# SINGAPORE'S NEW COMMERCIAL TRADE STRATEGY: THE PROS AND CONS OF BILATERALISM

**by**

**Ramkishen S. Rajan* and Rahul Sen****

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* Senior Lecturer, School of Economics, University of Adelaide, Australia. E-mail: ramkishen.rajan@adelaide.edu.au

** Research Scholar, Department of Economics, National University of Singapore. E-mail: artp8238@nus.edu.sg

*"We draw sustenance not only from the region but also from the international economic system to which we as a Global City belong and which will be the final arbiter of whether we prosper or decline" (S. Rajaratnam, 1972: Quoted in Chan and Obaid, eds., 1987).*

## 1. Introduction

The current recessionary environment and general sense of pessimism in Singapore should in no way detract from the fact that the city state has been one of the most dynamic economies in the world over the past three decades, and that growth has been highly durable (Table 1). A milieu of factors has contributed to Singapore's economic success. These include its favourable location along Southeast Asia's major shipping and air trade routes in addition to having a deep natural harbour, high quality infrastructure, a stable political system, an efficient bureaucracy and exemplary economic management. While all these elements are of importance, a key ingredient of Singapore's hitherto successful growth strategy has undoubtedly been its outward orientation, particularly its openness to trade and investment flows. Accordingly, Singapore has been a leading advocate of global trade liberalisation and the free flow of goods and services across international borders. Indeed, despite its microscopic physical size, the World Trade Organisation (WTO) ranked Singapore as the tenth largest merchandise trading nation in the world and among the top twenty in the cross-border trade in commercial services (Tables 2 and 3).

Nonetheless, pragmatically recognising its limited influence in the multilateral arena where recent progress on many important issues relating to trade and investment liberalisation seems to have been rather slow and negotiations prolonged, halting and rather unwieldy (some go so far as to say multilateralism has become altogether dysfunctional, Singapore has simultaneously pursued a second track to liberalisation via the regional route. Regionalism has to date involved both the Southeast Asian region via the ten-member ASEAN (Association of Southeast Asian Nations) grouping and the larger Asia and Pacific region via the twenty-one member APEC (Asia Pacific Economic Cooperation) grouping. However, indications are that the recent financial crisis has held up the pace if not commitment by some of the ASEAN members to trade liberalisation and seems to have sapped the organisation's collective economic strength; while APEC has become large and unwieldy and appears ill-equipped to handle substantive trade and investment liberalisation issues effectively (Ravenhill, 2000). Accordingly, Singapore policy makers have underscored the need to explore alternative liberalisation paths, i.e. third and fourth tracks. Consequently, Free Trade Arrangements (FTAs) have become an integral part of Singapore's new commercial trade strategy which in turn is the cornerstone of the city- state's larger international economic policy[1].

This paper examines the reasons for and against Singapore's attraction to the "new regionalism" in general and cross-regional bilateral FTAs (bilateralism for short) in particular[2]. The remainder of this paper is organised as follows. It is important to appreciate the performance of Singapore's external trade over the years and the relative significance of the various trading partners in Singapore's overall external trade. As such, by way of background, the next section examines some dynamics of Singapore's global trade performance the last two decades as well as the country composition of the city-state's trade. Data limitations restrict the analysis in this section to merchandise trade. This is indeed regretful. Continued omission of services trade (particularly at the bilateral level among major trading partners) and its liberalisation in such empirical analysis is becoming progressively more glaring in view of its

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[1] Given the definition of FTAs, Jagdish Bhagwati notes that term "preferential trade arrangements" (PTAs) is a more apt description. As he declares of such trade arrangements (Bhagwati, 1995), they are: "two-faced: they embody both free trade and protection. Economists interested in the quality of public policy discourse should perhaps take a pledge henceforth to rename free trade areas as "preferential" trade areas" (p.2). We use the terms free or preferential trade "agreements", "arrangements", "pacts" and "accords" interchangeably in this paper.

[2] The term "regionalism" is not meant to have any geographic connotation, referring to any trade initiatives that are not multilateral in nature. Rather than "new regionalism", some prefer to use the term "second regionalism" in contrast to the "first regionalism" of the 1950s and 1960s which involved mainly South-South economic integration, i.e. FTAs among developing economies as part of import substitution development strategies (Lawrence, 1999 and Rajan, 1995). As Lal (1993) notes, "historically, FTAs have been the economic policy of the uncompetitive and the foreign policy of the weak" (p.353). Ethier (2000) provides one of the few theoretical discussions of the new regionalism.

mounting importance in global output and trade[3]. Section 3 highlights the reasons for and further motivations behind Singapore's drive to form a series of bilateral FTAs in general and with the two economic super-powers, the US and Japan, in particular. This is followed by a discussion of the drawbacks and potential concerns of such a "go-it-alone" trade strategy in the penultimate section. The final section concludes with a brief discussion of the possible implications of the recent round of multilateral trade negotiations in Doha for Singapore's pursuit of bilateral FTAs, as well as the nexus between the new regionalism and multilateralism. Are the two antagonistic or are there inherent synergies between them? We explore this question and the consequent implications for Singapore's new commercial trade strategy.

## 2. Singapore's Merchandise Trade Linkages

### 2.1 Aggregate Trends, 1980-2001

In nominal terms, Singapore's total merchandise trade (exports plus imports) has risen almost seven times from US$ 40 billion in 1980 to over US$ 270 in 2000, an annual average growth of 9.6 percent (Figure 1). Over the entire period, Singapore suffered negative annual growth rate in merchandise trade (i.e. exports plus imports) in only three years, i.e. the recession of 1985 and 1986 and then in 1998 during the global electronics downturn and ensuing East Asian financial crisis. Although Singapore recovered smartly from the 1998 crisis, expanding by over 20 percent in 2000, it has once again been the victim of the downturn in the global electronics cycle as well as the general deterioration in the external environment (particularly the sharp slowdown in the US and continued recession in Japan). Thus, Singapore's trade grew a mere 2 percent in value during January-June 2001 as opposed to a 22 percent rise during the same period in the year 2000 (Figure 2). The situation appears to have markedly gotten worse in the second half of 2001, consistent with the slump in overall economic growth (MTI, 2001).

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[3] For a recent general discussion of the growing importance of services trade worldwide and various

Singapore's global merchandise exports grew at an annual average rate of 10.3 percent over the 1980-2000 period. The dynamics of export growth parallel those of merchandise trade, i.e. total exports also suffered negative growth in the mid 1980s and late 1990s, with the decline in export growth being much sharper in the latter case. It rebounded by 20 percent year-on-year in 2000, but has since fallen off rather dramatically in 2001. Disaggregating the export performance into domestic and re-exports, we observe that the average growth of Singapore's re-exports, which reflects the entrepot activity of the economy, was 11 percent during the 1980-2000 period. This was marginally higher than that of domestic exports (9.8 percent). During the 1985-86 recession, the decline in re-exports was more pronounced than that of domestic exports; the reverse was true during the 1998 regional crisis period. Immediately following the regional financial crisis, while domestic exports rebounded speedily in 1999, re-exports still suffered negative growth. However, the rapid growth of total exports in 2000 was largely due to a belated but definite rebound in re-exports.

The non-oil component of the city state's domestic exports registered a negative growth of 3.2 percent in the first six months of 2001 compared to a positive growth of 11.6 percent during the same period a year earlier. The decline in this component of exports dramatically intensified in the latter half of 2001 (MTI, 2001)

It is against this background of recent disappointing trade performance that Singapore has attempted to aggressively source preferential accords with a number of its trading partners. Singapore has already established a bilateral FTA with New Zealand, and is in the process of negotiating ones with Japan, the US, Australia, Canada, Mexico and the European Free Trade Area (EFTA), which consists of Iceland, Liechtenstein, Norway, and Switzerland. Table 4 summarises the bilateral initiatives currently being pursued by Singapore and their respective stages of negotiations as of December 2001. A trade arrangement with Chile is also being seriously contemplated, while ones with other countries, most notably,

approaches to liberalisation of trade in services, see the WTO (2001a, chapter IV: 5) and Prieto and Stephenson (1999).

[4] However, if this is the intention, this, along with APEC's moratorium on new members, is evidence that APEC has forsaken its much-touted but vague principle of "open regionalism" (Schiff et al., 2000 and Srinivasan, 1998).

India and the European Union (EU), have also been seriously mentioned at various times. In view of this, it would be useful to briefly examine the geographical distribution of Singapore's trade. Of what significance is each of these countries/regions to Singapore's overall global merchandise trade?

## 2.2 Country Composition of Singapore's Trade, 1995 and 2000

Figure 3 offers a snapshot of Singapore's total exports to its major trading partners in 1995 and 2000. Neighbouring Malaysia is currently the single largest export destination, accounting for nearly a fifth of Singapore's total exports, followed closely by the US (17 percent) and the East Asian economies including Hong Kong (7.9 percent), Japan (7.5 percent) and Thailand (4.3 percent). Overall, in 2000, more than half of Singapore's total exports were destined for the ASEAN- plus-Three (or APT) economies (i.e. ASEAN plus Japan, China, and Korea) and the US. The shares of most of Singapore's major trading partners in their total exports declined in 2000 compared to 1995, with the exceptions of Australia, China, India, and Korea (the first three were relatively unimpacted by the 1997/98 regional crisis). Specifically, Singapore's exports to the large emerging market economies of China and India grew at average rates of 19 and 12 percent respectively during the period, which was significantly higher than the growth of the city state's exports to its top five established trading partners. China, the Republic's fastest growing market, increased its share in Singapore's exports from 2.3 percent to 3.9 percent during this period, the largest increase in export shares among Singapore's major trading partners. At a subregional level, the share of major ASEAN countries in Singapore's exports declined between 1995 and 2000.

The preceding analysis does not distinguish the entrepot component of exports (re-exports) from the value-added component (domestic exports). Re-exports have, on average, constituted between 40 and 60 percent of Singapore's exports with the exception of North American countries (viz. US, Canada) and some East Asian ones (Japan, China and Hong Kong). Considering only domestic exports, we note that in 2000, the US remained Singapore's top export market, accounting for nearly a quarter of Singapore's domestic exports, followed by East Asian economies viz. Malaysia (13.5 percent), Japan (8.5 percent), Hong Kong (7.7 percent) and Thailand (3.4 percent). Overall, as in the case of total exports, more than half of Singapore's total domestic exports went to the APT economies and the US (Figure 4).

Figure 5 presents Singapore's total imports from its major trading partners and regional groupings for the same period, viz. 1995 and 2000. Japan has consistently been the single largest source of imports, accounting for 17.2 percent of Singapore's total imports in 2000, followed by Malaysia (17 percent), the US (15 percent) and other East Asian economies including China (5.3 percent), and Thailand (4.3 percent). Overall, nearly half of Singapore's total imports was obtained from the APT grouping, which, unlike the US, has been a much more important source of imports than as an export market. In fact, Singapore has been running persistent bilateral deficits with Japan which have been increasing both in magnitude as well in terms of Singapore's total trade with Japan, especially during the period 1985-94. The deficit was around US$ 12 billion in 2000, constituting about 36 percent of Singapore's bilateral trade with Japan. In contrast, Singapore has recorded a persistent and growing bilateral trade balance with the US since the mid 1980s, and amounted to about US$ 4 billion in 2000. These surpluses are a relatively low share of overall Singapore-US trade. Continual trade deficits with Japan might partly be a reflection of the inability of foreign (including Singapore) exporters to penetrate the Japanese market due to the maintenance of both official and (especially) unofficial non-tariff barriers (NTBs) (Lawrence, 1987). Indeed, these barriers have in turn often led to the accusation that Japan "imports too little" from its trading partners (Takeuchi, 1989), with a survey of Singapore exporters in the late 1980s revealing them to be "generally overawed by the Japanese 'closed market' image" (Lim, 1988, p.100). In the context of a Singapore-Japan FTA, this factor could be of potential importance, as a bilateral FTA ought to provide Singapore preferential access to the Japanese market.

## 3. Possible Reasons Behind Singapore Proclivity for Bilateralism

Singapore's choice of trading partners to form FTAs may be broadly divided into two groups. The first group, which includes the US and Japan, are major established trading partners. Proposed bilateral trade accords by Singapore with these two economies are best seen as a formalisation of the *de facto* extensive and deep linkages that are already in existence. Entering into broad-ranging trade pacts with these two economic superpowers is not only viewed as a means of gaining greater market access (with Japan in particular as noted above) but also as a way of avoiding the possible imposition of protectionist measures in the future (with regard to the US in particular) and managing future trade tensions (including establishing orderly dispute settlement mechanisms). Being among the first few countries to establish a number of FTAs with these two and other economically significant economies also ensures that Singapore is not discriminated *ex-post* in the event that its "competitors" form FTAs with third countries.

There are further reasons why Singapore's bilateral trade initiatives with the US and Japan are especially noteworthy. While the US has signed a series of bilateral FTAs with Canada, Israel, Mexico and Jordan, the announcement of the Singapore-US FTA is the first such one that the US may sign with an Asian economy. It has also been suggested that Singapore's bilateral trade accords with the US and New Zealand, along with anticipated ones with Australia and Chile, may lead to a Pacific-5 or P-5 FTA, which itself could be a precursor to an APEC-wide FTA[4]. As noted, Singapore is in the process of negotiating deals with Canada and Mexico, the two other members of the North American Free Trade Area (NAFTA). Could this be a first step in Singapore's eventual accession into that alliance?

A possible Singapore-Japan FTA is interpreted by some as an important signal of Japan's weakening adherence to non-discriminatory multilateralism, not unlike the shift in the trade policy stance by the US in the 1980s, which led to the global proliferation of regional blocs (see Section 5). The consequence of Japan's shift in sole emphasis on the multilateral trading route ought not to be understated. Japan has hitherto been among the staunchest multilateralist and has long spurned the FTA route to trade liberalisation. Just a few years ago, in response to NAFTA and the possible formation of a Free Trade of the Americas (FTAAs), Jagdish Bhagwati (1995) noted:

> (The US) is currently wedded to the wrongheaded approach supporting free trade agreements…I believe that Japan and the Far Eastern super performers could use..(the)..opportunity to play a leadership role in halting the US slide towards its obsessive fixation on free trade agreements and in restoring a principal focus on multilateralism at the WTO…Japan and the Asian nations have much to offer that is different from and wiser than what the US seeks (pp.15-6).

In addition, rightly or wrongly, the Singapore-Japan FTA has been viewed as a precursor to the formation of an East Asia-wide FTA between economies in Southeast Asia plus Japan, Korea and China (APT)[5].

The second group of countries with which Singapore is attempting to formalise trade accords, including Australia, New Zealand, the EFTA countries, and the like, individually do not account for more than 3 percent of either Singapore's total exports, domestic exports, or total imports. Presumably the aim here is to seek out new markets in view of the seeming loss of growth momentum in Singapore's immediate neighbours. Indeed, valid concerns have been expressed that Southeast Asia has lost the dynamism and drive towards trade and investment liberalisation and integration (which entails much more than intraregional tariff elimination) that it had pre-crisis, and is seen by extra regional foreign investors as the "less attractive cousin" of Northeast Asia (<u>Business Times</u>, Singapore, December 11, 2000). It is important for Singapore that investors not perceive it as being in the same boat as the rest of the region, i.e. Singapore needs to remain on the radar screen of world investors even if Southeast Asia as a whole may not be. It has also become apparent that Singapore needs to diversify its economic linkages. Conversely, it is plausible that Singapore could act as the "flag-bearer" for the region in that its trade initiatives could help maintain global interest and draw extra-regional investments into Singapore and the Southeast Asian region as a whole as the crisis-hit economies gradually rebuild their financial and economic structures. The surge of recent FTA initiatives by Singapore may also be a means of building political momentum for other ASEAN/APEC member economies to hasten the process of regional and unilateral

[5] In a recent meeting in Singapore, it was agreed that the APT would explore the possibility of holding an East Asian summit as well as consider the establishment of an APT-wide FTA and investment area (<u>Business Times</u>, Singapore, November 25, 2000). Steps are already underway to create an ASEAN-China FTA while an ASEAN-Japan FTA may also be on the cards.

liberalisation. (This is commonly referred to as "competitive liberalisation" whereby modest liberalisation induces broader liberalisation).

More generally, FTAs appear to be increasingly regarded by policymakers as effective and expeditious instruments for achieving trade liberalisation among "like minded" trading partners (Schiff et al., 2000). Formation of bilateral FTAs among such partners is also seen as a way to overcome the so-called "convoy problem", whereby the "least willing member" ("foot-dragger") holds the pace of trade integration back. Alternatively, as it is sometimes said, "those who can run faster should run faster and ought not to not be held back by those who choose not to run or do so at a snail's pace". While the argument that negotiating regional trade pacts are easier to conclude and can be done at a faster pace than global negotiations may not hold true as a general rule (Baldwin, 1997 and Bhagwati, 1995), it does seem to be relevant in the case of Singapore which sets strict deadlines for completion of discussions (though this may come with its own problems; see Section 4).

Another "first-mover advantage" in forming FTAs with a host of different countries early on takes the shape of a "hub" of overlapping arrangements (Wonnacott and Lutz, 1989). Producers in the hub have cost advantages vis-à-vis producers in the "spokes", being able to obtain more of their intermediate goods at lower prices. Further, since exports originating from Singapore are given preferential access to a number of other markets (with which Singapore has trade accords), this may encourage the transshipment of goods through Singapore ports, hence fortifying its already dominant role as an entrepot point. Of course, it is for this very reason that FTAs stipulate special provisions or rules of origin (ROOs) which are meant to prevent goods being re-exported from/circumvented through the lower tariff country to the higher tariff one (i.e. trade deflection). However, this in turn may lead to a shift of export platforms from other regional developing economies to Singapore in order to gain duty-free market access; though care must be taken to ensure that ROOs are not manipulated in such a way that partners gain *de facto* protection for their goods in the Singapore market (see section 4).

Trade accords, particularly the recent ones Singapore is involved in (see Table 4), go well beyond just merchandise trade liberalisation and also encompass liberalisation of services trade and other trade facilitation measures (including investment protection and liberalisation, harmonisation and mutual recognition of standards and certification, protection of intellectual property rights, opening of government procurement markets, streamlining and harmonisation of customs procedures, development of dispute settlement procedures, and the like), i.e. so called "deep integration" (Lawrence, 1999). As such, FTAs could act as a "testing ground or pilot project for exploring complex trade issues" and may help establish some sort of precedent or benchmark for trade negotiations involving a larger number of countries, including one at the multilateral level (Sager, 1997, p.242). Simultaneously, to the extent that contracting parties to an FTA agree to move beyond their respective WTO commitments, there may be a demonstration effect that motivates future rounds of broader multilateral negotiations under the auspices of the WTO.

## 4. Reasons to be Cautious about Whole-heartedly Embracing Bilateralism

It is commonly noted that since Singapore has one of the most liberal trade and investment regimes in the world with near zero tariff rates on most goods (and limited non-tariff barriers), this implies that the scope for trade diversion (i.e. replacement of lower cost suppliers from non-member countries) from Singapore's vantage point is quite small[5]. Nonetheless, it would be wrong-headed to conclude that there are no ill effects whatsoever. What are some potential concerns of Singapore's recent eagerness to form FTAs?

The proliferation of a number of overlapping FTAs raises many technical problems with respect to the implementation of ROOs. Even with a single FTA, a concern is that ROOs with a particular country, say the US, may be sufficiently prohibitive so as to induce Singapore exporters to source their inputs from the US than some other developing country in Asia (such as Korea, for instance). In other words, the US exports its external tariffs to Singapore. This appears to have been the case with NAFTA, where the US negotiated a ROO on Mexican assemblers of automobiles. ROOs also give rise to significant costs due to the need for administrative surveillance and implementation. In practice, ROOs are particularly complex - they are almost two hundred pages in case of NAFTA and eighty pages of small print in the case of the EU's agreement with Poland - as they have to take into account tariffs on imported intermediate goods used in products produced within the FTA. The book-keeping and related costs escalate sharply as production gets more integrated internationally (so-called "spaghetti bowl" phenomenon) and countries get involved with an increasing number of separate but overlapping FTAs.

Accordingly, Krueger (1997) strongly favors a Customs Union or CU (with members have common external tariffs) over FTAs. Note that absent ROOs, a FTA is a *de facto* CU with a common external tariff (CET) equivalent to that of the lowest tariff prevailing in any of the member countries If unconstrained, this reduces the effective tariff of every member to that of the lowest plus the transportation cost involved in indirect importing (real resource cost). With prohibitive ROOs, a FTA becomes a CU where an external tariff is the highest that prevails among members. A major disadvantage of CUs is that they require greater degree of policy coordination and collective decision-making and budgetary mechanisms to distribute the tariff revenue between members[6].

Apart from the issue of ROOs, a large number of FTAs may leave investors confused as to which rules, obligations and incentives correspond to which partner. Worse still, there is the possibility that membership in multiple trade accords may create "obligations made in one that contradict those made by others" (Schiff et al., 2000). Bergsten (2000) highlights this point in the context of compatibility of sub regional arrangements with the APEC's goals of region-wide trade liberalisation (i.e. the Bogor declaration of free and open trade by 2010/2020). As he notes of the blueprint on the Singapore-Japan proposed FTA:

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[6] Schiff et al. (2000), who argue that a "central issue for countries planning to integrate their trade is whether to choose and FTA or CU" discuss the issues in some detail. Wonnacott and Wonnacott (1996) have suggested a hybrid scheme, i.e. an FTA but without ROOs in two sets of products: one where the members agree upon CETs, and the other where all members have low tariffs. Schiff et al. (2000) discuss these and other proposals. Panagariya (1999) notes that ROOs could either exacerbate or moderate welfare-reducing trade diversion.

> it states that Japan is unwilling to liberalize agricultural trade, even in a deal with Singapore where there is no agricultural trade. In other words, they do not accept the principle. They can argue, as this blueprint does, that it is perfectly compatible with the WTO. The WTO says you must substantially cover all trade. If there is no agricultural trade, you do not have to include it to meet the WTO test. But the APEC test, which was hammered out after much debate in both Bogor and Osaka, states that trade liberalisation must be comprehensive - no sectors can be excluded. APEC was consciously being WTO+ and the Japan-Singapore agreement, if that study result becomes the actual outcome, would violate its precepts…Moreover, the report says nothing about completion by 2010. That deadline is a commitment for countries in the APEC context…Japan and Singapore should be asked how their new agreement is compatible with APEC (p.5).

Time and efforts spent on negotiating and implementing a series of bilateral and plurilateral FTAs may divert scarce resources from the multilateral trade rounds. Potentially more important than the direct impact of this "scarce negotiator resources argument" to Singapore is the fact that, by being involved in a number of FTAs, Singapore must accept at least partial responsibility for diverting attention of trade partners away from multilateral negotiations. For instance, the US Trade Representative (USTR) paying more attention to a number of bilateral FTAs may mean that much less attention at the margin being paid to the WTO or APEC.

Singapore appears to be willing and able to negotiate FTAs with unparalleled rapidity. However, this swiftness apparently hinges on the Republic's readiness to accept a number of conditions in the context of the bilateral accords set forth by the larger partners, such as labor and environmental standards, in the case of the FTA with the US (said to be modelled after the US-Jordan agreement), or exclusion of agriculture in the case of the FTA proposals with Japan (as noted by Bergsten above). While acceptance of these conditions may not be problematic in the case of Singapore (given its high environmental standards and negligible agricultural sector and no farm lobby to speak of), if they are eventually included in the agreements, the city-state is not necessarily helping the cause of less well off developing countries in multilateral negotiations at large[7]. Further, if Singapore unilaterally signs on to such nontrade linkages,

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[7] Bhagwati's (1995) discussion of the US FTA strategy during NAFTA negotiations is prescient:

> NAFTA's passage..was subject to Mexico's acceptance of supplemental agreements on environmental and labor standards…(W)hy should such agreements be a precondition for freer trade?..(The) US was a superpower bargaining one-on-one with a vastly inferior power. In turn, those supplemental agreements have encouraged the environmental and

might that not preclude ASEAN from taking a common and credible stand on these and other issues given the fact that the regional alliance famously follows a policy of consensus? In addition, the presence of such linkages could imply that Singapore-based FTAs may be an altogether inappropriate model for future trade arrangements and could make the Singapore-based FTAs *de facto* exclusionary to other ASEAN members. This, despite repeated "assurances" by Singapore policy makers that the FTAs are not exclusive and are open to accession by any country *which agrees to the terms of the agreement*[8]. (This is an important point taken up in the next section).

## 5. Concluding Remarks: Are FTAs Multilateral Friendly or Antagonistic?

Singapore's recent moves to bolster its integration with the global economy via the FTA route find a parallel with that of the US in the early 1990s. 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 rather than the Most Favoured Nation (MFN) or multilateral route via GATT. This was the start of the era of the wave of the "new regionalism"[9]. The US under trade representative William Brock at that time appeared willing to negotiate FTAs with any and all interested parties (including ASEAN) as a

> labor lobbies to argue that because NAFTA required them, so must the WTO…In short, NAFTA has made the WTO's business more complex, not less..(T)he United States can first force Mexico to buckle under to those demands and then tell Chile and others, "This is how NAFTA is, so you must accept these 'nontrade' terms and conditions if you wish to come on board."…(T)hat 'Take-them-one-by-one' strategy works so much better than trying to impose extraneous, indeed harmful, conditions through multilateral trade negotiations where all countries facing such demands negotiate together and have more bargaining power (pp.12-3).

[8] Paradoxically, as noted, while it may be in Singapore's best interest to remain as a hub with a number of other spokes it may be in the best interests for other countries not to join an existing Singapore-based FTA. Wonnacott (1996) cautions that while spokes are certainly worse off in a hub-and-spoke regime compared to a "full" or complete FTA, it is unclear as to whether hubs are better or worse off. This is so, as the collective income of a hub-and-spoke arrangement tends to be smaller (given the inefficiencies caused by overlapping FTAs), the share of benefits accruing to the hub is larger than a full FTA. As is often said, hubs and spokes arrangements "combine regional integration with the hub and disintegration among spokes".

[9] However, Baldwin (1997) forcefully argues against the commonly held belief that the resurgence in regionalism the (so-called "second wave") was prompted by the conversion of the US from "devoted multilateralist to ardent regionalist". As he further notes, the "US was not multilateralism's white-knight before frustration with the GATT-process in 1982 led it to embrace the Dark side (regionalism). The US

means of maintaining forward momentum towards trade and investment liberalisation, failing which it was feared that there might be a lapse into protectionism, i.e. the so-called "bicycle theory". Singapore's drive towards FTAs is not solely economic by any means. FTAs could also 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 and carves out for itself a pivotal role in regional and multilateral trade fora[10].

Academic and policy interest in bilateral and plurilateral trade arrangements has been preoccupied by the question as to whether they are "stumbling" or "building" blocs towards multilateral liberalisation. It is clear that the Singapore policymakers are of the opinion that FTAs are building blocs and complementary to rules-based multilateralism. There has been a concerted attempt to reaffirm the primacy of the multilateral trading system. For instance, the Singapore Prime Minister, Goh Chok Tong, has reportedly noted:

> FTAs should not be pursued at the expense of the multilateral trading system. We must continue to invest efforts towards the launch of a New Round (of multilateral trade negotiations), to ensure that the gap between FTAs and the WTO does not grow so wide that it becomes irreconcilable." (Business Times, Singapore, December 5, 2000)[11].

While constant strong support for multilateralism and the WTO as the bedrock of the world's trading system is undoubtedly of importance, the GATT/WTO rules regarding FTAs (which are aimed at ensuring that the rights of third parties are not compromised) remain highly vague and loose. The wordings of the GATT/WTO rules are open to a variety of interpretations and are, for all intents and purposes, ineffective.

To be sure, Article XXIV of GATT/WTO that provides for the formation and operation of CUs and FTAs covering trade in goods places three principle restrictions on FTA: they must not "on the whole" raise protection against non-members; they must reduce internal

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has long been open to regional deals.." (p.883).

[10] Singapore's Ambassador-at-Large, Tommy Koh (2000) makes this point convincingly in the context of the Singapore-US FTA.

[11] Schiff et al. (2000) evaluate the practical implications of the Article and its provisions and make recommendations for altering the provisions to render them more effective. There exists an "Enabling Clause" introduced in 1979 (Decision on "Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries") that further relaxes the above provisions.

tariffs to zero and must remove “other restrictive regulations of commerce” other than those justified by other GATT articles; and should cover “substantially all trade”. Article V of the GATS covers the formation of FTAs in the services realm and says essentially the same things. The absence of concrete definition of terms and time frames makes almost any preferential trade pact compatible with this definition (Hudec and Southwick, 1999 and Panagariya, 1999). Worst of all, there are virtually no multilateral regulations on ROOs that may be imposed by FTAs[12]. WTO members are however bound to notify the multilateral body of any FTA they establish/participate in. Notifications could also refer to the accession of new parties to an agreement that already exists. Figure 6 shows the status of notifications of FTAs worldwide. There are well over 170 FTAs in force, with intra-RTA trade accounting for almost half of overall global trade. Note though that not all the FTAs notified to the WTO are still in force today, while recent ones that have just been negotiated are not included (Crawford and Laird, 2001).

The recent multilateral round of negotiations concluded in Doha has failed to make any headway in clarifying the multilateral rules of the game as far as regional trade arrangements are concerned. All that emanated from the Ministerial statement (available on WTO website: www.wto.org) was that negotiations would take place with the aim of clarifying and enhancing the existing WTO provisions that apply to FTAs. Thus, key issues pertaining to FTAs such as ROOs, sectoral coverage, and the like, has not been addressed. In some senses the failure to move forward on this issue is not surprising. Informed observers themselves are almost evenly divided about whether FTAs do in fact act as a “stepping stone” to enhanced multilateral trade liberalisation (Crawford and Laird, 2001). The current WTO Director General, Mike Moore, is inevitably of the opinion that the current trends towards FTAs could be problematic to and inconsistent with multilateralism; while the WTO Director General Designate, Supachai Panitchpakdi, has, rather surprisingly, come out quite strongly in favour

[12] There do exist some transparency provisions that are included in Annex II of the WTO Agreement on Rules of Origin but these are not regulations against ROOs per se. Consequently, this is the area of most concern to informed observers, particularly in this era of overlapping hubs and spokes arrangements. See the discussion in Section 4 of this paper as well as Krueger (1997), Panagariya (1999), Schiff et al. (2000), Wonnacott (1996) and other references cited in Rajan et al. (2000).

of such regionalism, particularly in Asia. The WTO in its Annual Report stated the issues involved quite succinctly when it noted:

> The web of overlapping (F)TAs, as well as the intercontinental dimension of many new agreements, constitutes not only a departure from the traditional concept of regionalism among neighbouring countries, but also a conceptual shift away from multilateralism towards trading strategies based on numerous selective preferential agreements comprising no more than two or three parties. This could be viewed as a consolidation of trading patterns and a welcome development for further trade liberalization across the globe. Alternatively, the idiosyncrasy of the agreements, and the growing preference for bilateral (F)TAs also suggests a shift to *regionalism à la cart*e, based on the selective choice of trading partners and sectors to be liberalized in a preferential – that is, discriminatory – way, leading to greater complexity in world trade relations (WTO, 2001b, p.88).

What does this all mean to Singapore's international economic policy? In one sense the fact that the Doha meeting ended "successfully" with an agreement on the new work programme (to be concluded by Jan 1, 2005) suggests that the multilateral route to trade liberalisation is "alive and kicking" and should not be complicated by bilateral and sub regional trade arrangements. Thus, responsible members of WTO may want to "cease and desist" from negotiating FTAs. On the other hand, the fact that not even the slightest progress has been made on regulating FTAs, suggests that there is nothing to stop Singapore from proceeding along the preferential trading routes. After all, the basic philosophy that guides Singapore's pursuit of such arrangements is that countries that can proceed to liberalise and deepen economic linkages at a faster pace should do so. In addition to FTAs with developed countries like the US, Japan, New Zealand and Australia, Singapore may also want to work more closely with important developing countries in the world either on a bilateral basis or via ASEAN to integrate them in the global economy in a market-oriented manner. While some Southeast Asian neighbours greeted the initial response to Singapore's bilateral FTA strategy with much scepticism and even irritation, this view seems to have significantly softened. Indeed, countries such as Thailand and the Philippines are now looking to emulate the Singapore strategy. In addition, a case might be made that Singapore's go-it-along approach helped push ASEAN to seriously explore the possibility of an ASEAN-China FTA and even one with Japan.

An important outstanding issue that remains to be answered is to what extent the various bilateral, subregional and transnational arrangements might contradict each other and if and how such contradictions will be overcome. Only time will tell. However, one way to minimise such contradictions and disputes while also ensuring that such preferential arrangements are indeed consistent with multilateralism is for them to be accompanied by a sunset clause which would require, over time, signatories to the agreement to offer bilateral or regional concessions to all non-members on the basis of Most Favoured Nation (MFN) status. In other words, concessions offered by one country to another WTO one should be offered to all within a pre-specified timeframe. As Panagariya (1999) notes, this would be the "best dynamic time path to bring..(FTAs)..up to multilateral free trade" (also see Srinivasan, 1998). While this is ideally something that should be written into the WTO Article of Agreements, Singapore could take the lead in this regard and insist it as an inclusion in trade accords which it is a signatory to. Singapore ought also to stand firm on requiring its FTAs be comprehensive in coverage, not allowing omission of sectors even if these may not be of economic significance to the city state (agriculture being a case in point). Exclusion of specific sectors in FTAs only perpetuates the problems that exist with multilateral trade liberalisation[13]. Admittedly, such actions which will further enhance Singapore's reputation as a highly responsible member of the multilateral trading system, may well make the Republic that much less attractive to others as a potential FTA partner. A vexing conundrum indeed.

Lastly, it bears repeating that trade accords nowadays go well beyond trade liberalisation, also including "behind the border" impediments to trade and investment flows (i.e. trade facilitation measures). This is certainly true of Singapore's bilateral trade arrangements which are often viewed – at least by their own policymakers – as being "trail-blazing" or "state-of-the-art". As the recent multilateral trade round illustrated, there is a limit to which other developing countries are willing or able to negotiate "new" trade issues pertaining to harmonisation of investment and intellectual property rights regimes. Are such

[13] After all, the WTO recently warned in its Annual Report (2001) that the cumulative impacts of all the various FTAs that have proliferated worldwide "posed a systemic risk to the rules-based multilateral

measures which are invariably more stringent in bilateral accords appropriate for developing countries? If not, do not these accords become exclusionary *de facto*? Thus, while FTAs individually may well show an inherent dynamic toward greater liberalisation and open markets among like-minded high income countries (Singapore certainly falls in this category), they may also lead to a growing divide between these and developing countries which may see the "'deeper' integrative aspects of these arrangements as pernicious and undesirable" (Lawrence, 1999, p.44). This polarisation of views and actions between developed and some developing countries have already threatened to stall multilateral trade negotiations in recent years and could well do so in the future. Singapore, as a responsible member of the global trading system, must be concerned about these broader issues.

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trading system" (also see de Jonquieres and Williams, 2001).

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**Table 1**
**Growth Performance of Singapore and Selected East Asian Economies, 1981-2001**
**(GDP growth, % per annum)**

| | **Average 1981-90** | **Average 1991-95** | **1996** | **1997** | **1998** | **1999** | **2000** | **2001(p)** | **2002(p)** |
|---|---|---|---|---|---|---|---|---|---|
| Singapore | 7.3 | 8.7 | 7.5 | 8.0 | 1.5 | 5.9 | 9.9 | -2.9 | 1.2 |
| Malaysia | 6.0 | 8.7 | 8.6 | 7.7 | -6.8 | 6.1 | 8.3 | 0.3 | 2.5 |
| Thailand | 7.9 | 8.4 | 5.5 | -0.4 | -8.0 | 4.2 | 4.4 | 1.5 | 2.0 |
| Indonesia | 5.4 | 7.8 | 8.0 | 4.6 | -13.7 | 0.8 | 4.8 | 3.2 | 3.5 |
| Korea | 9.1 | 7.5 | 7.1 | 5.5 | -5.5 | 10.9 | 8.8 | 2.6 | 3.2 |
| Japan | 4.0 | 1.4 | 3.3 | 1.9 | -1.1 | 0.7 | 2.2 | -0.4 | -1.0 |

Sources: IMF, World Economic Outlook, various issues

**Table 2**
**Leading Exporters and Importers in World Merchandise Trade, 2000**
**(billion dollars and percentage)**

| Rank | Exporters | Value | Share | Annual percentage change | Rank | Importers | Value | Share | Annual percentage change |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Extra-EU exports | 858.9 | 17.3 | 7.1 | 1 | United States | 1257.6 | 23.9 | 18.7 |
| 2 | United States | 781.1 | 15.7 | 11.3 | 2 | Extra-EU imports | 965.7 | 18.3 | 13.2 |
| 3 | Japan | 479.2 | 9.6 | 14.3 | 3 | Japan | 379.5 | 7.2 | 21.9 |
| 4 | Canada | 276.6 | 5.6 | 16.0 | 4 | Canada | 244.8 | 4.6 | 11.2 |
| 5 | China | 249.3 | 5.0 | 27.7 | 5 | China | 225.1 | 4.3 | 35.8 |
| 6 | Hong Kong, China | 202.4 | 4.1 | 16.1 | 6 | Hong Kong, China | 214.2 | 4.1 | 18.5 |
| | domestic exports | 23.7 | 0.5 | 5.8 | | retained imports a | 35.4 | 0.7 | 23.5 |
| | re-exports | 178.8 | 3.6 | 17.6 | 7 | Mexico | 182.6 | 3.5 | 22.9 |
| 7 | Korea | 172.3 | 3.5 | 19.9 | 8 | Korea | 160.5 | 3.0 | 34.0 |
| 8 | Mexico | 166.4 | 3.3 | 22.0 | 9 | Taipei, Chinese | 140.0 | 2.7 | 26.2 |
| 9 | Taipei, Chinese | 148.3 | 3.0 | 22.1 | **10** | **Singapore** | **134.5** | **2.6** | **21.1** |
| **10** | **Singapore** | **137.9** | **2.8** | **20.2** | | retained imports | 75.6 | 1.4 | 16.2 |
| | domestic exports | 78.9 | 1.6 | 14.8 | | | | | |
| | re-exports | 59.1 | 1.2 | 28.5 | | | | | |

Note: Data exclude intra-EU trade
Source: WTO (2001a)

**Table 3**
**Leading Exporters and Importers in World Trade in Commercial Services, 2000**
**(billion dollars and percentage)**

| Rank | Exporters | Value | Share | Annual percentage change | Rank | Importers | Value | Share | Annual percentage change |
|---|---|---|---|---|---|---|---|---|---|
| 1 | United States | 274.6 | 19.1 | 10.0 | 1 | United States | 198.9 | 13.8 | 13.0 |
| 2 | United Kingdom | 99.9 | 7.0 | -3.0 | 2 | Germany | 132.3 | 9.2 | 0.0 |
| 3 | France | 81.2 | 5.7 | 0.0 | 3 | Japan | 115.7 | 8.1 | 1.0 |
| 4 | Germany | 80.0 | 5.6 | 1.0 | 4 | United Kingdom | 82.1 | 5.7 | -1.0 |
| 5 | Japan | 68.3 | 4.8 | 13.0 | 5 | France | 61.5 | 4.3 | -2.0 |
| 6 | Italy | 56.7 | 4.0 | -6.0 | 6 | Italy | 55.7 | 3.9 | -3.0 |
| 7 | Spain | 53.0 | 3.7 | 0.0 | 7 | Netherlands | 51.1 | 3.6 | 2.0 |
| 8 | Netherlands | 52.3 | 3.6 | -1.0 | 8 | Canada | 41.9 | 2.9 | 9.0 |
| 9 | Hong Kong, China | 42.1 | 2.9 | 13.0 | 9 | Belgium-Luxembourg | 38.3 | 2.7 | 6.0 |
| 10 | Belgium-Luxembourg | 42.0 | 2.9 | 4.0 | 10 | China | 35.9 | 2.5 | 16.0 |
| 12 | China | 30.1 | 2.1 | 15.0 | 11 | Korea | 33.4 | 2.3 | 25.0 |
| 14 | Korea | 29.2 | 2.0 | 13.0 | 15 | Hong Kong, China | 26.2 | 1.8 | 3.0 |
| **15** | **Singapore** | **26.6** | **1.9** | **13.0** | **18** | **Singapore** | **21.3** | **1.5** | **13.0** |
| 16 | Switzerland | 26.4 | 1.8 | 0.0 | 19 | India | 19.9 | 1.4 | 16.0 |

Notes: The commercial services category in the WTO is defined as being equal to services minus government services, n.i.e. Commercial services is further sub-divided into transport, travel, and other commercial services (includes, communication, construction, financial, insurance, computer and information services and other business services)

Source: WTO (2001a)

**Table 4**
**Summary of Singapore's Bilateral FTA Initiatives as of December 2001**

| **Name of FTA** | **Start Date / Announcement** | **Current Status** | **Scope and Major Progress** |
|---|---|---|---|
| Mexico-Singapore FTA (MSFTA) | July 2000 | Four rounds of negotiations completed. Scope of FTA is comprehensive and covers trade in goods, trade in services, investment, government procurement, intellectual property, a dispute settlement mechanism and any other topic of future interest. | Scope of FTA is comprehensive and covers trade in goods, trade in services, investment, government procurement, intellectual property, a dispute settlement mechanism and any other topic of future interest.<br><br>1. Working towards elimination of substantially all tariffs and non-tariff barriers in the goods sector<br><br>2. Discussions on whether North American Free Trade Agreement (NAFTA) or the General Agreement on Trade in Services (GATS) approach should be used as the framework for trade in services.<br><br>3. Progress on provisions relating to the promotion and protection of investments. |
| EFTA states-Singapore FTA | May 2001 | First round of negotiations concluded in July, aim to conclude FTA by end 2001 | Aims to be WTO-consistent and WTO-plus. Plans for comprehensive FTA covering trade in goods and services, investment, government procurement, competition and IPR, and includes an effective dispute settlement mechanism. |
| Canada-Singapore FTA (CSFTA) | October 2001 | Negotiations launched | Cross-regional FTA to enhance bilateral economic linkages in trade, investments, science and technology, culture, education and people-to-people contact between Singapore and Canada, and second FTA initiative in the pacific after Mexico.<br>It will also be a step toward meeting the APEC goal of free and open trade and investment for developed economies by 2010. Labour and environmental issues will be addressed through side agreements. Canada will preserve its ability to maintain or establish measures in sectors such |

| | | | |
|---|---|---|---|
| | | | as health, public education and social services. |

**Summary Table on Singapore's Bilateral FTA efforts (cont'd)**

| Name of FTA | Start Date / Announcement | Current Status | Scope and Major Progress |
|---|---|---|---|
| U.S-Singapore FTA | December 2000 | Fifth round of negotiations completed. | Comprehensive and mutually beneficial agreement that would promote bilateral trade and investment between both nations.<br><br>1. Progress made on bridging differences in the services chapter. Both sides plan to exchange market access offers in the near future. Substantial progress also occurred on drafting the customs administration text and achieving a full understanding on the approach for rules of origin.<br>2. Progress was also achieved on the investment chapter.<br>3. On textiles and apparel, both sides reached an understanding on the importance of information and appropriate controls. Each side agreed to prepare specific sections of the texts.<br>4. Negotiations on telecommunications and e-commerce will be held in London from Oct 31-Nov 1.<br>5. The two sides agreed to convene the sixth round in Jan 2002 in London |
| New Zealand – Singapore FTA Also known as ANZSCEP (Agreement between | August 2000 (Implemented January 2001) | Negotiations completed, in implementation | Comprehensive Agreement covering trade in goods and services, investment and government procurement, amongst others. The ANZSCEP provides certainty and predictability for Singapore businesses and investors, by lowering barriers to trade and investment. It will also play an important strategic role to promote the liberalisation and integration of regional |

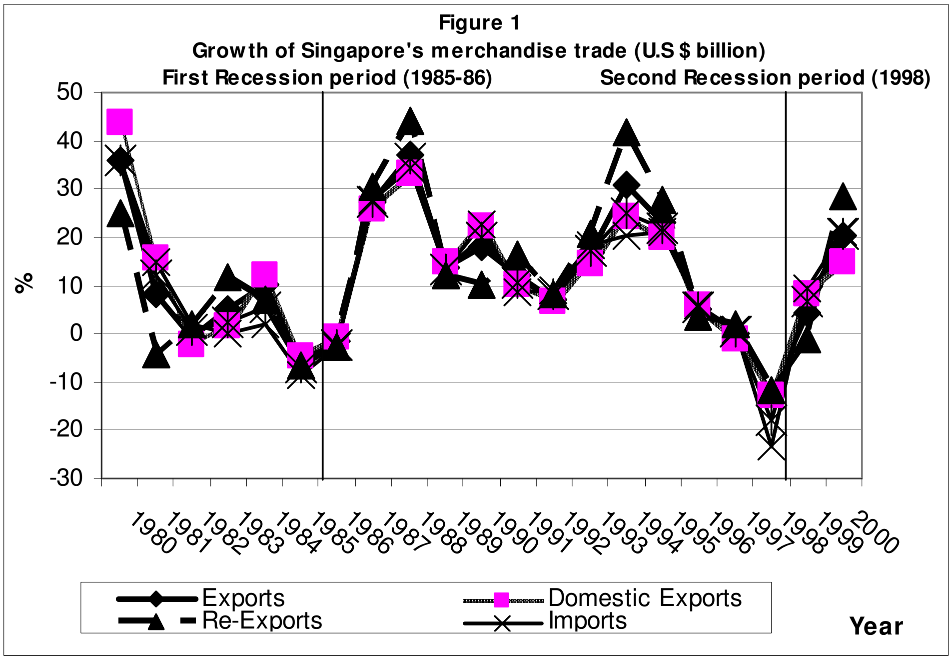
| | | | |
|---|---|---|---|
| New Zealand and Singapore on a Closer Economic Partnership) | | | markets, and to hasten global free trade within the context of WTO. The ANZSCEP is the second FTA for Singapore after the ASEAN Free Trade Agreement (AFTA). It is expected to further strengthen bilateral linkages, and promote greater trade and investment flows between the two countries. |

**Summary Table on Singapore's Bilateral FTA efforts (cont'd)**

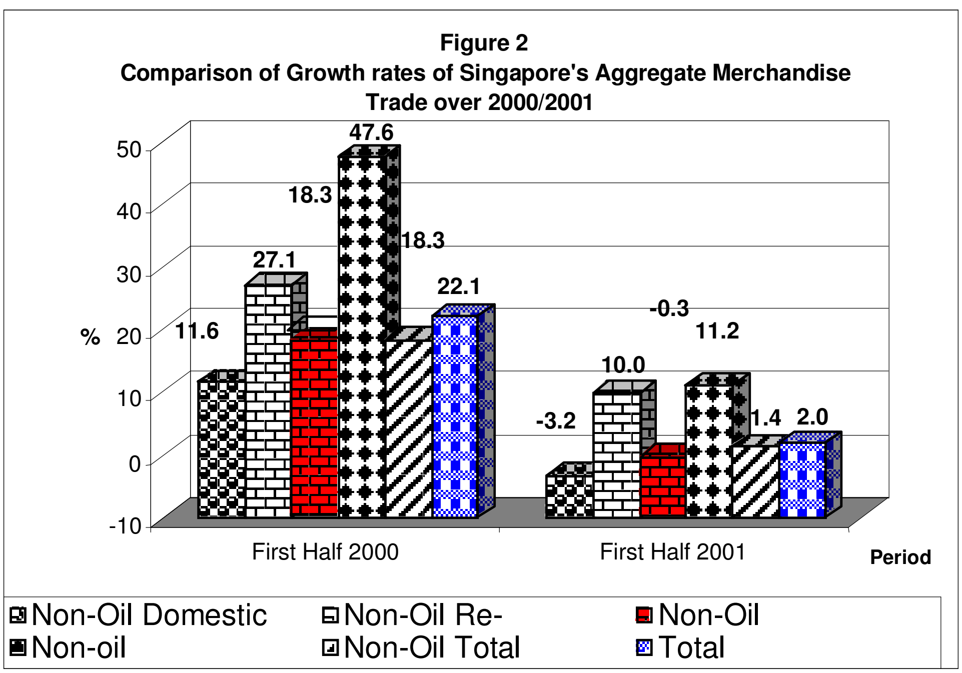
| Name of FTA | Start Date / Announcement | Current Status | Scope and Major Progress |
|---|---|---|---|
| Australia-Singapore FTA (ASFTA) | February 2001 | Four rounds of negotiations completed, expected to complete negotiations by end 2001 | The FTA is comprehensive in scope and coverage. It will remove barriers to trade in goods and services and provide a stronger and more secure framework for doing business, including through e-commerce. The views of business communities in Singapore and Australia will help guide and speed the process.<br><br>A bilateral FTA between Singapore and Australia will be wholly consistent with the two countries' broader trade and economic reform objectives within APEC, including the commitment of the two countries to the Bogor goals of free and open trade and investment. |
| Japan-Singapore FTA Also known as Japan –Singapore Economic Partnership Agreement (JSEPA) | January 2001 | Negotiations concluded, expected to be implemented early 2002. | Once implemented, the JSEPA would be the first comprehensive and substantive bilateral economic partnership agreement in Asia. It is recognised that the economic partnership of the two countries would create larger and new markets, and would institutionalise regulatory and other policy reforms in both countries, enhancing the attractiveness and vibrancy of their markets, and expanding trade not only between them but also in the |

| | | | |
|---|---|---|---|
| | | | region.<br>Further, the focus of the FTA will likely be on investments and further integration in the services sectors. Thus, JSEPA hopes to move from a traditional FTA to a "new-age" FTA focusing on liberalisation and cooperation in high-growth services sectors viz. transport, financial, and information and communication technology sectors. |

Source: Ministry of Trade and Industry (MTI), Singapore: www.mti.gov.sg and Department of Foreign Affairs and International Trade, Canada:: www.dfait-maeci.gc.ca/tna-nac/reg-e.asp

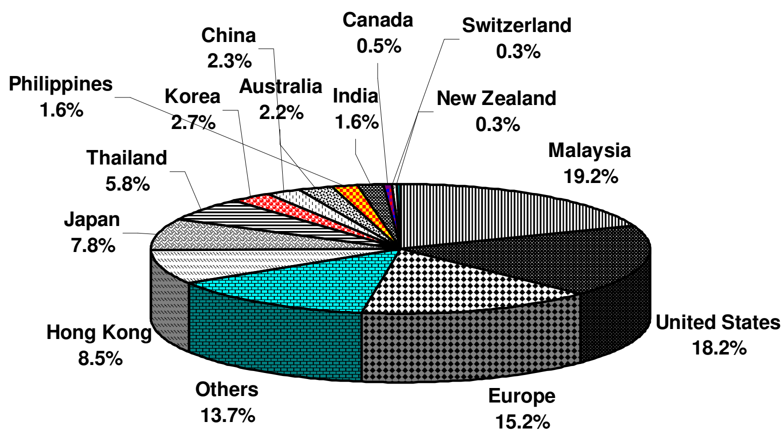



Source : IMF, Directions of Statistics Yearbook, various issues



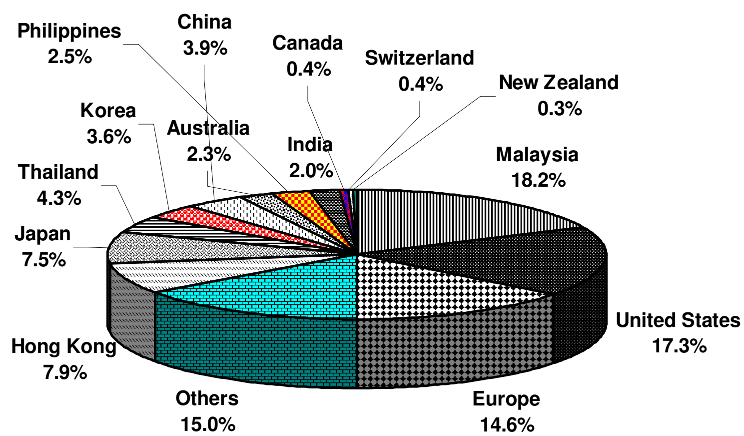

Source: Singapore Trade Development Board Half-Yearly Report 2001

**Figure 3a**
**Share of Singapore's major trading partners in Singapore total exports, 1995**

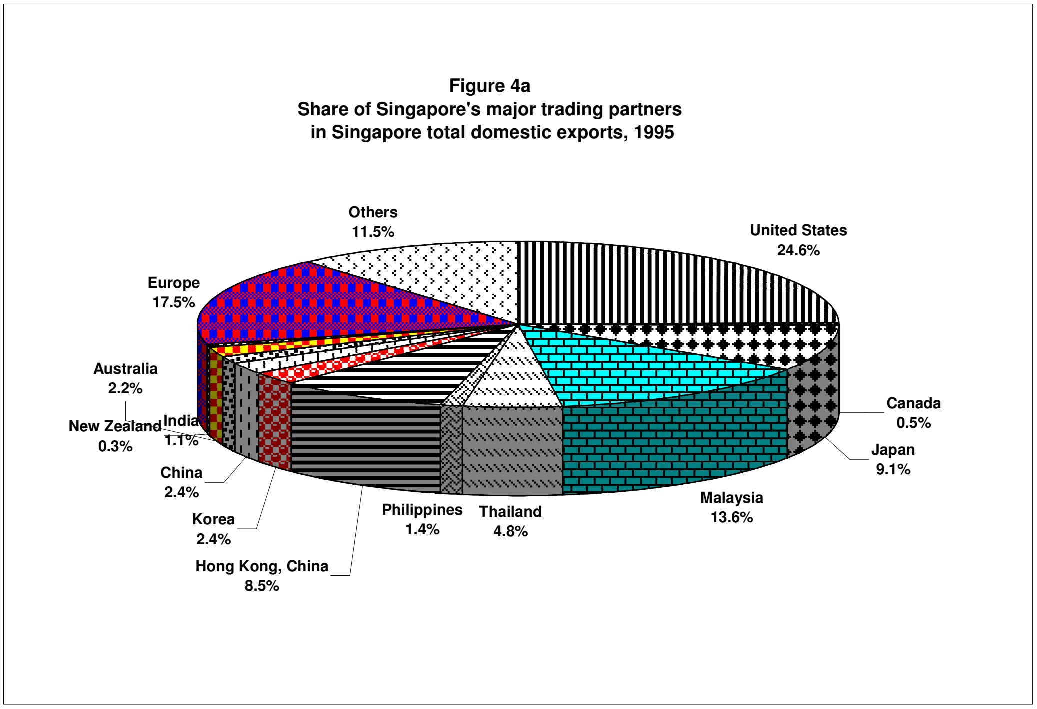



Source: Computed from Singapore Trade Development Board, Singapore Trade Statistics, various issues

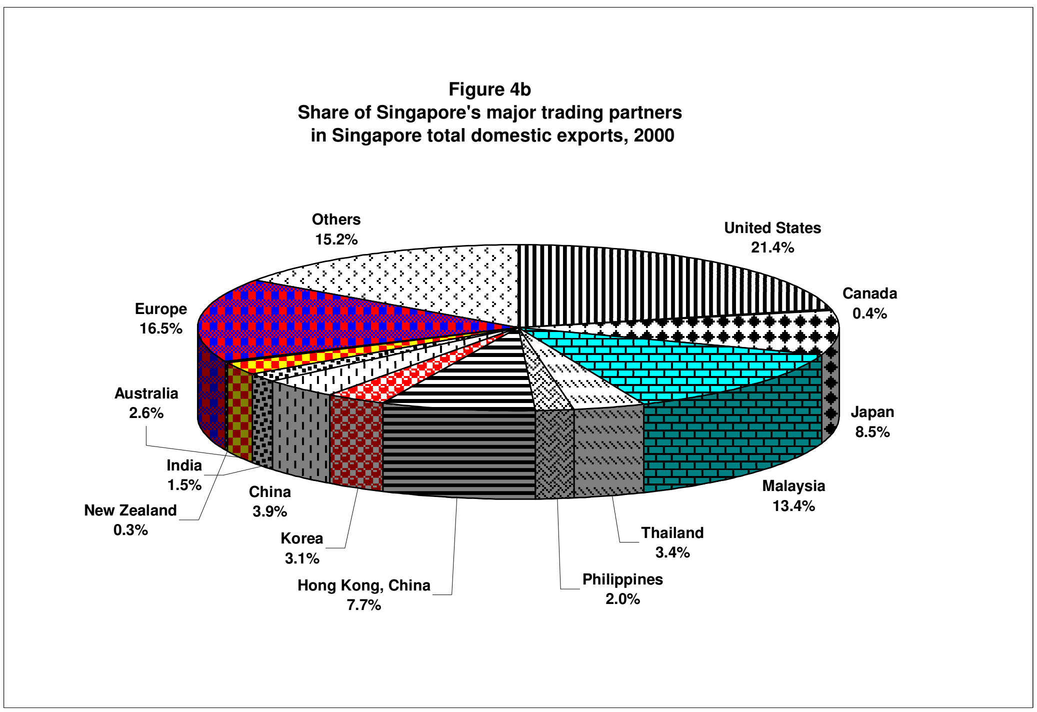
**Figure 3b**
**Share of Singapore's major trading partners in Singapore total exports, 2000**




Source: Computed from Singapore Trade Development Board, Singapore Trade Statistics, various issues

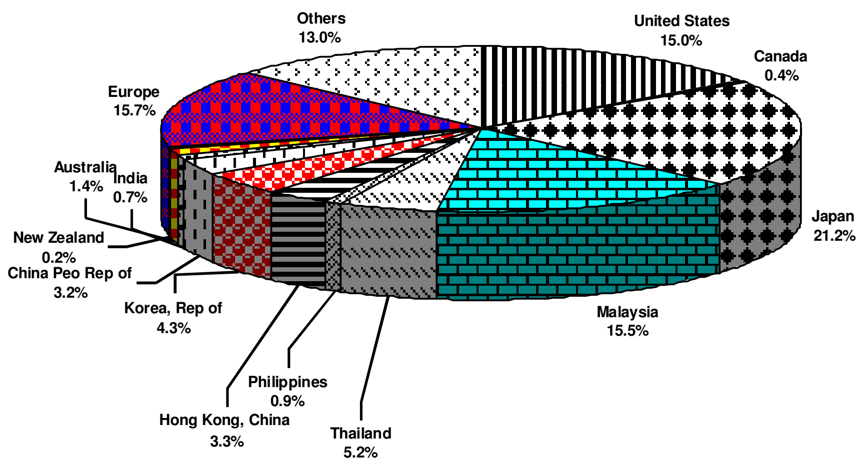



Source: Computed from Singapore Trade Development Board, Singapore Trade Statistics, various issues

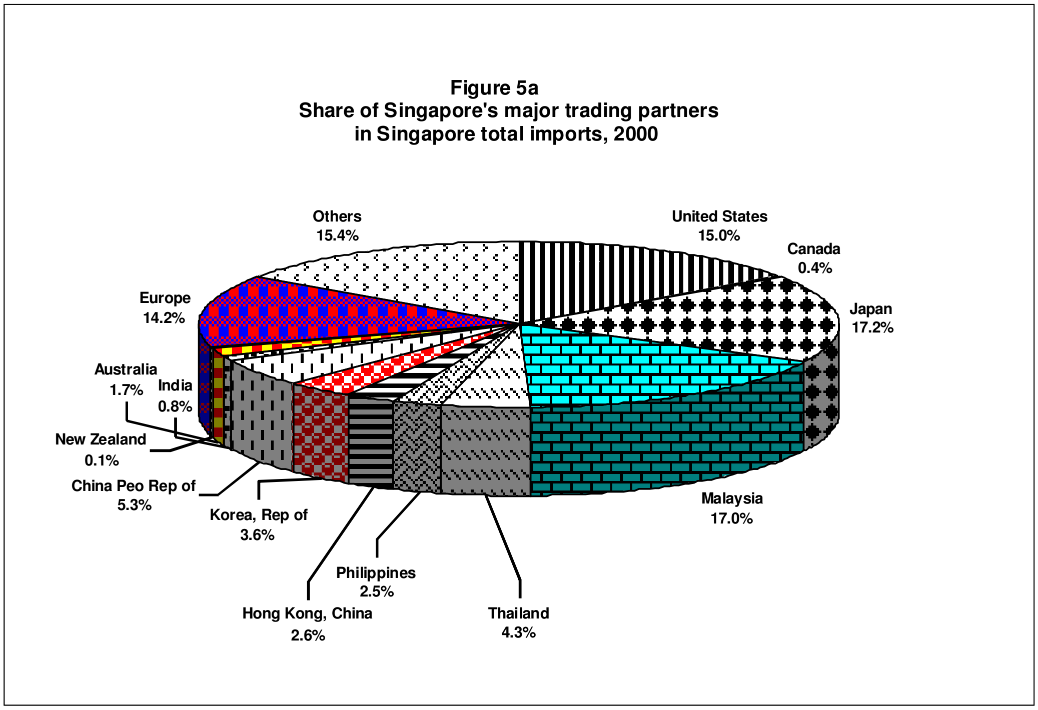



Source: Computed from Singapore Trade Development Board, Singapore Trade Statistics, various issues

**Figure 5a**
**Share of Singapore's major trading partners in Singapore total imports, 1995**

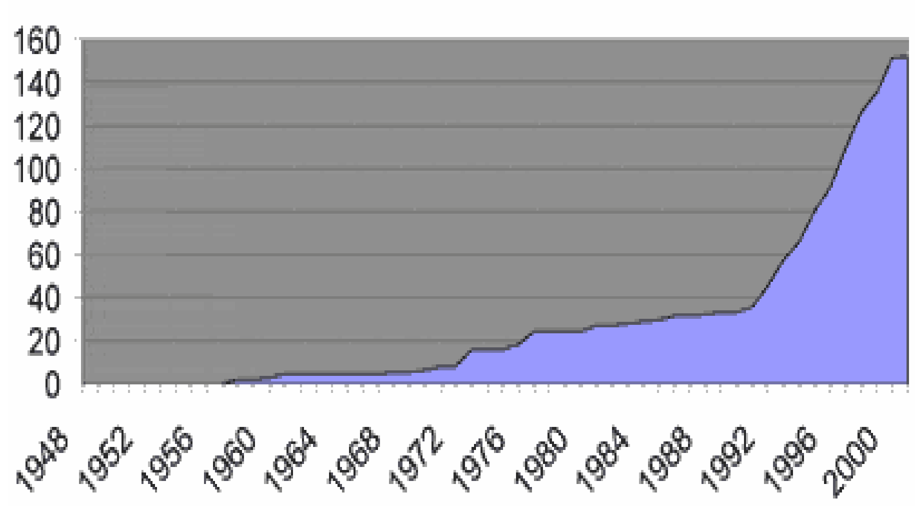



Source: Computed from Singapore Trade Development Board, Singapore Trade Statistics, various issues




Source: Computed from Singapore Trade Development Board, Singapore Trade Statistics, various issues

**Figure 6**
**FTAs in Force by Date of Notification to the GATT/WTO**




Source: WTO homepage (www.wto.org)