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**When FTAs cut across continents: A new study assesses Singapore's pursuit of FTAs with the US, Japan and other countries**

**By Chuang Peck Ming**

LAST weekend's Summit of the Americas in Quebec City promised to breathe new life into a seven-year-old dream – the creation of the world's biggest free trade bloc, stretching from the frozen north of Canada to the southernmost tip of Latin America.

All of America's trading partners, Singapore included, should take note. If it materialises, the Free Trade Area of the Americas (FTAA) will have major implications for their trade with the United States, as well as investments from the US. Apart from being the biggest market and investor for many Asian countries, the US would also be the FTAA's key driver.

It is for this very reason that Singapore is working hard to strike a trade agreement of its own with the US. Although Singapore has been criticised by its regional partners for this move, what's clear is that Singapore is 'ahead of the curve' on this front; it's quite likely that many countries will soon follow suit.

Ironically, despite its active pursuit of free trade deals in recent years, it was the US which set in motion this new trend on the trade front, according to a study by three Asian academics.

'The US, when faced with opposition from the EU and some developing economies during the Tokyo Round of Gatt negotiations, decided to liberalise via the preferential trading route,' note Ramkishan S Rajan, Rahul Sen and Reza Siregar - the first from the University of Adelaide and the latter two from the National University of Singapore.

'This was the start of the era of the wave of the so-called new regionalism,' they say in a recent joint study titled Singapore and the New Regionalism.\*

'The US . . . at that time appeared willing to negotiate FTAs (free trade agreements) with any and all interested parties as a means of maintaining forward momentum towards trade and investment liberalisation . . . '

This, it must be pointed out, was in the early 1990s. Singapore, which depends on trade for its livelihood, turned to FTAs much later for the very same reason - to push the momentum for liberalisation.

In Singapore's case, there were some frustrations too. First was the disappointingly slow progress of talks to liberalise global trade. Then, the moves towards freer trade in Asean, the Association of Southeast Asian Nations, was held up by the East Asian financial crisis.

Also, Apec, the Asia-Pacific Economic Cooperation forum, another regional grouping on which Singapore placed its hopes, grew too big and unwieldy, say Rajan, Sen and

Siregar. 'It (Apec) appears ill-equipped to handle substantive trade and investment liberalisation issues effectively,' they say.

FTAs are not without costs (see accompanying story) but, in the authors' view, the gains far outweigh the costs. Apart from greater market opening and investments, the preferential market access that Singapore secures could also channel more transshipment of goods through its ports. This will help fortify its dominant role in entrepot trade.

There are the non-economic rewards as well. 'FTAs could serve as a vehicle by which Singapore draws attention to itself and enhances the city-state's political recognition and profile with the integrating partners,' according to the authors.

Singapore is not about to dump its Asean and Apec partners, or the multilateral approach that the World Trade Organization (WTO) takes in trade liberalisation, they add. Not only does it see FTAs as an easy and practical way to beat the difficulties facing the WTO, a surge in their number could also build up political momentum for other Asean and Apec members to speed up trade liberalisation.

Singapore has so far sealed a free trade pact with New Zealand and is working hard on several others. The agreement last weekend in Quebec to create the FTAA has added urgency to its efforts, especially in clinching a trade deal with the United States.

Prime Minister Goh Chok Tong is expected to call on Washington soon to push forward the ongoing US-Singapore FTA talks. Singapore hopes to bring home an agreement with the US by year-end. If that happens, it will be the first FTA the US has with an Asian country.

In a way, say Rajan, Sen and Siregar, a US-Singapore FTA would be a 'formalisation of the de facto extensive and deep linkages' that already exist between the two nations.

The US accounts for nearly a fifth of Singapore's total merchandise trade. In 1999, US investments made up almost half of the total investments in the manufacturing sector, and a third of the investments in services.

Singapore and the US have also put in place key planks – business tie-ups between US states and Singapore, as well as pooled efforts in science and technology - to smoothen two-way trade in services.

'The proposed FTA between Singapore and the US would be expected to further increase such collaborations in these and other sectors,' the authors say.

Similarly, a trade pact between Singapore and Japan, also in the works, would be a formal recognition of their deep economic linkages. It would also be a significant event - marking a first for Japan which, along with Hongkong, has been the only country that has so far not struck any free trade deals.

On the surface, Singapore has more to gain from a deal with the Japanese than with the Americans. Rajan, Sen and Siregar point out that, unlike with the US, Singapore runs a persistent and growing trade deficit with Japan.

The deficit reflects in part Japan's closed market and the failure of foreign exporters - including Singapore - to penetrate it. So striking a trade agreement with Japan ought to open its market to Singapore companies.

But while Singapore enjoys a surplus with the US, trade protectionism could rear its ugly head in the US if its overall trade gap keeps growing, the authors say. And the possibility looks very real as the US economy slows down.

A free trade deal with the US would therefore be particularly timely now; it would be an 'insurance policy' against any tariff walls put up by US trade protectionists.

At the same time, it would ensure that Singapore would not be shut out of the American market if last week's Summit of the Americas lives up to its promise.

So the authors' bottom line is clear-cut: While Singapore has much to gain from a free trade deal with Japan, it stands to lose even more if it fails to cut one with the United States.

\*Singapore and the New Regionalism: Bilateral Economic Relations with Japan and the US. By Ramkishen S Rajan, Rahul Sen and Reza Siregar. February 2001.