

**GOING IT ALONE: RATIONALE FOR AND IMPLICATIONS OF SINGAPORE'S
NEW COMMERCIAL TRADE STRATEGY**

by

Ramkishen S. Rajan
University of Adelaide, Australia
E-mail: ramkishen.rajan@adelaide.edu.au

&

Rahul Sen
National University of Singapore
E-mail: artp8238@nus.edu.sg

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Although Singapore recovered smartly from the 1998 East Asian financial crisis, it has once again fallen victim to 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). The all important non-oil component of the city state's domestic exports registered a decline of over 3 percent in the first six months of 2001 compared to a growth of 11.6 percent during the same period a year earlier. The drop in this component of exports intensified dramatically in the latter half of 2001, as did the country's overall trade. Given the country's heavy dependence on international trade, the Singapore economy inevitably suffered a fairly acute economic contraction in 2001; the worst in thirty years (Table 1). Its impact on rising rates of redundancies, bankruptcies, financial and asset markets, consumer and business sentiment, and the like, are already apparent.

It is against this rather bleak background that Singapore has attempted to aggressively source preferential trade accords ("free trade pacts" in common parlance) with a number of countries in Asia and elsewhere. Singapore has established a bilateral trade pact with New Zealand last year (termed the Agreement between New Zealand and Singapore on a Closer Economic Partnership or ANZSEP) and has just agreed to one with Japan (known as the Japan and Singapore Economic Partnership Agreement or JSEPA). The city state is in the process of negotiating pacts with the US, Australia, Canada, Mexico and the European Free Trade Area or EFTA (which consists of Iceland, Liechtenstein, Norway, and Switzerland). A trade accord with Chile is also being seriously contemplated, while ones with other countries have also been mentioned at various times.

Preferential trade agreements are not an entirely new component of Singapore's commercial trade strategy which in turn is the cornerstone of the city state's larger international economic policy. While being among the most ardent of supporters of the global trading system, Singapore has actively pursued a second track to liberalisation via the regional route in the 1980s

and 1990s. Regionalism has hitherto 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 rather unwieldy and appears ill-equipped to handle substantive trade and investment liberalisation issues effectively. Accordingly, Singapore policy makers have underscored the need to explore alternative liberalisation paths, i.e. a third track. Sourcing of trade pacts on a bilateral basis - bilateralism for short - has become an integral part of Singapore's new commercial trade strategy.

Singapore's choice of partners as part of its trade strategy of bilateralism may be broadly divided into two groups. The first group, which includes the US and Japan, are major established trading partners, constituting some one third of the city state's total merchandise trade. These economic giants are also major investors in the city state as they are in Southeast Asia at large. Bilateral trade accords with these two economies are best seen as a formalisation of the *de facto* extensive and deep linkages that already exist. Entering into broad-ranging trade agreements with them is not only a means by which Singapore might gain greater market access (with Japan in particular) but is also a way of avoiding the possible imposition of protectionist measures in the future (with regard to the US in particular), as well as managing future trade tensions, including establishing orderly dispute settlement mechanisms. Being among the first few countries to establish trade accords with these two and other economically significant economies also ensures that Singapore is not discriminated *ex-post* in the event that its "trade competitors" form such pacts 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 agreements with Canada, Israel, Mexico and Jordan, the announcement of the Singapore-US trade pact is the first

of its kind that the US may sign with an Asian economy. There have also been suggestions 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 accord, which itself could be a precursor to an APEC-wide free trade area (FTA). (However, if this happens, this, along with APEC's moratorium on new members is evidence enough that APEC has forsaken its much-touted but fudgy principle of "open regionalism").

A possible Singapore-Japan trade pact 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 trade agreements. The consequence of Japan's shift from a sole emphasis on the multilateral trading route ought not to be understated. Japan has hitherto been among the staunchest multilateralist and has long resisted alternative routes to trade liberalisation. In addition, rightly or wrongly, the Singapore-Japan trade accord 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 (ASEAN-plus-Three or APT). Steps are already underway to create an ASEAN-China FTA.

The second group of countries with which Singapore is attempting to formalise trade accords, including Australia, New Zealand and the EFTA countries, 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. Singapore policy makers are keen to ensure that international 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. 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 regional economies gradually rebuild their financial and economic structures. The surge of recent bilateral trade pact initiatives by Singapore may also be a means of prompting other ASEAN/APEC member economies to hasten the process of regional and unilateral liberalisation.

Bilateral trade accords, particularly the recent ones Singapore is involved in, go well beyond just merchandise trade liberalisation, also encompassing liberalisation of services trade and other “behind the border” impediments to trade and investment flows. In other words, they include trade and investment facilitation measures such as investment protection, harmonisation and mutual recognition of standards and certification, protection of intellectual property rights, opening of government procurement markets, streamlining and harmonisation of customs procedures and the development of dispute settlement procedures. Such trade accords which focus on “deep” integration could help establish a precedent or benchmark for multilateral trade negotiations. Simultaneously, to the extent that contracting parties to a trade accord 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.

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), the scope for *trade diversion* (i.e. replacement of lower cost suppliers from non-member countries) from Singapore’s vantage point is quite small. Nonetheless, it would be wrong to conclude that there are no ill effects whatsoever. What are some potential concerns of Singapore’s recent inclination towards bilateralism?

An important 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.

What can be said is that the proliferation of a number of overlapping trade agreements raises many technical problems with regard to the implementation of 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*). 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 (what Jagdish Bhagwati has colourfully termed the "spaghetti bowl" phenomenon) and countries get involved with an increasing number of separate but overlapping FTAs.

Time and efforts spent on negotiating and implementing a series of bilateral and plurilateral trade accords 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 trade agreements, 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 bilaterals may mean that much less attention at the margin being paid to the WTO.

Singapore appears to be willing and able to negotiate trade agreements 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 accord with the US (said to be modelled after the US-Jordan agreement), or exclusion of agriculture in the case of the trade accord with Japan. While acceptance of these conditions might not be problematic in the case of Singapore (given its relatively 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. Further, if Singapore unilaterally signs on to such nontrade linkages, 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 trade agreements may be an altogether inappropriate model for future trade arrangements and could make the Singapore-based trade accords *de facto* exclusionary to other ASEAN members. This is despite the repeated “assurances” by Singapore policy makers that the trade pacts are not exclusive and are open to accession by any country *which agrees to the terms of the agreement*. Exclusion of specific sectors in the trade agreements only perpetuates the problems that exist with multilateral trade liberalisation.

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. In other words, bilateralism is seen as being “WTO-Plus” rather than a substitute for the WTO. Singapore’s policy makers, including the Prime Minister, Goh Chok Tong, have made concerted attempts to reaffirm the primacy of the multilateral trading system. 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, for all intents and purposes, are ineffective.

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, have not been addressed. In some senses the failure to move forward on this issue is not at all surprising. Informed observers themselves are almost evenly divided as to whether FTAs do in fact act as a “stepping stone” to enhanced multilateral trade liberalisation. 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 of such regionalism, particularly in Asia.

What does this all mean for Singapore's commercial trade strategy? In one sense the fact that the Doha meeting ended “successfully” with an agreement having been reached 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. While some Southeast Asian neighbours greeted the initial response to Singapore's bilateral trade strategy with much scepticism and even irritation, this view seems to

have significantly softened in recent times. Indeed, countries such as Thailand and the Philippines are now looking to emulate the Singapore bilateral trade strategy.

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

	Average	Average							
	1981-90	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