

Trade, Investment Policy and FTAs in Singapore and ASEAN

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Presentation

- Introduction
- Key Indicators and Trends
- WTO-Plus FTAs: Case of Singapore
- Industry Strategy and Services Sector
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Key Indicators and Trends

- External Shocks: SARs, 2001-September 11, Middle-East Crisis, Internet Bubble, Oil-Shocks
- Singapore and South-East Asian Economies are becoming more resilient
- Structural Changes in the Singapore Economy – Increase in importance of Services sector

Table 1: Key Macroeconomic Indicators: 1999-2003

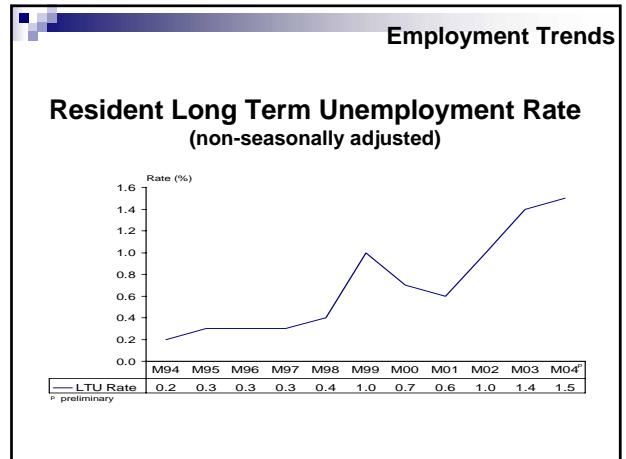
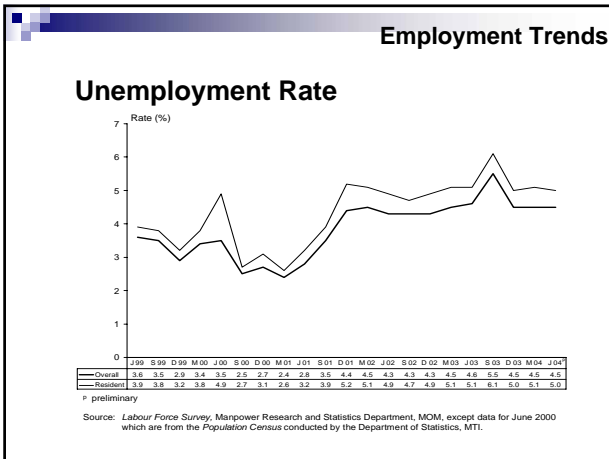
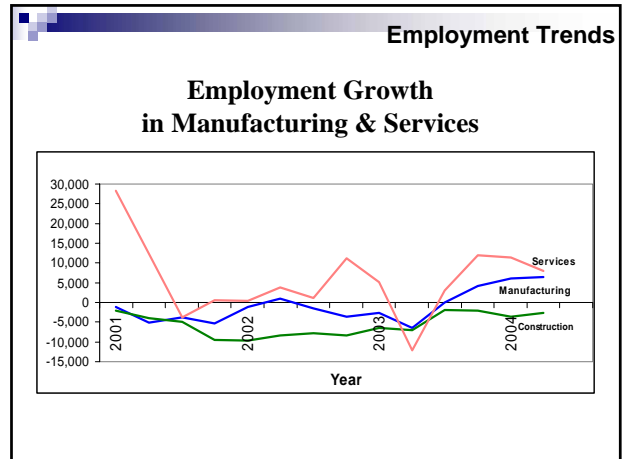
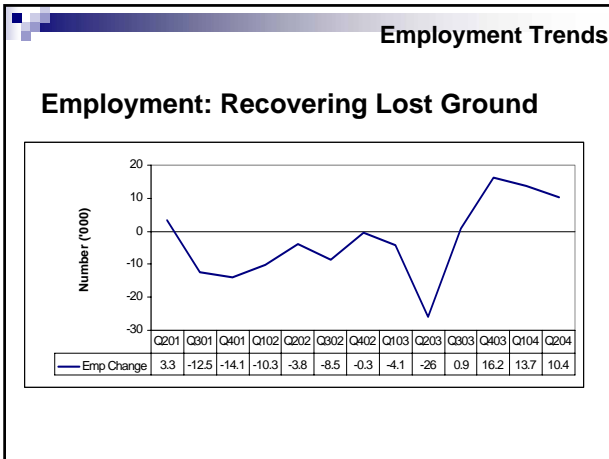
	1999	2000	2001	2002	2003	2004	2005
Real GDP (1995 market price & % change)	6.9	9.7	-1.9	2.2	1.1	8.7	6.4
Manufacturing	13.0	15.1	-11.6	7.8	2.8	13.9	9.3
Services	6.3	8.0	2.4	1.4	1.0	9.0	6.0
Construction	-9.0	-0.7	-2.6	-10.8	-10.7	-6.1	-1.1
Share of Gross Value Added (%)							
Manufacturing	23.1	26.8	23.7	25.8	26.3	27.0	27.3
Services	63.6	61.9	64.5	63.5	63.4	63.0	63.8
Construction	7.9	6.3	6.1	5.4	5.0	4.5	3.7
Others	5.1	5.0	5.7	5.3	5.3	5.5	5.2
Employment Share (%)							
Manufacturing	21.0	20.8	18.8	18.2	17.9	17.7	18.0
Services	71.1	65.5	74.2	75.0	75.6	76.8	77.0
Construction	6.9	13.1	6.1	5.9	5.6	5.5	5.0

Key Trends

- Electronics, Pharmaceutical, and Chemical clusters are the key drivers for 2004 and 2005 economic growth
- The services sector recorded a healthy average increase of 3.9% in 1999-2002, led by the transport & communications and wholesale & retail trade sectors. Growth in transport & communications, wholesale & retail trade, and Financial Services were strong sectors in 2004 and 2005.

Annual percentage change in sectors of the Singapore economy (1995 market prices)

Sector	1999	2000	2001	2002	2003	2004	2005
TOTAL	6.9	9.7	-1.9	2.2	1.1	8.7	6.4
Goods Producing Industries	6.6	11.1	-9.1	3.4	0.2	9.0	7.7
Manufacturing	13.0	15.1	-11.6	7.8	2.8	13.9	9.3
Construction	-9.0	-0.7	-2.6	-10.8	-10.7	-6.7	-1.1
Utilities	3.4	7.2	1.8	3.8	1.8	2.5	3.5
Other Goods Industries	-1.8	-4.9	-5.9	-5.8	-0.4	1.0	-2.5
Services Producing Industries	6.3	8.0	2.4	1.4	1.0	7.5	6.0
Wholesale & Retail Trade	6.5	14.8	-3.3	2.7	6.7	11.5	10.5
Hotels & Restaurants	5.4	8.5	-0.2	-2.9	-12.2	4.5	4.6
Transport & Communications	7.6	7.7	3.9	4.9	-2.0	4.8	4.5
Financial Services	5.7	3.6	2.3	-6.3	3.7	7.0	6.5
Business Services	5.5	5.7	2.4	1.2	-1.8	6.5	4.9
Other Services Industries	6.3	8.5	8.5	4.6	2.1	2.8	2.7
Owner-Occupied Dwellings	7.8	6.3	4.5	2.1	2.6	2.4	2.8



Expansion in Trade

- Singapore's exports rose at an average rate of 4.8% in 1999-2002 and strengthened further by 14% in 2005
- Manufactured exports in electronics goods still forms a significant component of its exports
- Office machines & telecommunication equipments and chemical products form nearly 48% and 17% of total domestic exports respectively in 2005

Expansion in Trade

- In 1999, exports to China only accounted for 3.4% of total domestic exports, but it rose to nearly 10% in 2005.
- ASEAN is the key trading partner for Singapore as it absorbs nearly 25% of total domestic exports from Singapore.
- The major sources of imports for Singapore are from Malaysia (16.8%), the United States (13.9%), the European Union (12.5%) and Japan (12%) in 2005.

Emergence of the Services

- The emergence of the services sector is also observable in other Asian countries.
- Hong Kong and Japan tend to have the highest share of services sector of over 70% of GDP and Taiwan's share is rising to nearly 67% in 2004.
- The importance of services sector for GDP and its growth is also reflected in the two key countries in ASEAN, Malaysia and Thailand have nearly 60% and 46% share of services sector to GDP respectively for the period of 1999-2004.

Table 2: The Share of Services Sector to GDP in Selected Asian Countries: 1999-2004 (%)

Country		1999	2000	2001	2002	2003	2004
Hong Kong	Manufacturing	14.6	14.4	13.7	13.0	12.1	11.3
	Services	85.2	85.4	86.2	86.8	87.9	88.6
	Other	0.2	0.2	0.1	0.2	0	0.1
Japan	Manufacturing	28.3	28.6	27.2	26.0	25.8	25.3
	Services	70.1	69.9	71.3	72.6	72.9	73.4
	Other	1.6	1.5	1.5	1.4	1.3	1.3
Korea	Manufacturing	40.2	40.6	39.1	38.4	39.2	40.8
	Services	54.5	54.3	56.1	57.6	57.1	55.9
	Other	5.3	5.1	4.8	4.0	3.6	3.3
Malaysia	Manufacturing	33.4	34.9	32.9	32.9	33.5	33.4
	Services	58.5	57.1	59.4	59.5	58.9	59.2
	Other	8.1	8.0	7.7	7.6	7.6	7.4
Taiwan	Manufacturing	33.1	32.3	30.7	30.9	30.1	31
	Services	64.2	65.5	67.3	67.2	68.0	67.3
	Other	2.7	2.2	2.0	1.9	1.9	1.7
Thailand	Manufacturing	40.9	41.9	42.1	42.3	43.4	44.2
	Services	49.6	48.9	48.7	48.1	46.3	46.4
	Other	9.5	9.2	9.2	9.6	10.3	9.4

FTAs: Case of Singapore

- Singapore has been an avid supporter of multilateral trading system, including the provision of most-favored-nation (MFN) treatment to all members of the WTO.
- Singapore's commitment to regionalization is also reflected by its membership in the Association of Southeast Asian Nations (ASEAN), the Asia-Pacific Economic Cooperation (APEC), and the Asia Europe Meetings (ASEM), which have further highlighted the fact that Singapore is an active proponent of international trade to enhance welfare.
- ASEAN has always been the important nexus for multilateral negotiations for APEC and WTO.

FTAs: Case of Singapore

- Change in Singapore's trade policy since the late 1990s is the decision to pursue bilateral free-trade agreements with its trading partners.
- As of March 2004, Singapore has signed FTAs with New Zealand, Japan, the European Free Trade Areas (EFTA) States, Australia, the United States, India, Canada, Jordan; and currently in negotiating with Chile, Mexico, and Korea. Under ASEAN, negotiations are also underway with China, India, and Japan, and Sri Lanka.

Importance of FTA

- Post-Asian Crisis: Significant divergence in the economic and financial restructuring among ASEAN countries
- Singapore taking a more proactive role in opening up with its economic liberalization policy especially in the services sector.
- On the other hand, ASEAN countries like Malaysia were adopting a semi-protected economic policy.
- Growing perception that WTO is a weak forum for open multilateral trading system

Importance of FTA

- The FDI flow into ASEAN dropped from US\$21.5 billion in 1997 to US\$13.1 billion in 1999 as compared to rising FDI into North-East Asia and especially China (Low, 2003).
- Increased the focus and diverted attention back to ASEAN and South-East Asian region

Importance of FTA

- It energized and raised the urgency for the other ASEAN countries to become more proactive in open trading activities.
- The response from ASEAN especially Malaysia and Thailand is to seek their own FTAs to match the record number of FTAs signed by Singapore.
- Third, it highlighted the importance of services sector for continual growth of the Singapore economy and ASEAN countries.

WTO-Plus FTAs

- Singapore's strong integration and production network in ASEAN, the multilateral trading system and regionalism is still superior and the key for sustainable growth for the economy (Low, 2003).
- FTAs could be complementary, and serve as building blocks, to the multilateral process.

WTO-Plus FTAs

- 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.

WTO-Plus FTAs

- The 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
- Singapore's commitment to go beyond the WTO commitments are reflected by the 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

WTO-Plus FTAs

- Commitment to promote competition by addressing anti-competitive practices through legislature is one of the key provisions in the US-Singapore and Singapore-Australia FTAs.
- This law is expected to apply to all activities including the private sector and Government Linked Corporations (GLCs) in all sectors.
- Singapore has also engaged in efforts to improve corporate governance through voluntary Code of Corporate Governance for all listed companies.
- Council on Corporate Disclosure and Governance was established in 2002 to prescribe and strengthen existing accounting standards, disclosure practices, and reporting standards in Singapore.

WTO-Plus FTAs

- Significant changes in the framework of intellectual property rights
- The "new age" partnership agreement between Japan-Singapore FTA (JSEPA) goes beyond the WTO commitments
- 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

FTAs: Key Policy Issues

- Is Bilateral “WTO-plus” Free Trade Agreements sufficient building block for multilateral liberalization?
- The key component of the building block for multilateral trading arrangements is the role ASEAN plays in APEC and WTO

FTAs: Key Policy Issues

- Most of the WTO-plus FTAs by Singapore are mostly in the services
- Banking and Telecommunication Sector are liberalized in Singapore
- The gap in liberalization of the services sector among the ASEAN countries tends to be quite diverse and incoherent.
- ASEAN countries comprising of Malaysia, Indonesia, Thailand and Philippines tend to take a more protected view

FTAs: Key Policy Issues

- The key reasons for WTO-plus bilateral agreements are political as well as economic.
- Participating countries must be willing to negotiate on key sensitive sectors and reduce barriers in these sectors as opposed to excluding their “sensitive sectors” from negotiation agenda.
- The “competitive liberalization” argument for FTAs is based on sensitive trade and cross border issues that could not be dealt under the multilateral settings such as WTO, but it could be effectively negotiated in bilateral agreements.

FTAs: Key Policy Issues

- Multilateral and broader regionalism is still the first-best equilibrium as compared to bilateral and cross regional trading arrangements given the potential gains from larger and diverse market.
- Singapore is integrated in the South-East Asian region, and its production networks are entrenched and linked to the neighboring ASEAN countries.
- The success of WTO-plus FTA as a building block for multilateral trading system depends on the unified and coordinated framework for ASEAN to pursue a cohesive and credible trade policy.

FTAs: Key Policy Issues

- The importance of services sector for sustained growth of the ASEAN and East Asia could not be under emphasized.
- It is in the services sector that Singapore’s FTA framework could play an important role in the Southeast Asian region.

FTAs: Key Policy Issues

- Firstly, it has been observed that the demand for services is highly income elastic and that the demand for services increases concurrently as the income for Asian countries rises.
- Thus the demand for services such as education, health care, telecommunication services, and travel services are expected to expand faster than the demand for manufactured and agricultural goods as Asian countries experience continued growth in income and standard of living.

FTAs: Key Policy Issues

- Regional networking and hubs activities in financial, transport and telecommunication activities
- Telecommunication and information technologies have increased and allow for greater access of producer services in cross-border trading activities.
- Quality and cost competitiveness of the services is key for the growth in the services industries in the region.
- Regulatory reform and liberalization of services activities could be expected to reap substantial economic gains for the domestic economy.

Conclusion

- Greater Economic Cooperation among ASEAN
- ASEAN - Services Sector Liberalization
- ASEAN: Greater liberalization and Transparency in investment in the region – Foreign Equity Holdings, National Treatment to Foreign Investors
- ASEAN: Labour standards and mobility issues are not resolved – Recognition of qualifications

Conclusion

- FTAs are part of Industrial Strategy for Singapore as it moves to higher value-added activities and services sector becomes an important driver of economic growth.
- Singapore: Must work closely with ASEAN on Services Sector Liberalization
- Singapore: SMEs have not benefited from FTAs as compared to GLCs
- Singapore: Human Capital Development