 00). The number of Asian Internet hosts has also grown from 2.6 million in 98 to 4.2 million in 99 (Source: ITU-Internet host data: Internet Software Consortium, RIPE, May 00).

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77. The Joint Study Group also noted that there are many on-going cooperative activities between Japan and Singapore in this sector. For example, in 1998, Japan's Minister of Posts and Telecommunications and Singapore's Minister for Communications decided to establish the Japan-Singapore Advanced Multimedia Cooperation Committee (JSAMCC) to enhance bilateral cooperation in advanced multimedia issues.<sup>12</sup>

78. In assessing the desired areas of co-operation in info-communications, the Joint Study Group has in mind the role of the JSEPA as a catalyst for the development of relevant policies for this sector. Asia-Pacific countries will soon have to establish the necessary regulatory and policy framework in order to succeed in the Digital Economy. As relatively advanced Asian countries, any joint framework which Japan and Singapore can set under the JSEPA could in turn, be of some use to other Asian countries as they evolve their own strategies so as to spur the growth of regional e-commerce.<sup>13</sup>

79. Singapore presented, at the request of the Joint Study Group, a list of items now being considered under the e-ASEAN initiative, including:

- a. the development of an ASEAN Information Infrastructure (All);
- b. the facilitation of e-commerce through measures like the development of the necessary legal infrastructure and industry-driven codes of practice;
- c. the facilitation of free flow of trade and investment in ICT goods and services;
- d. e-Society; and
- e. e-Government.

80. The Joint Study Group acknowledged that there were similarities

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<sup>12</sup> This included cooperation on advanced multimedia and R&D projects such as the APII test bed, the multimedia virtual laboratory and the digital terrestrial broadcasting system.

<sup>13</sup> In 1999 alone, e-commerce transactions for Japan and Singapore amounted to US\$7.3 billion and US\$83.3 million respectively (Source: AWSJ; CINC; IDC; Nielsen; NUA Internet). GartnerGroup (Jun 00) has further indicated that the Asian e-commerce business-to-consumer market is estimated to hit US\$100 billion with the business-to-business market estimated at US\$1 trillion by 2004. Both Japan and Singapore are well placed to take advantage of this e-commerce potential with Internet penetration rates of 27% (Source: Nikkei BP AsiaBizTech, 13 Apr 00) and 53% (Source: www.ida.gov.sg, 9 May 00) respectively.

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between the cooperation items under the JSEPA and e-ASEAN, and noted that both efforts could, where appropriate, complement one another so as to develop a seamless environment conducive to the growth of e-commerce and ICT networks in the region.

81. The Joint Study Group therefore recommended that the JSEPA could address the following info-communications issues, bearing in mind the need to include the private sector in these co-operative efforts. The Joint Study Group recognised that these issues would need further careful deliberation by experts in all relevant agencies and parties.

82. Nevertheless, the Joint Study Group viewed these areas of collaboration as an excellent starting point for ongoing bilateral dialogue and cooperation as well as an opportunity to show regional leadership. The Joint Study Group reiterated the importance of incorporating concrete and cohesive action on these issues when crafting the JSEPA, so that it truly reflects the importance of bilateral trade relations in the Digital Economy.

### **Protection of Personal Data/Privacy Collaboration**

83. Work in this important area will promote consumer confidence and in turn, spur cross-border e-commerce. It would also help align both countries' practices and procedures so that accredited sites in both countries afford Japanese and Singapore consumers a similar degree of protection. The Joint Study Group agreed that the JSEPA could address the following issues:

- a. the exchange of information on and, where appropriate, the harmonisation of Japan's and Singapore's privacy frameworks;
- b. the cross-recognition of privacy marks in each country; and
- c. the joint study and exploration of a viable privacy/data protection model for both countries.

### **Electronic Commerce Legislation and Cross-certification for the Interoperability of the Public Key Infrastructure (PKI)**

84. The Joint Study Group agreed that there was scope for cooperation among all relevant Japan and Singapore agencies and entities to:

- a. exchange information on and, where appropriate, harmonise

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their e-commerce legislation;<sup>14</sup>

- b. identify and, where appropriate, harmonise their Public Key Infrastructure (PKI) security requirements; and
- c. jointly contribute to and promote on-going efforts at APEC to create a regional PKI interoperability framework.

85. These activities will instil trust in the integrity of the electronic platform used for trade and communication and address legal, regulatory and enforcement issues in cross-border e-commerce. The recent wave of on-line sabotage, computer crime and other threats to critical infrastructure necessitate this.

### Regulatory Cooperation to Manage Competition in the Info-communication Sector

86. The Joint Study Group recognised that cost-effective and reliable access to telecommunications systems and services underpin economic activity in the Information Age. The Joint Study Group acknowledged the complexity of info-communication policy, including regulating and managing competition in a multi-operator environment. It reiterated the need for regulatory approaches to be flexible enough to support growth and innovative new technologies and services, but robust enough to ensure free and fair competition on a level playing field.

87. The Joint Study Group agreed that Japan and Singapore could:

- a. exchange information on their respective regulatory frameworks for the management of competition in the info-communication sector;
- b. create a joint "best approaches" regulatory framework for both countries to consider using; and
- c. promote dialogue and cooperation on these issues between info-communication policy institutes of both countries.

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<sup>14</sup> This could possibly include consideration of the following: liberalisation of e-commerce related sectors and regulatory frameworks for these sectors, scope of IPR protection in cyberspace, personal data protection, legal effect of electronic signatures and security level of certification authorities, rules of contract for digital content, liability relating to online service providers, consumer protection, regulation of harmful/illegal contents, prevention of computer crimes and the removal of unnecessary regulatory impediments to e-commerce.

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### **Cooperation in Postal Services**

88. In spite of the advent of e-mail and other electronic forms of communication, traditional postal services continue to be a reliable and treasured way of communicating, conducting business and keeping in touch. The Joint Study Group agreed that the enhancement of the quality of postal services as well as the introduction of new services between Japan and Singapore could be facilitated by further cooperation between both countries' respective postal operators.

### **Interactive Broadband Multimedia (IBBMM) Collaboration**

89. Both Japan and Singapore have rolled out high-capacity broadband networks and are working to capitalise on the growing demand in both countries as well as in the rest of the world for bandwidth-intensive multimedia content. Building on both countries' respective strengths, Japan could use Singapore as a gateway to re-package and distribute Japanese content to English and Chinese-speaking markets.

90. The Joint Study Group therefore agreed that the relevant agencies, entities and organisations could consider the following co-operative activities:

- a. the establishment of a physical broadband linkage between Japan's and Singapore's IBBMM networks; and
- b. the exchange of media-rich multimedia content using this link.

### **e-Government**

91. The Joint Study Group noted that both the Japanese and Singapore governments were progressively becoming more wired and were exploring new ways to communicate internally, store information, transact and procure business, and deliver services to citizens electronically. This trend, called e-Government, is essentially domestic in scope. However, the potential exists for both countries to share experiences with one another under the JSEPA and explore possible collaboration in e-Government projects.

## **SCIENCE AND TECHNOLOGY**

92. Over the last few decades, Japan has effectively and successfully leveraged on innovative technologies and know-how to strengthen business capabilities and secure a leadership position in the global economy. Singapore, too, has made significant strides in building up its

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technological and scientific foundation to world-class standards.

93. In a knowledge-based economy, the role of science and technology will assume greater importance. The ability of firms to innovate and reduce time-to-market will become increasingly important in determining competitive advantage. Likewise, the ability of countries to exploit new high-growth science and technology sectors and to re-invent themselves is key to their continuing economic vibrance.

94. Japan and Singapore already cooperate in science and technology fields at the bilateral and regional levels. The Joint Study Group recognised the possibility that both countries could further leverage on each other's strengths and deepen cooperation in areas such as technology and market intelligence (TMI), venture capital, life sciences and environmental technology.

### Technology & Market Intelligence (TMI)

95. One key success factor of present-day global competition is the speed of commercialising intellectual property (IP) (i.e. know-how, creative works, new processes and technologies) in ways that translate into new value-added goods and services for customers. To achieve this, companies must monitor and evaluate external environmental factors, such as technology and market trends to determine opportunities for current and future businesses. There is certainly no lack of data and information today. We are inundated by massive amounts of information from journals, reports, Internet, etc. We need a mechanism to filter and analyse information to make sound business decisions.

96. Technology and market intelligence is a strong competitive tool for companies to compete globally in the knowledge era. Currently, however, not enough is understood by our smaller companies, particularly the small and medium enterprises (SMEs) and start-ups, of environmental trends (product, technology, legislative and regulatory, market dynamics and competitor analyses, to support decision making for business growth and regional market penetration.

97. The Joint Study Group agreed that there is much scope for Japan and Singapore to collaborate in strengthening their respective intellectual property frameworks and in promoting the use of IPs, leading to mutual benefits for hi-tech companies and start-ups of both countries. Specifically, it was agreed that both countries could jointly undertake the following:

- a. Training and exchange of experts in collaboration with the organisations concerned. Japanese candidates who participate in the training programme would be from the

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Japanese Patent Office (JPO), Japan Institute of Inventions and Innovations (JIII), Japan Patent Information Organisation (JAPIO), and JETRO. As for Singapore participants, these would be from the TMI Service Bureau (TMISB), local universities, research institutes, and the Intellectual Property Office of Singapore (IPOS). The Joint Study Group noted that such training and exchanges would contribute to a better understanding of each other's IP laws particularly in the area of patent laws, and could lead to other areas of cooperation in IP in the future. As one of the matters that could be dealt with in the course of the expert exchanges, the Joint Study Group suggested that the two countries explore the feasibility of including the JPO as a prescribed patent office for the purposes of furnishing prescribed details/information of corresponding foreign applications under the Singapore Patents Act.

- b. Sharing of databases on patents. This will benefit Japanese and Singapore companies which want to exploit existing technologies currently patented in Japan or Singapore. IPOS and JPO would collaborate in considering the ways of cooperation on information sharing on IP patents. Possible ways of cooperation could include:
- i. providing access to each other's public databases; and
  - ii. facilitation of licensing of IPs or even patent trading or technology through this platform.

This way, Singapore can help to promote Japan's patents which have not been commercialised and vice-versa.

- c. Promoting public awareness and education of the importance of intellectual property rights (IPR) protection. Given the large amounts of money often spent in developing new ideas and innovating new products, it is important that businesses in both countries are fully aware of the value of IP and the importance of securing IPR protection. In this regard, IPOS and Japan's patent-related and copyright-related organisations could, in the area of IPR public education, share intellectual property information and experiences on public education and awareness programmes.
- d. Exchanging information on copyright. IPOS and Japan's copyright-related organisations could exchange information and experiences concerning legislation on copyright in terms

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of the progress of digitization and network and the development of e-commerce.

### Technopreneurship

98. The Joint Study Group recognised that innovative companies are an important engine of growth, as evidenced in the high growth rates in the US economy in the past decade.

99. The Joint Study Group took note of the value of cooperation between the business communities of both countries to promote investments in start-ups in the region. In this context, Japanese investors could leverage on Singapore's Technopreneurship programme.

### Life Science and Environmental Technology

100. The Joint Study Group further agreed that Japan and Singapore could cooperate under the ambit of the JSEPA to explore the possibility of collaboration in life sciences and environmental technology.

101. The Joint Study Group, in particular, supported the efforts of the Ministry of International Trade and Industry (MITI) and the Singapore Economic Development Board (EDB) to promote bilateral cooperation in life sciences. The Joint Study Group suggested that both parties should develop the collaboration further. As a first step, researchers in both countries would jointly organise symposiums/workshops and discuss the possibility of joint research activities in the post-genomics field.

102. In addition, both countries could undertake exchange of information, consultation on cooperation or joint studies and research projects among the institutes in the following possible areas, for example:

- a. cancer gene therapy, cancer immunotherapy, neurodegenerative diseases, cardiovascular diseases and infectious diseases;
- b. characterization of fish cytokine, water circulation technology for the fish hatchery system, development of "super-small algae" as feed for fingerling, mechanism of sex determination of fish; and
- c. industrial and municipal wastewater treatment and recycling, industrial waste treatment and recycling, and industrial process waste minimisation.

103. The Joint Study Group noted that such cooperation could be expanded to the region. For instance, Japanese companies could

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leverage on Singapore to penetrate the ASEAN market. Currently, Japanese companies may be unfamiliar with the requirements and systems of the various ASEAN countries and find it cumbersome to undergo drug registration in each of the markets. Singapore could be a base for Japanese companies to co-ordinate and conduct clinical trials and develop their dossiers for drug registration in these countries.

104. Likewise, in the area of environmental services and technology, both countries could cooperate in this emerging field with a view to deepening competencies and capabilities and eventually to sharing their experiences with neighbouring countries.

### **TRADE AND INVESTMENT PROMOTION**

#### **The Extension of the Cooperation Agreement between ECICS and EID/MITI**

105. Trade and investment insurance is an essential component of the commerce value-chain. In a competitive business environment, companies must balance the need to win new and repeat orders from customers through the extension of credit, against the effect that such credit sales will have on their balance sheet and the risks of non-payment. Export insurance protects exporters against such loss. It gives them confidence to export and improves their competitive position. Insurance can also include protection against loss of assets and investments for companies expanding abroad.

106. During the height of the financial crisis in 1997 and 1998, many companies in Asia cancelled their import orders. Many went bankrupt. Large long-term private sector and government-funded projects were terminated or shelved indefinitely. On hindsight, export and investment insurance might have lessened the impact on numerous companies that were exporting to and/or investing in these Asian countries. Banks and financial institutions might also have limited their exposure to the region.

107. Current Scope. The existing ECICS-EID/MITI MOU is therefore a welcome source of investment insurance for companies.

108. Under the current scope of the MOU, EID-MITI will reinsure up to 90% of overseas investment insurance that ECICS issues to both Japanese subsidiaries operating from Singapore and Singapore companies planning to invest overseas. As it stands, the reinsurance agreement covers only overseas investments against political risks including confiscation, expropriation or nationalisation of assets and/or investments; and events such as war and civil commotion.

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109. Proposed Enhancement. The Joint Study Group welcomed the initiative by ECICS and EID/MITI to enhance the MOU by extending the scope of business activities covered from only overseas investment (currently) to include medium to long-term (2 years or more) export insurance for the export of goods and services.

### Joint Trade and Investment Promotion

110. The Joint Study Group agreed that, as leading trade promotion agencies, JETRO and TDB would discuss the possibility of collaboration by co-organising trade and investment missions and business seminars and sharing databases:

#### *(a) Trade and Investment Missions*

111. A current trend amongst Japanese companies is to shift manufacturing operations to regional markets such as China and ASEAN to take advantage of lower costs of production. Hence, there is ample scope for Japanese companies to partner with Singapore companies specialising in third party logistics and/or Singapore companies with extensive network in these countries. To help create such opportunities, JETRO and TDB could jointly organise trade and investment missions to ASEAN and other areas.

#### *(b) Business Seminars*

112. The Joint Study Group noted that the recent logistics seminars conducted by TDB were well-received by the Japanese community, attracting some 245 and 65 participants in Tokyo and Osaka respectively. By providing a platform for businessmen to network and exchange contacts with one another, such seminars help to promote greater mutual understanding between the business communities in both countries. In this regard, the Joint Study Group agreed that JETRO and TDB could jointly organise industry-specific seminars that are of interest to the private sectors in Japan and Singapore. JETRO and TDB could also encourage business associations like Japan Federation of Economic Organisations (Keidanren) and the Singapore Business Federation to jointly organise trade/investment seminars where there is sufficient mutual interest.

#### *(c) Joint Promotion*

113. JETRO and TDB could also help to market each other's products in their respective markets. As a start, JETRO and TDB could actively promote the trade fairs/exhibitions held in Japan and Singapore. By hyper-linking to the exhibition organisers' web-sites, interested participants will be able to obtain information relating to the

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exhibitions/trade fairs.

114. The Joint Study Group suggested that it would be meaningful to explore licensing and branding opportunities for companies. For example, Japanese pharmaceutical companies could acquire well-known Singapore brands to market their own products in the region.

### *(d) Database Sharing through Electronic Linkages (Electronic Business-Matching)*

115. Both JETRO and TDB currently maintain separate databases of companies in search of potential business partners. By sharing these databases and allowing easy access and registration, the two agencies can help facilitate interaction between Japanese and Singapore companies.

116. Further, JETRO and TDB could jointly set up and maintain an Electronic Exchange (E-X) where Japanese and Singapore businessmen could post their business interests electronically. This information will be transmitted instantly via the e-mail alert system to compatible companies in the other country that have subscribed and indicated their fields of interest at the E-X. This virtual match-making system will enable Japanese and Singapore companies to shorten the search time required to find suitable business partners. This will translate into greater efficiency as well as more cost savings for the companies.

117. Information sent to the subscribing companies will include the specific business interest of the initiating company (i.e., the product, quantity or even the price that the company wishes to buy/sell) and if available a hyperlink to the company's web-site (thus enabling the addressee company to obtain the profile of the initiating company).

118. JETRO has developed the previous database service into a new web-based service called Trade Tie-Up Promotion Program (TTPP) since this August in order to build up the function of information service to users. JETRO and TDB could jointly study the possibility of sharing the data on companies stored on their respective web sites in order to promote business matching. Once the sharing system is in place, JETRO could provide Japanese companies with the relevant information (in Japanese) on Singapore companies which they want to contact, while TDB could provide Singapore companies with the information on their prospective Japanese customers. JETRO and TDB will strive to solve various problems such as a unified data format and renewal of registered data in order to promote a business link between Japanese companies and Singaporean companies.

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### **SMALL AND MEDIUM ENTERPRISES**

119. The Joint Study Group acknowledged the important roles that SMEs play in the economy. In light of these discussions, the Joint Study Group gave further consideration to the idea of forging closer cooperation in promoting the SME sectors in Japan and Singapore.

#### **Importance of SMEs**

120. The Joint Study Group recognised that enhancing the vitality of SMEs is of pivotal importance in maintaining economic dynamism. By nature innovative, flexible and opportunity seeking. SMEs will be the engine of growth in the knowledge-based economies of the future. Healthy SMEs not only stimulate domestic economies but also play an increasingly important role in cross-border economic activity.

121. In Japan, SMEs have a major role in every sector of the economy, employing above 70% of wage earners and contributing more than 55% of value-added in the manufacturing sector.<sup>15</sup> In Singapore, SMEs account for about 51% of the workforce and 30% of the value-added in the manufacturing sector.<sup>16</sup>

#### **Challenges facing SMEs**

122. The recent Asian economic crisis had and is continuing to have profound effects on SMEs. SMEs have been particularly affected by a credit crunch. In the aftermath of the financial crisis, SMEs must now adapt to the rapidly changing business environment. Four main challenges can be identified, as follows.

- a. Access to markets. SMEs face special problems related to their size and may not be able to fully capitalise on the opportunities created by trade liberalisation efforts whether regionally or globally. SMEs also face difficulties finding partners or agents for joint ventures. Consequently, they often do not have strong international orientations in their business focus.
- b. Access to technology. Applications of information and communications technology are a great equaliser for SMEs, allowing them to overcome their size and reach limitations. However, their prospects would be reduced by limited access

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<sup>15</sup> Source: Management and Co-ordination Agency and Ministry of International Trade and Industry, Japan

<sup>16</sup> Source: MITI, Japan

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to or understanding of these technologies.

- c. Access to human resources. SMEs often face a shortage of technical and management-level human resources. SMEs also tend to lack the resources to constantly upgrade the skills of their workforce and equip them with new capabilities.
- d. Access to financial resources. This is essential for SMEs to upgrade and expand their business operations. Being small, SMEs usually lose out to larger companies in the competition for capital and finance.

123. Japan and Singapore have made considerable efforts in promoting their SME sectors. In its policy measures for economic recovery, Japan has placed special emphasis on its diverse SME sectors by, *inter alia*, expanding financing facilities, providing assistance to develop the human resources of SMEs and actively supporting entrepreneurship. Likewise, Singapore has put in place a 10-year plan to groom innovative high-growth SMEs, develop productive SME sectors and create a knowledge-based pro-enterprise environment.

### Scope for Cooperation

124. Given that SMEs are expected to play a significant role in our economies in the future, it is certainly in both countries' interests to cooperate and further the business partnership between Japanese and Singapore SMEs. These could be achieved as follows:

- a. Facilitating Japanese SMEs. The Singapore Productivity and Standards Board (PSB) could work to facilitate the investment of Japanese SMEs in Singapore, in areas like obtaining employment passes, accommodation and compliance with other regulatory requirements, where appropriate.
- b. Japan Business Centre. A bolder proposal is to establish a Japan Business Centre in Singapore for those Japanese SMEs keen to explore business opportunities and to exploit the enormous potential in Southeast Asia. JETRO and PSB are currently exploring the feasibility of setting up such a Centre in Singapore.

125. In addition, the Joint Study Group took note of the potential areas for cooperation as follows:

- a. Networking Programmes. A Technology Connect Programme (Tech.Connect) could be set up to facilitate

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collaboration and exchange of experiences on R&D between Japanese and Singapore SMEs. JETRO and PSB could spearhead this initiative. JETRO and PSB could also work on a series of networking activities to improve the mutual understanding of Japanese and Singapore companies. For example, PSB's Business Connect Programme can be used to create opportunities for business collaboration between SMEs from both countries.

- b. Singapore Business Centre. A Singapore Business Centre could also be established in Japan for Singapore local enterprises interested to explore business opportunities in Japan.

### **HUMAN CAPITAL MANAGEMENT AND DEVELOPMENT**

126. The Joint Study Group noted that considerable potential exists for Japan and Singapore to cooperate in developing human capital. The knowledge-based economy is one where human capital provides the key competitive advantage. We need to foster creativity in our people to create new business opportunities and generate a buzz in the economy. Governments must place emphasis on education for our children and on training and retraining workers to equip them with the skills necessary to succeed in this environment. Our people will be the single most important factor in future economic growth and prosperity.

127. At the same time, to sustain the region's recovery amidst the rapidly changing economic landscape, Japan and Singapore could also cooperate to assist regional countries in developing their human resources.

#### **Third Country Programmes for Developing Countries**

128. The Joint Study Group recommended that Japan and Singapore should explore ways to provide more technical and human resource development assistance to newer ASEAN members such as Vietnam, Lao PDR, Myanmar and Cambodia under the Japan-Singapore Partnership Programme for the 21<sup>st</sup> Century (JSPP 21). The JSPP 21 is the extension of the JSPP and encompasses a wider spectrum of recipient countries. The Joint Study Group acknowledged these efforts and called on the relevant agencies to explore possible means to further strengthen such bilateral collaboration. The Joint Study Group also recognised that Singapore is a good location to provide training in skill management and English language.

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129. The Joint Study Group agreed that there was a particular need to train the people in the regional developing countries in ICT, to prepare them for the Internet Age. As Singapore has the facilities and resources, it could be used as a training hub for such ICT training.

130. The Asian financial crisis has demonstrated the importance of strong financial systems and highlighted the need to step up institutional building and training in the regional countries. The Joint Study Group suggested that training programmes conducted under the auspices of technical assistance should focus on strengthening economic and financial institutions and long-term capacity building. The focus of training programmes should be in line with the specific needs of the individual countries in the region to ensure that technical assistance is provided appropriately and efficiently. The Joint Study Group recommended that both countries explore how technical assistance can be rendered through the enhancement of existing bilateral arrangements and in collaboration with third parties.

131. The Joint Study Group also considered the possibility of involving the private sector in organising training courses under the third country programmes. The trainees could be nominated from Japan-Singapore joint ventures (JVs) in the third country and trained in Japan and/or Singapore in a company which is a partner of or having business linkages with the JVs. The JVs and governments of both countries will share the training expenses. This will encourage more companies to train their staff in the less developed countries.

### Training Attachment/Professional Exchanges

132. The Joint Study Group agreed that Japan and Singapore could institutionalise training attachment programmes between government agencies and professional boards. Through visits and discussions, government officials from both countries could share their experiences and improve their understanding of each other's policies and operations.

### Joint Programmes between Education Institutes

133. The Joint Study Group noted that there was scope for Japan and Singapore to encourage student exchanges at institutes of higher learning. Currently, the National University of Singapore and the Nanyang Technological University have set up joint postgraduate programmes with universities such as Massachusetts Institute of Technology and Harvard University. A double degree programme for undergraduates has also been established with the French Grandes Ecoles, the Ecole Polytechnique and Ecole Centrale Paris.

134. The Joint Study Group proposed that Japanese and Singapore

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universities could consider establishing similar undergraduate and graduate programmes between themselves. The students will be taught by professors in the Japanese and Singapore universities. As in existing distance learning programmes with other foreign universities, the students need not leave their countries as the lessons can be conducted by using technologies such as videoconferencing or the Internet. Students can also download course materials and digitised lectures from the relevant web sites. The programmes could culminate with a short exchange programme. Besides Japanese and Singapore students, the programme can also be open to students from regional countries. Students could perhaps stay in Singapore and proceed to work or pursue higher education in Japan when they graduate. The Joint Study Group also suggested that the universities consider the possibility of mutually exempting exchange students from paying tuition fees.

135. To further promote people-to-people exchanges between Japan and Singapore, the Joint Study Group also suggested that Japanese and Singapore universities could bilaterally explore credit transfers.

136. The Joint Study Group noted that there were already existing exchange programmes for high school students between Japan and Singapore. Both countries should continue to explore expanding the scope of these programmes and encourage greater participation.

### Working Holiday

137. The Joint Study Group agreed to explore a working holiday programme to encourage visits and exchange by young people of both countries. This would help promote mutual understanding as well as appreciation of each other's culture and way of life. Under the programme, arrangements would be made to allow them to enter the other country for holidays for an extended period and also engage in employment as an incidental aspect of their holidays in order to supplement their travel funds.

### Responding to an Ageing Population

138. Both the Japanese and Singapore societies are ageing. The changing demographics have not only economic but social implications. The Joint Study Group noted that there was therefore scope for both countries to share information and experiences in dealing with an ageing population, in areas such as healthcare, housing/land use policies and social integration. In particular, both countries could explore ways to promote awareness of early financial planning for retirement. There is also the possibility of tapping on the experience of the aged by recruiting them as volunteers to assist in joint training programmes for developing countries in South East Asia.

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### **MEDIA AND BROADCASTING**

139. With the advent of new broadcasting technologies such as digital audio broadcasting (DAB) and digital television (DTV), the broadcasting industry is well-poised for significant growth in the coming years. Digital services allow for more channels and added features such as interactive multimedia services. This in turn translates into greater opportunities for broadcasters and content providers.

140. The Joint Study Group suggested that Japan and Singapore should cooperate in the development and provision of innovative media and broadcast services, in areas covering education, information and entertainment, not just for the Japanese and Singapore markets, but also for Asia and the rest of the world. The Joint Study Group discussed the following ideas as possible areas for future cooperation.

#### **Broadcasting Technologies**

141. As a compact city-state and a microcosm of Asia, Singapore is a good test-bed for new digital products and services. Singapore, with its multi-ethnic composition, has broad representation of the major language groups in Asia, making it a good base for developing DAB and DTV multi-lingual services, receivers and display sets. With some localisation and fine-tuning, products and services that succeed in Singapore are likely to be equally well-received in other Asian markets. In addition to using Singapore as a regional test-bed, Japanese firms could also use Singapore as a regional manufacturing and marketing base of DAB and DTV consumer electronics and broadcasting equipment.

142. The relevant authorities of Japan and Singapore decided on a Joint Study of Digital Terrestrial Broadcasting Systems and Multimedia Services in February 1998, under which field trials for the Japanese ISDB-T standard were conducted in Singapore. The study will be completed at the end of 2000. The Joint Study Group suggested that the study could be renewed thereafter to continue the exchange of information on the development of Digital Broadcasting Technology.

#### **Broadcast Programming**

143. Japanese programmes have a good following in Singapore and the region. To promote a wider audience base, the Joint Study Group suggested that, taking the opinions of private sector into account, both countries could exchange views on a framework to promote activities of the private sector in the production and distribution of content for television and other delivery platforms such as the Internet. Such

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activities on a voluntary basis could deepen cultural and economic exchanges between Japan and Singapore.

144. The Joint Study Group noted that one of the concrete areas of cooperation would be in current affairs and news broadcasting to the region. Singapore's news and information channel, Channel NewsAsia (CNA) could partner NHK as the former plans to go regional this year. There could be several levels of cooperation, as follows.

- a. CNA could screen NHK-produced programmes, obtained through acquisition or bilateral programme exchanges. CNA already has close working relations with NHK under the auspices of Asiavision in the daily news exchange. Asiavision is the news production and coordination arm of the Asia Pacific Broadcasting Union;
- b. CNA could also jointly produce lifestyle/current affairs programmes with NHK; and
- c. CNA could go into a broader business deal with NHK.

### **TOURISM**

145. The global tourism sector has largely weathered the Asian financial crisis, mainly due to the economic strength of the North American and European regions. According to the World Tourism and Travel Council, travel and tourism are expected to generate some \$3.5 trillion of GDP and almost 200 million jobs across the world economy in 1999. Approximately one third of this comes from the industry itself and the remainder from its very strong catalytic flow-through effect in other sectors such as retail and construction.

146. Southeast Asia's travel and tourism sector was hit badly by the financial crisis in late 1997 and 1998 and grew by only 0.8% (down from previous double-digit growth rates) Travel and tourism demand is expected to post its first real gain in 2000. The economic recovery in the region has also helped boost visitor arrivals into Singapore to almost 7 million in 1999, a robust 11% growth over the previous year. Arrivals from Japan accounted for 12.4% of total visitor arrivals in Singapore.

147. The economic importance of travel and tourism cannot be overstated. In 1999, it generated, directly and indirectly, across the Southeast Asian countries:

- a. 10.6% of GDP;

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- b. 15.3 million jobs; and
- c. 7.3% of total employment;

148. Looking forward, the travel and tourism industry is expected to generate 4.7 million new jobs per year across Southeast Asian countries until 2010. This would account for 12.5% of total GDP and 8.2% of total employment.

149. Given this positive outlook, the Joint Study Group has assessed that there are numerous opportunities for Japan and Singapore to actively develop tourism in the region through win-win partnerships and to capitalise on the upswing in the regional tourism and travel market.

### Promoting Regional Tourism

150. Specifically, the Joint Study Group agreed that the Japan National Tourist Organisation (JNTO) and the Singapore Tourism Board (STB) could explore the possibility of:

- a. joint promotion to increase inbound visitors to each country; and
- b. linkage between the websites of JNTO and STB.

151. The Joint Study Group noted that in the interest of consumers and the tourism industry, it would be important and useful for Japan and Singapore to:

- a. jointly identify new tourist destinations in the region for joint marketing and promotion; and
- b. facilitate international investments in tourism developments and related infrastructure projects in these regional destinations.

### Twinning Agreement

152. The Joint Study Group also agreed that there is scope for cooperation at the bilateral level, even though our tourism links are already excellent. In particular, both countries could explore the possibility of concluding a twinning agreement between Japan's Ginza Street and Singapore's Orchard Road.

153. The twinning agreement will promote the image of the respective shopping areas through a programme for business, cultural and other forms of cooperation and exchanges between them. Under the agreement, the designated parties of both countries shall actively:

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- a. promote the image of the Twinning Streets by organising and staging activities along or in the close vicinity of the Twinning Streets;
- b. facilitate contacts and enhance friendship between them through business, cultural and technical exchanges, visits and study trips undertaken between their respective personnel; and
- c. explore opportunities for cooperation in any other area which is of mutual interest to the parties.

154. Either party, at its own cost, should organise and stage activities along or in the vicinity of the Twinning Street during a certain period of the year in consultation and coordination with the other party and is solely entitled to all revenue generated from or in connection with such activities.

### **TRANSPORT**

155. The Joint Study Group recognised that there already existed excellent bilateral transport links and that such links play an important role in promoting their economic development and deepening their relationship.

156. The Joint Study Group took note of the necessity to continue the existing cooperative relationship with a view to facilitating the movement of goods and people between the two countries.

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### **III. CONSULTATION AND DISPUTE SETTLEMENT**

#### **CONSULTATIONS**

157. The Joint Study Group agreed that the JSEPA should establish a consultation mechanism under which both governments should maintain regular and frequent consultations to agree on the interpretation and application of the JSEPA, and to ensure close collaboration to bring about mutually satisfactory resolutions of any matters affecting the fulfilment of bilateral cooperations.

158. The Joint Study Group agreed that the above consultation mechanism should also work as a vehicle for both governments to consider how to keep upgrading the JSEPA as well as to encourage each other to take appropriate measures which will lead to the significant improvement of business environment between the two countries.

#### **DISPUTE SETTLEMENT**

159. The Joint Study Group agreed that Government-to-Government dispute settlement procedures would have to be established as part of the JSEPA to resolve disputes concerning the interpretation and application of the Agreement.

160. In addition, the Joint Study Group recognised that it would be useful to have a mechanism that provides for the speedy, amicable and fair settlement of commercial disputes involving business entities from Japan and Singapore. In this regard, the Joint Study Group agreed that both countries should promote the awareness of and access to the use of Alternative Dispute Resolution (ADR) mechanisms of mediation and arbitration within the mainstream legal frameworks of both nations, through the collaborative efforts of the Japan Commercial Arbitration Association (JCAA), the Japan Shipping Exchange, Inc. (JSE) and other ADR organisations in Japan, and the Singapore Mediation Centre (SMC) and the Singapore International Arbitration Centre (SIAC) in Singapore.<sup>17</sup>

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<sup>17</sup> (1) The Japan Commercial Arbitration Association (JCAA) is a non-profit organisation established in 1953 to promote resolution of disputes arising from international and domestic business transactions through arbitration, conciliation and mediation. It has about 870 members, including all industries.

(2) The Japan Shipping Exchange, Inc. (JSE) was established as a corporation in 1921 and restructured as a non-profit organisation in 1933. It has about 390 members, including companies involved in shipping, warehousing, accident

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161. The Joint Study Group noted that the JCAA and SIAC have concluded a MOU, while the JCAA and SMC are considering a MOU. The Joint Study Group encouraged these organisations to cooperate in the following areas in accordance with these MOUs:

- a. the provision of mediation and arbitration services;
- b. the provision of training in negotiation and mediation skills (in the case of the SMC) and arbitration skills (in the case of the SIAC);
- c. the provision of consultancy services for dispute avoidance, dispute management and ADR mechanisms; and
- d. the provision of facilities for arbitration hearing (subject to agreement for reimbursement of fees & expenses) and assistance in selecting and appointing suitable arbitrators in appropriate cases.

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insurance, insurance of shipowners' liability and finance. Under the rules of maritime arbitration of the JSE, JSE arbitrates the dispute of agreements and damages in collision between two ships.

(3) The Singapore Mediation Centre (SMC) is a non-profit organisation established in 1997 to provide Singapore and Asia with commercial mediation services. Its services include:

- a. the provision of mediation and other ADR services;
- b. the provision of facilities for negotiation, mediation and other forms of ADR;
- c. the provision of training in negotiation and mediation skills;
- d. the accreditation and maintenance of a panel of mediators;
- e. the provision of consultancy services for dispute avoidance, dispute management and ADR mechanisms; and
- f. the promotion of mediation and other ADR services.

(4) The Singapore International Arbitration Centre (SIAC) was established in 1991, and has adopted a set of arbitration rules developed by the United Nations Commission on International Trade Law.

## **ELECTRONIC TRADE DOCUMENT EXCHANGE SYSTEM**

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1. To facilitate seamless and secured trade-related information and document flow between importers and exporters of Japan and Singapore, the Joint Study Group has agreed that Japan and Singapore should establish an Electronic Trade Document Exchange System (ETDES).

### **CURRENT SITUATION**

2. Currently, the typical information and documents flow between say, a Singapore exporter and its Japanese importer(s), is as follows. First, the Singapore exporter or its agent (e.g. freight forwarder) will apply to the relevant authorities in Singapore for clearance to export its products to Japan. It will then send the relevant information and documents<sup>18</sup> pertaining to this export of products to its Japanese importer(s), usually via e-mail, facsimile transmission or courier service. The Japanese importer(s) will make use of the information and documents sent by the Singapore exporter and separately apply to the relevant authorities in Japan for import clearance.

### **BENEFITS OF THE ETDES**

3. The ETDES will benefit importers and exporters in three aspects:
- a. Speed. Compared to courier/facsimile, an electronic system will provide a more timely and efficient mode of transfer, since information/documents do not have to be duplicated and forwarded to multiple importers.
  - b. Cost. It will also reduce the cost of despatching the information/documents by courier to the importers.
  - c. Security. Companies that are currently already transmitting their trade-related information/documents by e-mail to their overseas buyers can also expect to gain in terms of greater security. Specifically, security features that ensure the confidentiality and integrity of the documents or information exchanged can be incorporated.

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<sup>18</sup> Some examples of such trade documents are commercial invoices, packing lists, insurance certificates, bills of lading, airway bills, etc.

## **FEATURES OF THE ETDES**

4. To implement the ETDES, the Joint Study Group has agreed that Japan and Singapore should set up document exchange servers in their respective countries. The document exchange server(s) are meant for traders, if they so wish, to deposit all the necessary information and documents pertaining to a particularly trade transaction. These information and documents will then be electronically channelled to the relevant parties, as authorised by the traders. Please refer to diagram below for a schematic representation of the proposed linkage via the ETDES.

5. The Joint Study Group has agreed on the salient features of the document exchange servers, which are as follows.

- a. They should operate on a commercial basis. Specialised private entities with the requisite expertise can provide faster and more effective deliverance of the system. In addition, a system thus developed is likely to be more commercially viable and more attuned to the needs of the business community.
- b. They should contain sufficient safeguards so as to ensure confidentiality and integrity of information transmitted between the document exchange servers. In this respect, there is a need to provide for cross-certification of electronic certificates/signatures accompanying the electronic trade documents to ascertain the identity of the originator of these documents.
- c. The document exchange servers should also be recognised by the relevant bodies in both countries. Recognition will ensure the integrity and confidentiality of information/documents exchanged under the system. In this way, an importer that receives information/documents from its exporter can be assured that the information/documents have not been tampered with.

## **ACTION PLAN**

6. To implement the ETDES, the Joint Study Group has agreed that Japan and Singapore should encourage cooperation between the relevant parties of both countries in the areas outlined below:

- a. invite private entities to provide the document exchange service, for example, through tenders;

- b. develop the appropriate ICT infrastructure that will ensure inter-operability and secure transmission of information/documents;<sup>19</sup>
- c. develop recognised documents exchange servers that will cater to the needs of the importers/exporters. To this end, the document exchange servers should have the following features:
  - i. a system to register and confirm the identification of the users (i.e. importers and exporters or their agents) of the document exchange servers. Only approved and registered users will be allowed to deposit and transmit information/documents through the document exchange servers;
  - ii. a process to authenticate the digital signatures of approved users;
  - iii. a verification mechanism to ensure that the electronic documents are deposited or transmitted upon authorisation by the user;
  - iv. a system to monitor and track the trail and revision history of the electronic documents;<sup>20</sup> and
  - v. an audit system to ensure that the above procedures/safeguards are fully complied with and functioning effectively;
- d. establish a framework to provide the appropriate legal status to the document exchange servers and its content, as well as to govern the obligations and liabilities assumed by the government bodies, the document exchange server service providers and the users. The Joint Study Group agreed on the need to create three tiers of legal relations:
  - i. a binding legal relationship between users and the document exchange server service providers;
  - ii. a binding legal relationship between the document exchange server service providers of Japan and Singapore; and

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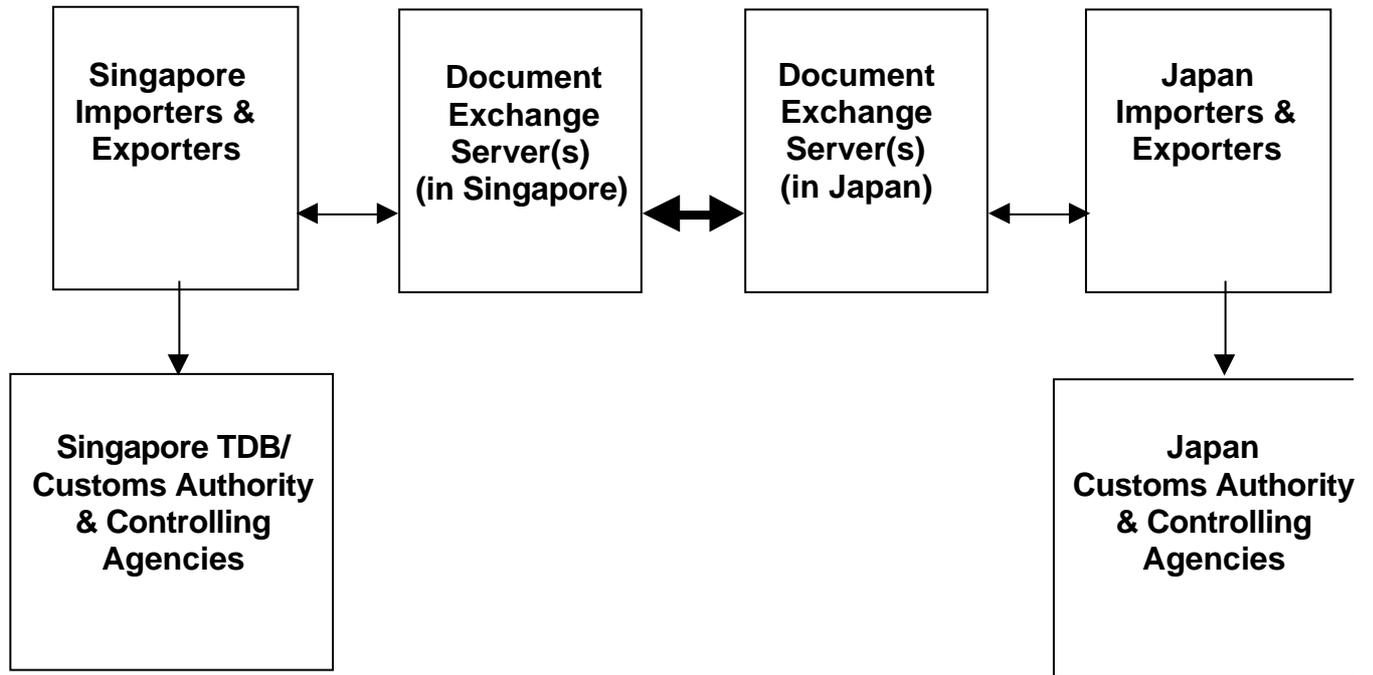
<sup>19</sup> Interoperability can be achieved via the Internet, lease-line or other value-added networks.

<sup>20</sup> That is where the documents have been sent to and received from.

- iii. adherence to national legislation or international codes/practice covering general areas of electronic commerce such as digital signature and admission of electronic documents as valid documents;
- e. develop cross certification of electronic certificates and signatures. One possibility is for the two governments to develop this through having a Public Key Infrastructure (PKI) interoperability arrangement that would allow cross-recognition by the certifying authorities of each country;
- f. explore the feasibility of having a facility for the information in ETDES to be compiled as a value-added service to the users; and
- g. assess the commercial needs for users to transmit the bill of lading electronically.

Both sides are confident that once the above areas are implemented, the ETDES will be ready to be put into operation by the relevant private entities.

Schematic Representation of the Proposed ETDES  
between Japan and Singapore



## **POSSIBLE BILATERAL COOPERATION INITIATIVES FOR FINANCIAL SERVICES**

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### **REGULATORY COOPERATION**

1. Globalisation and the emergence of the Internet as an alternative channel for financial transactions challenge traditional regulatory concepts of jurisdiction and investor protection. In addition, regulators must meet the need both for implementing sound prudential policy and for maintaining an environment that does not stifle legitimate market innovations. Closer regulatory cooperation between national regulators can help regulators cope with these new challenges. This will improve mutual understanding of the respective regulatory regimes. Regulators would also be able to work together in various areas, including the oversight of global financial institutions with a view to minimising systemic risks and limiting contagion effects in the event of a crisis. Another important benefit of regulatory cooperation is that residents of both countries will become more confident about Internet financial transactions with the other country.

2. The Joint Study Group agreed that regular bilateral meetings to exchange views and share experiences on market trends and regulatory developments would be valuable. Also considered were exchange programmes to foster closer relations. In relation to supervisory issues arising from financial services transactions over the Internet, the regular bilateral meetings could consider issues such as:

- a. review of the existing regulatory framework for financial service providers that have no physical presence in each country's jurisdiction;
- b. review of requirements for admission and operating standards for financial service providers operating over the Internet;
- c. enhancing security of Internet financial transactions;
- d. use of the Internet to foster investor education and transparency; and
- e. cooperation in supervision of financial service providers operating over the Internet, and in surveillance of Internet financial transactions.

3. The Joint Study Group also supported the initiatives by various

regulatory agencies to undertake Memoranda of Understanding (MOUs). These MOUs will formalise regulatory cooperation, covering issues such as mutual assistance and the exchange of information necessary for supervision of financial transactions.

## **COOPERATION IN CAPITAL MARKET DEVELOPMENT**

4. Technology has created a more competitive environment for global capital markets. For example, the increasingly global orientation of investors has intensified competition amongst leading equity and derivatives exchanges. This has led to strategic alliances of key players in capital markets, aimed at enhancing the depth and liquidity of their markets, thus safeguarding their competitive position. In addition, traditional bourses also have to compete with new non-traditional players such as electronic communication networks (ECNs) or information providers. Asian capital markets face the same challenges and must improve their competitive position or risk losing even their domestic/regional investors.

5. The Joint Study Group welcomes the recent agreement between the stock exchanges of both countries to strengthen cooperation, and recommends that Japan and Singapore encourage closer cooperation between our respective capital markets to ensure that our markets remain competitive and attractive. The relevant authorities in both countries can work together to facilitate such cooperation by promoting the development of a conducive market infrastructure and regulatory environment. Some ideas discussed in this context were the following:

### **Capital Market Linkages**

6. The linkage of Japanese and Singapore capital markets can help to pool liquidity of both markets. With a larger combined market, there is a greater scope to develop and promote new and innovative financial products. The possibility of cross-trading financial products listed in both countries may provide another investment opportunity for domestic as well as regional and international investors.

7. The development of a co-trading linkage may also enhance market efficiency and lower trading costs for investors. It provides financial institutions and investors with direct access to financial instruments traded in both markets, which lowers the costs of cross-border trading. This could in turn encourage greater cross-border trading, thus boosting liquidity in both markets.

## Improving Market Infrastructure

8. To help develop broader and deeper capital markets that are globally competitive, we must ensure that the supporting market infrastructure is efficient and reliable. Where government leadership is desirable and possible, Japan and Singapore can co-operate to improve market infrastructure.

9. The Joint Study Group discussed cross-border clearing and settlement linkages as an area of possible cooperation. Bilateral collaboration in this area would not only benefit both countries, but also contribute to the overall safety and stability of the regional and world markets.

10. Three types of linkages were raised in the discussions. First, for the clearing of securities: a linkage between the central securities depositories of both countries will enable investors to settle their cross-border trades through existing facilities. Second, for the clearing of high value interbank funds transfers: a linkage between the Real-Time Gross Settlement (RTGS) systems of Japan and Singapore will help to minimize the foreign exchange settlement risks. Third, for the clearing of cross-border retail payments, an Asian Regional Clearing Mechanism or a linkage between the Automated Clearing Houses of Japan and Singapore will help speed up and reduce the cost of intra-regional payments flow.

11. Other possible areas of collaboration raised in the discussions include the area of retail payment instruments (e.g. development of a Multi-Purpose Stored Value Card that can be used in either country) and the enhancement of existing cheque clearing facilities such as cheque truncation which uses electronic images of cheques during the payment process.

## Bond Market Development

12. An integral part of developing competitive capital markets is the development of deep and liquid bond markets in Asia. This will mobilise domestic savings for longer-term financing needs of Asian countries, reducing the reliance on short-term bank borrowing. It will also provide an alternative investment venue for international investors looking for greater risk diversification across geographical regions. Global fund managers seeking a better risk-return mix can turn to Asian bond markets.

13. The Joint Study Group sees it as important that Japan and Singapore cooperate to bring together issuers and investors. An example of such cooperation raised by the Joint Study Group was that market participants of both countries hold joint promotion or road shows to increase awareness of Asia as a debt market among global issuers and investors. The two countries could also co-operate in facilitating cross-

border bond trading by improving market infrastructure, including clearing and settlement systems.

## **CO-INVESTMENT COOPERATION**

14. The Asian financial crisis has revealed the structural vulnerabilities of Asia's corporate sector in its heavy reliance on bank borrowing. Sustainable recovery of the corporate sector on a solid foundation will require equity finance, which is still scarce in the region. The Joint Study Group explored the importance of Japan-Singapore cooperation to promote and complement equity investment in the region. The governments of both countries could consider co-investment in the region through equity finance between their agencies and with other strategic business partners.

15. The Joint Study Group recommended further consideration of co-investment cooperation between the appropriate agencies of Japan and Singapore.<sup>21</sup>

## **PROMOTING MONETARY AND FINANCIAL STABILITY AND THE INTERNATIONALISATION OF THE YEN**

16. The Joint Study Group sees it as important that Japan and Singapore cooperate to contribute to regional and international financial stability.

17. From this point of view, the Joint Study Group would welcome an enhanced role of the yen and noted that several of the proposed areas for bilateral financial cooperation could lead to the increased internationalisation of the yen. The Joint Study Group recommended further consideration of these proposals for this purpose, and to facilitate and encourage trade and investment between Japan and Singapore.

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<sup>21</sup> A private sector member from the Japanese side suggested his personal ideas for the investment initiative. (See [Appendix](#).)

**JOINT INVESTMENT INITIATIVE FOR JAPAN AND SINGAPORE**  
**By Hajime Shinohara**

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**Background of the Initiative**

1. The Asian monetary crisis dealt a serious blow to the Asian economy, resulting in many countries in the region experiencing a substantial drop in economic growth rates in 1998. However, since 1999, all of these economies have recorded positive growth rates in real terms, albeit at a different pace of recovery. Factors responsible for such an economic recovery include trade expansion, the implementation of appropriate fiscal and monetary policies as well as reforms made in the financial and corporate sectors, among others.
2. These Asian countries have taken specific measures to stabilise their financial systems. These include creating agencies to settle non-performing assets, revising the legal system, promoting capital increases or realignments of financial institutions and closing or nationalising banks whose reconstruction is deemed impossible. Consequently, the increasing trend of non-performing assets has generally been arrested and the total level is diminishing in many countries. However, the outstanding level of loans made by financial institutions in these countries has also continued to diminish, and this has become a factor deterring recovery in production. The restoration of financial institutions' function to intermediate financing is crucial in order to restore the Asian economy to a stable growth path. But there are too many issues to be solved, and these are feared as potential obstacles to the full-scale recovery of the real economy.
3. Frameworks are being set up in these Asian countries to help restructuring private corporate debts. However, fundamental solutions are required, including securing transparency in corporate finance through establishing better accounting systems, ensuring the effectiveness of bankruptcy law and strengthening the capability of banks that are the main creditors.
4. In addition, the main feature of the Asian financial systems is the high level of reliance on indirect financing. As the last monetary crisis showed, a financial system that is overly reliant on indirect financing is vulnerable at times of monetary crisis. In Asia, indirect financing is perceived to continue an important role in supplying capital to foster base industries providing basic technology, but diversification of channels for supplying capital is desirable to minimise the adverse effects of crises.

## **Basic Concept**

5. Recovery of the private sector is indispensable to a full-scale recovery of the Asian economy along with the implementation of economic reforms by the governments in the region. In particular, activating the basic industries would sustain the economic growth of these countries, and provide a foundation for more stable economic growth in the future. Moreover, fostering of new industries by utilising advanced technology, such as IT and biotechnology is also necessary to further upgrade the economies of the region. Asian countries should endeavour to create an environment to encourage the private sector if these economies are to be competitive in the market economy.

6. From such a perspective, it would be very significant for Japan and Singapore, which have the capacity to supply capital to these Asian countries, to jointly take an initiative to activate the private sector in Asia. In view of the financial sector reforms being undertaken in each country, it will be essential to establish a scheme with the co-operation of the two countries to provide direct financing in the form of equity finance to private companies that require capital. This initiative should also aim in the future to mobilise capital in the region, with the scheme serving as the core of such financial transactions.

7. Noting the view that providing public funds to private corporations is in effect subsidising them and that it could distort the market mechanism, it will be necessary to establish a principle that private corporations to which such capital is provided must be profitable on a commercial basis. Moreover, in order to prevent any adverse effects on the corporate restructuring efforts, such corporations practising good governance, including improved corporate financing and transparency should be selected.

## **Specific Steps of Joint Investment**

8. Based on the present economic situation in Asia and the concept of joint investment, the proposed ideas described below are identified as specific steps for the joint investment to be made by Japan and Singapore.

9. Further discussions by those concerned in both the government and private sector of the two countries are expected to formulate the structure of the proposed joint investment.

## **Objectives**

10. Government agencies in Asia, centring on Japan and Singapore, will mobilise private sector equity funds that are required to activate the private sector in the region.

11. By promoting private equity investment, equity financing supply channels in the region should be diversified to complement direct financing markets that are still in the developing stage.
12. In cooperation with the government and government agencies of the countries in the region, the scheme will contribute to the promotion of private equity investment, improve corporate governance and upgrade financial and investment technological capability.
13. Simultaneously, the scheme will also assist in creating systems for technical cooperation and intellectual support in important policy investment areas, such as infrastructure in the private sector, corporate restructuring and advanced technology including IT, environment etc.
14. In these important policy investment areas, the scheme will provide investment opportunities to private investors from both within and outside the region in such good investment projects with a high degree of commercial success.
15. The scheme will also provide diverse good investment opportunities to pension funds in Asia, which are expected to grow.

### **Framework for the Joint Investment Initiative**

16. In order to provide flexible opportunities in diverse investment areas and projects, multiple joint investment projects, which are suitable to individual investment areas and projects, will be implemented under the comprehensive framework of the joint investment initiative.
17. Although joint investment will be made in investment areas and projects that match the policy objective of the comprehensive framework, the government agency that undertakes the investment will be responsible for individual project organisation and investment judgement.
18. The role of government agencies in joint investment projects will be in complementing and encouraging private investment, with the objective of carrying out a catalysing function, such as co-ordination with the parties concerned (including governments) and controlling political risk as well as providing collaboration with technical co-operation and intellectual support.
19. Although the initiative will centre on Japan and Singapore, the door will be widely open to other countries in the region, and their participation and co-operation in joint investment projects will be invited.
20. As a specific measure of co-operation, investment areas will be selected from those of policy importance to Japan and Singapore, the expertise of the implementing government agency, and Asian regional

needs. Consideration will be given to establishing plural equity funds specialising in individual fields.

21. In addition, the establishment of a fund to guarantee the activation of the regional bond market as well as implementing joint direct investment to projects, strategically important to both countries, will also be considered.

### **Investment Areas**

22. Investment projects to be covered will be good projects in the Asian region, which have high policy importance to both Japan and Singapore.

23. In selecting the investment projects, only those profitable projects that can promise sufficient returns and mobilise private investment will be considered.

24. Investment areas will be limited to: (a) co-ordination among concerned parties (including participating governments); (b) identification of potentially profitable investment projects; (c) collaboration with other public support schemes, including technical co-operation and intellectual support; (d) controlling political risk; and (e) areas requiring investment by government agencies from the viewpoint of enlightening investors.

25. Investment is anticipated in the following areas.

- a. private sector infrastructure projects such as power, telecommunication, transport, water, etc. that would improve infrastructure in the region, privatisation projects of state corporations and public enterprises;
- b. resource-development projects and related infrastructure projects that would help with the stable supply of energy in the region;
- c. restructuring of corporations (including small- and medium-size companies) that are important in terms of industrial policy and have potentials for growth;
- d. venture businesses for commercialising advanced technology, such as IT and biotechnology; and
- e. energy efficient projects and environmental improvement projects with high commercial values that would help in improving the regional environment.

### **Basic Principles of Equity Funds**

26. Funds will be created by capital contribution through the

cooperation of the public sector (government agencies etc. of Japan and Singapore) and the private sector (institutional investors both within and outside the region, pension funds, Asian corporations, etc.) but the capital share of the public sector will be within the scope required for the catalysing function.

27. Participation of governments and government agencies in the region, other than Japan and Singapore, will be widely sought.

28. Fund managers and advisors, who will assume identification, evaluation, inspection and management of projects, should be internationally first-class professionals with a high degree of expertise, and investment will be done on a commercial basis.

29. In order to ensure conformity with policy objectives and to minimise risks, fund managers will invest in accordance with investment guidelines setting limits on operations relating to investment areas, countries and projects.

30. In addition to the investment activity, the funds are interested to improve the investment environment, advise on upgrading the corporate governance of projects and transfer the latest financial and investment technologies to participating investors.

31. While government agencies participating in the funds will not be involved with the daily management of the respective funds, they will support the funds by formulating the basic management policy, negotiate with the host government on improving the respective investment environment and provide deal flows on good investment projects.

32. The participating government agencies will also support the activity of the funds by assisting in setting up schemes to provide technical cooperation and intellectual support in these investment areas.

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