

Singapore, India, and Japan in the Framework of FTA/EPA Arrangement

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Motivation

- Many developing and developed countries are not only promoting multilateral agreements, but many are negotiating or have signed multiple free trade agreements.
- By end of 2005, WTO reports that the total Free Trade Agreements (FTAs) reported by the member countries could reach nearly 141 and more than 65 percent were written after 1995

Motivation

- As of 2006, Singapore has completed FTAs with Asian Free Trade Area (AFTA), Australia, the EU Free Trade Association, Jordan, India, Japan, Korea, New Zealand, Panama, and United States; and is having ongoing discussions with Bahrain, Canada, China, Egypt, Mexico, Pakistan, Peru, Sri Lanka, Kuwait, Qatar, and the United Arab Federation.
- With regional integration in South-East Asia, ASEAN is also strengthening its links with other countries through bilateral agreements as a trading bloc.
- ASEAN is at different stages of negotiation of Free Trade Agreements (FTA) and EPA (Economic Preferential Agreements) with China, India, Japan, Republic of Korea, Australia and New Zealand.

Motivation

- “Spaghetti bowl” effects of overlapping FTAs and complicated rules of origin (Bhagwati, 1993).
- It was questioned whether these trading blocs are “building blocks” or “stumbling blocks” for freer global trade (Bhagwati, 1991).
- The theory suggests that the overall impact of regionalism on economic welfare is not very certain as it could be trade diverting or trade creating (Panagariya, 2000).

Motivation

- Expansion of an existing regional agreement will lead to free trade.
- Baldwin (1995) and Yi (1996) found that the non-members have more incentive to join a regional agreement as it expands thereby creating more trade.
- Freund (2000) also shows in her theoretical model that a country is always better off forming a bilateral trade agreement with every other country, irrespective of previous agreements – “Spaghetti Regionalism”.
- If the FTAs reinforce the multinational agreements, the excluded countries are likely to reverse and adopt more open trade policies like their own bilateral free trade negotiations (Alejandro, 2003).

Motivation

- The impact of growing bilateral and regional free trade agreements of Singapore on trade and growth in the region.
- In particular, we study the newly completed India-Singapore Free Trade Agreement - India-Singapore Comprehensive Economic Cooperation Agreement (CECA) – and its impact on the Japanese economy in terms of increasing trade and economic growth.
 - Trade Creation Effects
 - Revealed Comparative Advantage for Japan, India and Singapore
 - Causality effects between trade and Growth

Motivation

- Free Trade Agreements (FTAs) of Singapore is mostly based on liberalizing services sector, harmonization of domestic regulations, and to allow greater flow of investments across countries.
- Need a more General Equilibrium Framework to study this further – other than GTAP
- It is important to highlight that the multilateral agreement to reduce trade barriers is better than bilateral agreements as it has a broad base impact on reducing trade barriers over a large number of countries.

Singapore: Key Trends

	1999	2002	2003	2004	2005	2006
Real GDP (2000 market price & % change)	6.9	4.0	3.1	8.8	6.6	7.9
Manufacturing	13.0	8.4	3.0	13.9	9.5	11.5
Services	6.3	4.0	3.5	7.7	6.4	7.0
Construction	-9.0	-14.0	-9.0	-5.5	0.7	2.7
Share of Gross Value Added (%)						
Manufacturing	23.1	24.2	24.3	25.4	26.0	26.9
Services	63.6	63.7	64.0	63.3	63.1	62.5
Construction	7.9	4.8	4.2	3.6	3.4	3.3
Others	5.1	7.3	7.5	7.7	7.5	7.3
Employment Share (%)*						
Manufacturing	21.0	19.8	19.7	20.2	20.5	20.7
Services	71.1	67.7	68.6	68.9	68.7	68.4
Construction	6.9	11.8	11.0	10.3	10.1	10.2
Others	1.0	0.7	0.7	0.6	0.7	0.7
Unemployment rate (% change)*	3.5	3.6	4.0	3.4	3.1	2.7

Singapore Economy

- The importance of multilateral trading system is emphasized by the representative from Singapore in the WTO-TPR Singapore 2004: “Many in the WTO, as well as at APEC and ASEAN, believed that FTAs could be complementary, and serve as building blocks, to the multilateral process. Singapore believed that FTAs could be building blocks if they were WTO-plus (going beyond WTO commitments), WTO-consistent (covering substantially all trade) and open to others prepared to make the same commitments..... Both could learn in the process, and as they got used to a higher level of liberalization, this could serve in multilateral negotiations.”

Singapore Economy

- FTAs by Singapore are mostly based on services and goes beyond the GATS commitments that include financial services, business and professional services, telecommunications, education, and environmental services (WTO-TPR Singapore 2004).
- Trade in services is the main component of US-Singapore FTA, where there is substantial market access to the services sectors subject to a “negative list” that deals with sensitive government institutions and policy (Roy, Marchetti, and Lim, 2006; PECC, 2003).
- FTAs with Australia and US, where the commitment to enact the competition law, to development intellectual property rights, customs provisions and to make provisions for trade and environmental issues (see Appendix Table A1).

JSEPA: Japan Singapore FTA

- The “new age” partnership agreement between Japan-Singapore FTA (JSEPA) goes beyond the WTO commitments (PECC, 2003). The ultimate goal of the FTA is to focus on the services sector liberalization and in the promotion of foreign direct investment between the two countries.
- Reducing tariffs and non-tariff barriers (NTBs), JSEPA also cover issues such as regulatory reforms; facilitation of customs procedures; cooperation in science and technology, media and broadcasting, electronic commerce, advancing information and communication technology; movement of natural persons; and human resource developments.

CECA – India Singapore FTA

- The recently completed FTA with India (CECA) is a special comprehensive trade agreement between India and Singapore that is expected to promote trade in services and investment across the two countries.
- The immediate impact of the India-Singapore FTA is the impact on trade, where tariffs on approximately 75 percent of Singapore’s domestic exports will be eliminated or expected to be reduced within the next 5 years.
- The key sectors that are expected to be benefit from the FTA are electronics and electrical, instrumentation, pharmaceutical and plastics.
- The general rule of origin (ROO) is a combination of 40 percent local content and a change in tariff classification at the 4-digit level. ROO take account of Singapore’s unique production structure and give a list of products that are exempt from the general rule.

CECA – India Singapore FTA

- The key part of the chapter is to promote and protect investments interest in both countries.
- The protection and legal recognition of intellectual property rights are clearly defined in the chapter.
- The promotion of trade in services in terms of market access for both countries is the key part of CECA.
- Under the chapter, both countries may not restrict access into their services market by imposing quantitative restrictions such as quotas.
- In addition, the service suppliers in both countries will be granted the same treatment as local service suppliers.

CECA – India Singapore FTA

- The key services sectors that are expected to benefit are financial and telecommunication services. The Singapore-owned banks are given greater autonomy to access the Indian banking sector. The telecommunication sector is given more access where companies are given privileges in using the local internet and infrastructure services.

CECA – India Singapore FTA

- Freer movement of people in terms of mutual recognition of professional bodies in accounting, auditing, architecture, medical, dental and nursing services in both countries through mutual negotiation (Mutual Recognition Agreements – MRAs) within one year from the completion of CECA.

Table 3: Product Composition of Merchandise Trade for Singapore (%): 1999 & 2000

	Import		Export	
	1999	2003	1999	2003
Office Machines & Telecommunication Equipments	38.1	38.4	56.2	42.0
Non-Electrical Machinery	9.8	9.3	3.6	4.3
Other Semi-Machinery	5.5	4.6	1.8	1.9
Chemicals	6.0	6.7	8.9	17.0
Fuels	9.1	13.6	13.0	18.3
Agriculture	4.4	3.7	1.7	1.7
Textiles & Clothing	2.5	2.3	-	-
Transport Equipment	4.9	5.6	-	-
Other Electrical Mach	7.6	5.8	5.0	3.8
Other	3.3	3.0	1.2	1.6
Other Manufacturing	8.9	7.2	8.5	9.3
Total Merchandise (USD)	\$111 b	\$127.9 b	\$68.6 b	\$79.7 b
Services (USD)	\$41.1 b	\$51.5 b	\$44.7 b	\$53.4 b
Transportation	45.7	45.4	40.5	38.4
Travel	15.9	16.7	19.3	13.0
Financial & Insurance	6.0	7.4	5.9	8.7
Other Services	32.4	30.5	34.3	39.9

Table 4: Direction of Merchandise Trade for Singapore (%): 1999 & 2003

	Imports		Exports	
	1999	2003	1999	2003
United States	17.0	13.9	24.6	15.5
EU	12.7	12.5	18.7	16.0
Middle East	7.1	8.6	-	-
Malaysia	15.6	16.8	12.1	10.7
Japan	16.6	12.0	7.7	7.8
China	5.1	8.7	3.4	7.2
Hong Kong	-	-	7.6	9.9
Thailand	4.7	4.3	-	-
Chinese Taipei	4.0	5.1	4.3	4.4
Other East Asia	10.2	9.6	10.0	11.4
South Asia	-	-	2.8	2.8
Oceania	-	-	3.4	5.1
Other America	-	-	2.5	4.7
Others	7.0	8.5	2.8	4.3

Table 5: Direction of Foreign Direct Investment for Singapore (%): 1997 - 2003

Inflows	1997-1999		Outflows	1997-1999		2000-2003	
	1997-1999	2000-2003		1997-1999	2000-2003		
United States	15.0	16.6	United States	5.4	5.8		
Europe	35.5	40.0	Europe	13.3	9.4		
- Netherlands	10.0	13.5	- Netherlands	2.5	1.0		
- Switzerland	9.0	7.2	- Switzerland	0.5	0.3		
- UK	9.2	8.8	- UK	3.9	4.9		
Malaysia	4.0	2.7	Malaysia	9.4	8.3		
Japan	17.0	13.8	Japan	1.3	2.4		
Australia	2.2	1.3	Australia	2.5	2.4		
Latin America	14.6	16.3	Latin America	13.3	24.7		
Others	11.7	9.3	China	15.5	13.2		
			Hong Kong	10.5	8.2		
			Thailand	3.5	3.0		
			Chinese Taipei	2.9	2.4		
			Korea	2.0	1.8		
			India	0.6	1.1		
			Others	19.8	16.6		

Table 6: Foreign Direct Investment for Singapore by Industry (%): 1998 - 2003

	Inflows		Outflows	
	1997-1999	2000-2003	1997-1999	2000-2003
Manufacturing	34.0	36.0	24.9	20.2
Commerce	15.2	14.8	8.2	7.0
Transport & Communication	3.7	4.5	6.0	8.0
Financial & Insurance	36.6	37.0	48.2	55.0
Real Estate	3.4	3.0	7.4	5.2
Business Services	3.6	4.1	2.7	1.2
Others	3.5	0.6	2.6	3.4

Table 7: Product Composition of Merchandise Trade for Japan (%): 1999-2004

	Imports		Exports	
	1999	2004	1998	2004
Machinery & Equipments*	36.0	28.1	21.8	21.0
Metals Products	4.8	4.9	5.0	5.3
Non-Metallic Mineral Products	1.5	1.4	1.1	1.0
Chemicals	9.1	9.7	7.0	8.3
Fuels	4.7	6.2	-	-
Agriculture	15.7	13.0	0.4	0.4
Textiles & Clothing	7.4	7.9	1.8	1.6
Electrical Machinery	-	-	24.0	23.6
Transport Equipments	-	-	23.3	23.7
Others	20.8	28.8	15.6	15.1

Source: Japan Statistical Yearbook, various issues

Table 8: Direction of Merchandise Trade for Japan (%): 1999 - 2004

	Imports		Exports	
	1999	2004	1999	2004
United States	29.0	22.6	41.2	31.5
EU	21.5	20.7	22.0	19.8
Malaysia	4.6	4.3	3.1	2.7
China	18.1	28.7	6.5	15.8
Hong Kong	0.7	0.5	6.1	7.6
Thailand	3.8	4.3	3.1	4.3
Chinese Taipei	5.4	5.0	8.0	9.0
Singapore	2.3	2.0	4.5	4.0
India	1.0	0.8	0.7	0.7
Oceania	8.9	6.7	2.8	3.0
South America	2.5	2.8	1.2	1.0
Others	2.2	1.6	0.8	0.6

Source: Japan Statistical Yearbook, various issues

Table 9: Total Foreign Direct Investment from Japan by Destination (%): 1990 - 2004

Outflows	1990-1998		1999-2004	
	1990-1998	1999-2004	1990-1998	1999-2004
United States	42.3	24.5	42.3	24.5
Europe	18.9	37.4	18.9	37.4
Asia	19.0	16.5	19.0	16.5
South America	8.8	15.2	8.8	15.2
Africa	1.0	0.5	1.0	0.5
Oceania	5.0	2.9	5.0	2.9
Australia	4.3	2.5	4.3	2.5
Others	0.7	0.5	0.7	0.5

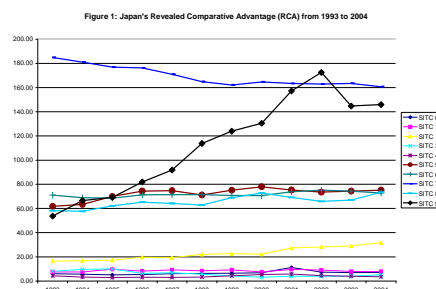
Source: Japan Statistical Yearbook, various issues

Table 10: Foreign Direct Investment from Japan by Industry (%): 1990 - 2004

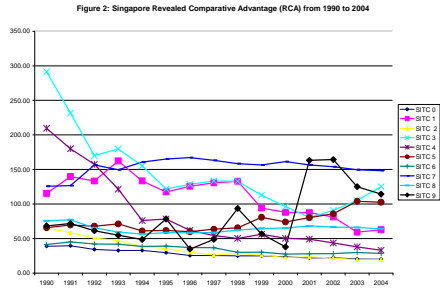
	Outflows	
	1990-1998	1999-2004
Manufacturing	36.4	41.1
Non-Manufacturing	66.3	58.9
Non-Manufacturing		
Commerce	11.1	8.4
Transport & Communication	5.0	10.6
Financial & Insurance	15.4	28.0
Real Estate	15.2	3.2
Business Services	15.2	5.3
Others	4.4	3.4

Source: Japan Statistical Yearbook, various issues

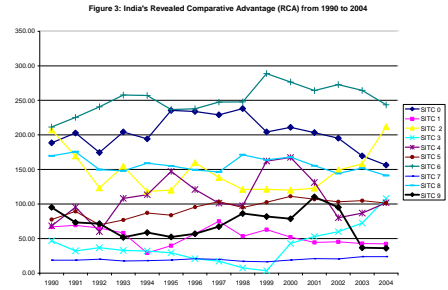
Trade Links: Japan, India, Singapore



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Table 11: Average RCA of India, Japan and Singapore: 1993-2004 (1-digit SITC Commodities)

SITC	0	1	2	3	4	5	6	7	8	9
Japan										
1993-95	5.61	8.22	16.77	9.20	3.50	65.04	69.46	180.98	59.31	63.18
1996-99	6.07	8.79	20.94	5.77	3.41	73.86	71.23	168.59	65.30	102.87
2000-04	7.89	8.38	27.66	4.03	4.60	75.28	73.33	163.03	69.63	150.18
India										
1990-95	199.99	54.76	148.91	34.96	98.78	80.77	238.16	18.65	159.52	67.14
1996-99	226.38	62.03	135.17	12.25	120.47	99.09	255.55	18.48	157.74	73.10
2000-04	187.13	45.34	152.45	67.24	113.48	105.51	264.31	21.57	152.12	71.34
Singapore										
1990-95	34.64	133.58	49.25	191.65	137.17	66.20	41.39	147.38	65.44	63.87
1996-99	25.18	120.91	27.64	126.97	55.67	67.45	33.43	161.31	60.96	58.47
2000-04	21.71	75.69	21.41	99.57	42.83	89.34	28.34	153.97	66.08	120.99

SITC: 0 – Food & live animals; 1 – Beverages & Tobacco; 2 – Crude materials; 3 – Mineral fuel; 4 – Animal, vegetable oil, fat; 5 – Chemical; 6 – Basic manufactures; 7 – Machinery, transport equipment; 8 – Miscellaneous manufactured goods; 9 – Goods not classified

Conclusion

- The paper provided an overview of the Japan-Singapore Free Trade Agreement (JSEPA) and India-Singapore Free Trade Agreement (CECA).
- The paper has shown that the CECA and JSEPA could be mutually complementary if it enhances the flow of trade and investment between Japan, India and Singapore.
- Free Trade Agreements written by Singapore with its trading partners are “WTO-Plus” agreements that emphasize trade in services, greater movement of goods, greater flow of investment and reducing and harmonizing regulations across countries.

Conclusion

- The key component of FTAs is its effect in creating greater knowledge creation and flow of investment across the involved countries. The agglomeration, knowledge-creation and investment flows have greater impact on welfare and growth
- The evidence of greater investment from Singapore into Japan after the Singapore-Japan FTA – JSEPA does support the evidence of greater flow of bi-directional foreign investment.
- The investment commitments into India by leading Singapore Multinationals such as DBS bank, Singtel, Singapore NatSteel, and PSA after the India-Singapore FTA; and development of IT Park Bangalore are evidence of greater flow of knowledge and investment across India and Singapore.
- With completion of CECA, the Singapore Exchange (SGX) is also wooing leading Indian companies to list in Singapore stock exchange.

Conclusion

- With the completion of CECA, Indian firms are investing and setting up companies in Singapore and more than 300 Indian IT companies have set up software development operations.
- The consultancy operations by leading Tata Consultancy Services, establishment of regional headquarters in Singapore by leading software Indian Multinational Satyam, and investment by Infosys in Singapore are the bi-directional flow of knowledge and investment from India to Singapore.
- The investment is also supported by greater flow of skilled workers across the two countries.

Conclusion

- **The key part of the FTAs is the policy reform commitments and “locking-in” reform policy commitments by the participating countries to maintain free trade, deregulate industries, and harmonize regulations across countries.**
- **Japan should use the trade and investment linkage with Singapore to source into the Indian market. Given the historical linkage in terms of culture, trade and investment; Singapore will be an ideal platform for Japan to penetrate the Indian market.**