



## SINGAPORE'S RTA STRATEGY

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### 1. INTRODUCTION

This paper examines Singapore's evolving foreign economic policy in bilateral free trade agreements (FTAs) perceived to have inimical regional interests by its partners in the Association of Southeast Asian Nations (ASEAN) and ASEAN Free Trade Area (AFTA). An understanding first of the global environment in Section 2 (see also Low, 2000, 2001b and 2001d) and second, Singapore's political economy in the region in Section 3 (see also Bercuson, et al, 1995, Huff, 1999, Low, 1998, 2001c and 2001f) set the context for Section 4 on Singapore's stirring new regionalism at a fast and furious pace since 1999. As an academic policy analysis, this paper is neither a defence nor apology of Singapore's official policy, just an understanding of its strategy to survive as a small city-state.

We take a holistic political economy approach, as necessary as it is desirable. The debate is no more or no longer between multilateralism versus regionalism (Low, 2001a and 2001e). New age preferential bilateral and plurilateral regional trading arrangements (RTAs) and "cross regional free trade areas" (CRFTAs) may complement and supplement multilateralism. They are growing apace in the realistic context of geopolitics and political economy of new globalisation and knowledge-based economy (KBE) fostered by information, communication technology (ICT). New globalisation is the democratisation of information, finance and technology (Friedman, 1999), contrasted with old globalisation as internationalisation. State sovereignty is contrived by the impact of direct foreign investment (DFI) and multinational corporations (MNCs).

Despite the reengineering of the General Agreement on Tariffs and Trade (GATT) to the World Trade Organisation (WTO), multilateral trade negotiation (MTN) and liberalisation have not quite got on as witnessed by the fiasco in the third WTO ministerial meeting in 1999 in Seattle. Both Singapore and ASEAN are challenged but their respective responses as contrasted in Sections 3 and 4 need some rumination and reconciliation. Similarly, regional solidarity under different frames as in AFTA,

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ASEAN Plus Three (APT) and Asia Pacific Economic Cooperation (APEC) as well as emerging competition between ASEAN and Northeast Asia need convergence. The concluding section offers some policy implications for developing countries in general, ASEAN in particular, but they are in no way definitive with the evolving global environment in a state of flux and national interests inevitably a political choice.

## **2. THE GLOBAL ENVIRONMENT**

### **Multilateralism checkmated**

All things being equal, free trade and multilateralism remain the first and best options (Bhagwati, 2000) for developing countries, especially if they are small, and consequently open economies, more so if they are city-states and resource-scarce as Singapore. The economics of free trade under most-favoured nation (MFN) trade liberalisation is indisputably superior if the assumptions supporting free and open trade were in place. In more realistic terms, the global economy is far from the ideal conditions. By design or default, the unfortunate mismanagement at the multilateral level has led to frustration and disappointment which together with the evolving new economic, political, social and technological environment has spawned more RTAs.

Multilateralism under WTO bore the brunt of globalisation, ICT and KBE because WTO is perceived to work systematically against the interests of the environment with globalisation demonised and associated with free trade (Sampson, 2000). One sticking issue is democracy and inclusion with lack of participation of many small developing countries even in the Seattle ministerial meeting. A distinction between participation and systematic exclusion of countries and non-government organisations (NGOs) as in the infamous "green room" and "non-papers" discussed at such closed-door meetings needs to be made. Limited participation may still be a means to an efficient way to proceed so long as representativeness is upheld. WTO is more power-based than rule-based to the discrimination of developing countries. The Dispute Settlement Mechanism (DSM) has not curbed the unilateralism it was meant to do especially with the high costs of accessing DSM by developing countries.

WTO and trade policy as the tool have become loaded and value-laden with new trade issues. Higher environmental and labour standards to avert environmental and social dumping degenerate into disguised protection. Conflicts between multilateral environmental agreements (MEAs) and WTO trade agreements arise together with resource depletion with trade liberalisation, compensatory border adjustments and pollution havens. In hindsight, intellectual property rights (IPR) issues may have been left to World Intellectual Property Organisation (WIPO) just as labour standards could reside more appropriately in International Labour Organisation (ILO). The logic and argument to use one policy objective per objective rather than same policy instrument for more than one objective which achieves none efficiently is, however, over ridden by the politics of trade with the clout to hurt.



Global political economy is beyond the international political economy of the state and market. The multinational enterprise (MNE) has profoundly restructured the environment of accumulation and new wealth bases through economic globalisation and the return of institutionalism (Palan, ed, 2000). As a sub-field of international relations, global political economy stands at the intersection between domestic and international politics on one hand, and trade and finance, on the other. International political economy is between a rock and a hard place as the new MNE is confronted with crossborder alliance capitalism. Interfirm relations are in innovation-intensive economic activity due to revolutionary changes in ICT and interfirm relations are embedded in many localised context-dependent institutionalised environment. Opting out is no more an option and that is what dependency means today (Strange, 1994, p 215). Developing countries are involuntary losers in the international casino with the international financial structures and development, politics of debt, privatisation of power in the changing hierarchy of actors (Leander, 2000). A more proactive policy stance must come with knowing the global and regional environment to devise a national strategy responsively and in one's best interests to extent possible.

There are some explicit reasons for optimism about the future of multilateralism (Mistry, 2000, pp 141-44). One is regionalism will give way quickly to functional multilateralism because of the forces of global and private rather than state, national or regional driving new regionalism. Two is RTAs themselves are trying to coalesce at an unanticipated speed with overarching agreements to go crossregional or supraregional, such as APEC with North America and the Indian Ocean Rim (IOR) embracing Eastern and Southern Africa. Three is GATT/WTO-consistency in Article XXIV and enabling clause guiding RTAs and guarding multilateralism. Four is large federal developing or transition economies like Brazil, China, India, Indonesia and Russia viewing RTAs as serious alternatives to achieve development. Finally, deeper intraregional integration is not thwarting interregional interaction as trade within regions has expanded not at the expense of trade between regions. In any case, if the standard economist's prescription is competition always helps, then regionalism should prod multilateralism along putting it on the same trajectory alongside with multilateralism given the above prognosis.

### **The theory versus the practice of free trade**

Traditional RTA involving infinitesimal changes in tariff which may increase welfare is still a theory of "second best" as the precise effect on welfare depends on circumstances and there are no clearcut rules to judge which is better. An illuminating analogy is of a person wishing to climb to the highest point on a range of hills; walking uphill takes the person to the top of the particular hill the person is on, not every step necessarily leads to the summit of the highest hill which may be difficult to pinpoint without elaborate preparation (Meade, 1955, p7). Other arguments against include RTA offers lower utility of the median voter in at least one country compared to multilateral liberalisation. The argument that RTA deals with smaller numbers, can be faster, less difficult, averts MFN and free rider problem when some members get the benefits without having to offer any tariff cuts, is also false. There is no effect on



number of participants for RTAs as they retain their own external tariffs and negotiate these on their own. Even if EU gave some semblance of negotiating as a group, in practice, they are not as undivided and have internal problems with their own agendas and interests.

Table 1 summarises the traditional forms of economic integration culminating in political integration as in the US but not the European Union (EU). For sovereign states, progressive integration gets harder involving surrendering control on factor movements and economic policies. FTA is most popular being less trade diverting than CU which has greater bargaining power even if the unification of tariff rates or dynamic effects of FTA is also less dramatic as investment diversion is less marked (Tovias, 2000). Traditionally, FTA appeals to small states as exporters do not try to adjust to world standards but rather to block standard in the first instance. If allowed, small states should try to enter or to be closely associated with more than one block. Where there is a hegemon in the trade block, its gains stem from a few sources including political influence, terms-of-trade (TOT) gains through optimal discrimination against nonmembers and more influence over multilateral trade negotiations. In bilateral trade policy, FTA allows complete freedom for small states which in an asymmetrical CU must adjust to trade policy of larger members.

**Table 1 Stages of economic integration leading to political union**

	PTA	FTA	CU	CM	EU	PU
Item-by-item preferential tariff reduction	X	X	X	X	X	X
Removal of all tariffs among members		X	X	X	X	X
Common external tariff			X	X	X	X
Free factor movement (labour & capital)				X	X	X
Harmonise econ policies (fiscal/ monetary)					X	X
Political unification						X

PTA = preferential trading area, FTA = free trade area, CU = customs union, CM = common market, EU = economic union, PU = political union

Source: Drawn by author.

Table 2 shows the political economy of regionalism, distinguishing between regionalism as a formal trade agreement and regionalisation as the relative concentration of trade among countries not bound by a formal agreement. Regionalisation is based on informal cohesion such as geographical proximity and natural trading partners in a natural trading block. Regionalism as countries desiring preferentially to promote trade with countries of the same region can be for a variety of reasons including political, security, cultural, defensive and last but not least, economic. It is regionalisation if economics dominate. Regionalism is more a political movement toward the creation or expansion of preferential regional trade agreements and preferential is the definitive motivation. Put another way, as pronounced institutional integration process accompanies regionalisation to manage and regulate the local integrative processes, regionalism results just as globalisation has globalism as parallel institution-building (Thompson, 1999, pp 62-63). The lines dividing the



matrixes in Table 2 are fine and crude but lend a framework to understanding the driving forces and motivations in regionalism (Haggard 1993 and 1995).

**Table 2 Alternative approaches to regionalism**

	<b>Causes of regionalism</b>	
	<b>Economic</b>	<b>Political</b>
Regionalism as economic integration	(I) Proximity, income convergence, intrafirm trade, policy convergence	(III) Preferences favour intraregional over extraregional trade and investment
Regionalism as political cooperation	(II) Governance structures established to manage increased economic interdependence	(IV) Hegemonic power exploited, response to rival blocs. Dependence on domestic coalitions in member countries

Source: Haggard, 1993, p 49.

Although territoriality is sine qua non of regions, region-building requires a prior sense of belonging even if actors make a set of strategic calculations making regionalism a conscious institutionalised policy and arrangement (Grugel and Hout, eds, 1999, pp 9-11). In contrast, globalisation and regionalisation are not state projects but combinations of historical and emergent structures. Regionalisation is a de facto process which is a regional expression of the global processes of economic integration and changing structures of production and power. The result is a deepened integration of particular regional economic space more than conscious political projects like regionalism is the formal establishment of regions in political units. Regionalism may still fail to coalesce if no common agreement can be reached. As part of a conscious package, policy capacity to implement state development strategies which emerge by default, trail-and-error and compromise, taking years to crystallise and often plagued by internal inconsistency (Haggard, 1990, p 23) is as important as crafting them.

### **New regionalism growing apace**

New regionalism reflects the synergy of globalisation, ICT and KBE and the growing political economy of regionalism is in commensurate with the politicisation of trade policy and issues. It is new occurring in a multipolar, not bipolar cold war context, is created “from below” by constituent participating states rather than “from above” by superpowers, is more “open” and compatible with an interdependent world economy, and is more comprehensive and multidimensional as a process and involving non-state actors (Hettne, et al, eds, 1999, pp 7-8, see also Hettne, et al, eds, 2000 and 2001). New regionalism recognises that sector specific regimes for steel, electronics, aircraft and other products are beginning to dominate the trading system as permutations and combinations of globalism, sectoralism and regionalism continue to coexist and no form dominant as yet (Aggarwal, 2000, p 186-7).

Globalisation has transformed more than production as ideas, technology, finance, people move with the politics, social relations and ecology of the global process



(Worthington, 2000 and Lawton, et al, eds, 2000). Virtual states have morphed through regionalisation assisted by ICT to take advantage of globalisation by increasingly relocating part of their production abroad to allow specialisation in higher value-added goods and intangible services, research and development (R&D), product design, finance, marketing, transport, insurance and legal services, to reshape both productive and international relationships (Rosecrance 1999: xii and 5-6 and Everard 2000). New regionalism is thus spawned by DFI, MNCs and resulting cross production networks (CPNs) or regional networks directed by market forces based on profit maximisation, efficiency, productivity and competition. CPNs differ from standard agglomeration economies of scale and scope, concentrating on external quantitative economies associated with colocation of producers. Colocation facilitates speedy and accurate exchange of information and other resources, minimise transaction costs to maximise profits and spatial proximity provides organisational face-to-face interaction (Borrus, et al, eds, 2000 and McKendrick, et al, 2000).

In high-technology industries such as electronics and high disk drives, state agencies have redesigned the domestic architecture of supply infrastructure in critical technologies to enable domestic firms and MNCs to compete effectively in CPNs (Mathews et al eds 2000, Borrus et al eds 2000 and McKendrick et al 2000). CPNs are inter- and intrafirm relationships through which firms organise the entire range of its business activities, from R&D, product definition and design, to supply inputs, manufacturing (or production of a service), distribution and support services (Borrus, et al, eds, 2000, p 1). Both knowledge-intensive inputs which are created and proprietary assets are highly mobile across national boundaries with technological advances (Gray and Dunning, 2000). Such industries move across from high-cost to low-cost and attractive regions which put efforts in supply infrastructure including human resources and all sorts of innovation-driven support (McKendrick, et al, 2000). A virtuous circle of regional dynamics involves an industrial district for enterprise diversity, entrepreneurial firms with internal dynamics, new firms for technological diversion and interfirm networks ensuring open systems (Best, 2000, p 462). International firms may appear to push for trading blocks as an adjunct to regionalisation. But they were never interested in them for anything else and have just let states use discriminatory commercial policy for political ends.

Willy-nilly, an unintended but definitely retaliatory spate of regionalism has evolved<sup>2</sup>. Of the 194 agreements notified to GATT at the beginning of 1994, 87 were notified since 1990 (World Bank, 2000, p 1). There are 240 RTAs in force or under negotiation as of July 2000, notified or not yet to be notified to (WTO, Committee on Regional Trade Agreements, WT/REG/W/41, 11 October 2000). If every GATT member were to enter a bilateral arrangement with every other, there would be close to 8,000 (Sampson, ed, 2001, p 1). Even WTO seems overwhelmed and bewildered as it formed the Committee on Regional Trade Agreements (CRTA) in 1996 to report to WTO's General Council to increase transparency, efficiency and consistency of WTO treatment of RTAs. The

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<sup>2</sup> A 1998 WTO secretariat paper noted that 80 of 131 WTO members are party to a RTA (WTO, "Regionalism and the Multilateral Trading System" (<http://www.wto.org/wto/develop/regional.htm>)).





CRTA is yet to cast judgement as to the consistency of these RTAs vis-à-vis WTO rules or implications on WTO.

Pending WTO's CRTA reaching its stride and conclusion to ensure RTAs constitute dynamic "serious regionalism" and cover "substantially all trade" with "open access", some exemplary models by more forward-looking countries may be looked at as benchmarks. WTO permits a RTA if it covers "substantially all trade" in goods or have substantial sectoral coverage in services and does not create additional barriers to external trade. GATT Articles XXIV and General Agreement on Trade in Services (GATS) Article V encourage RTAs together with the enabling clause for developing countries and Article XXVIII encourages MFN tariff negotiation. Together, they contain a balance between regionalism and multilateralism and consistent liberalisation.

But tricky issues include if "substantially all trade" is defined as limited to actual trade among parties to an RTA in period before its formulation and whether this excludes sensitive products and groups like agriculture. Other questions include the aims and principles of RTAs, how parallel a process of regional and multilateral liberalisation, whether new trade rules among partners go along, beyond or against WTO provisions, how trade creating or diverting in application, implementation of rules of origin (ROOs), and possible unintended inequities among regions at different pace and scope of forming RTAs.

The characteristics of successful RTAs include proximity, level of integration as in crossborder trade and investment, similarity, institutional maturity, stake, commitment, disparate power relationship in economic and political for full reciprocity and equality of obligations, net economic impact in being more trade-creating than diverting and dynamism. The criteria for acceptable RTAs include being more liberal than WTO, eliminate substantially all barriers and discrimination, cover substantially all trade based on rules of general application rather than sector specific outcome-oriented commitments and terms of access for non-members no worse than before agreement. While the edict is to think global, states also act regional. What suits and works is a matter of architecture and design of RTAs and how successfully are they implemented subject to institutional and policy capacity, in turn a function of political commitment and drive.

Regionalism can be positive if going back to the role of the state collectively constitutes enhancing political bargaining with a regional focus as individual nation states are faced with the globalisation challenge. If state and sovereignty are threatened, regionalism as a political construct is deemed an appropriate response where more states clubbing together pooling sovereignty may be better than going it alone. How the motivations of the sum total of all actors and states in any regional block are synchronised and harmonised to the extent possible, in commensurate with policy capacity to implement the regional strategy, will ultimately set the resulting form of regionalism. It is emphasised that as a political project rather than driven by pure economics of trade creation and diversion as in conventional economic integration,



assessing new regionalism by pure economic gains and costs is insufficient and a political economy approach is more suitable.

### **3. SINGAPORE'S CHALLENGES AND RESPONSE IN REGIONAL CONTEXT**

#### **Asian regionalism or lack thereof**

Regionalism in Asia Pacific is only more visible than initiatives in Eastern Europe and Central Asia or Sub-Saharan Africa which has no new RTA but a CRFTA is being negotiated between South African Development Community (SACU) and Mercosur (Piggott and Woodland, eds, 1999). Asian experiences are in ASEAN and its AFTA, APEC and South Asian Association for Regional Cooperation (SAARC) and its South Asian Preferential Trading Arrangement (SAPTA). Even AFTA is ersatz involving only liberalisation for 15 commodities in the first instance. With concerted unilateralism, Asia is still state-centric (Yamamoto, ed, 1999, p 3). Asianism is neither an economic nor a political model yet as East Asia is culturally and socially diverse. There is no Asian regionalism based strictly on regional identity or ideology, except perhaps for the original ASEAN6. Even that may have diluted as ASEAN10 comprising six relatively more developed and rich states and four poorer transition economies, was forged by politics and security first, scale economies, second. Identity and ideology are harder to grasp as policy as the same economic and political diversity can be both bane as boon. Identity is circumscribed by space, group and norms and remains instilled in the nation state.

Asia may have approached globalisation without globalism, the latter defined as the necessary institution-building to integrate globally as there was scarce institutionalised frameworks and interactions and relationships are fundamentally ad hoc, pragmatic and strategic. This may be one factor tumbling Asia into the financial crisis when its institutions and processes were not ready or ill-prepared for both economic and financial globalisation. In particular, the noninstitutionalised Asian way combines neoauthoritarianism with the market. While EU "pooled" sovereignty, East Asia is "seeking" to enhance sovereignty through market-led regional cooperation (Coleman and Underhill, eds, 1998, p 11). Asia could follow neither the EU which is a highly integrationist standard model nor North American Free Trade Agreement (NAFTA) which is a national economic strategy (Barry and Keith, eds, 1999, p 10-3). APEC as the new hybrid model is a new age institution which still finding its way.

Unsurprisingly, the political economy of East Asian regionalism has many varieties and hybrids, open and closed, coercive and consensual, hierarchical and balanced in economic and political forms (Ikenberry, 2000, p 36), some exclusively regulated, others decentralised or market-driven. There is resource-pooling as in hydropolitics and the Mekong River as a potential for regional cooperation is to avoid conflicts over limited water resources which will further contribute to regional security and international river basin management beside consolidating ASEAN relations among the raparian Indochinese states (Ojendal, 2000). There is also market-sharing as in





AFTA but even that is bedeviled by national projects such as Malaysia's national car project. Regionalisation may have occurred without regionalism if there were no aspiration by East Asia for macro-regionalism

East Asia is deemed better off with open regionalism centered around WTO-style of nondiscriminatory MFN liberalisation with concessions automatically extended to all members (Panagariya, 1999). If and when Asian developing countries form a single FTA, the world will be characterised by three trading blocks of similar size. With an Asian trade block, the welfare of the Asian developing country would improve substantially though the favourable effect for Japan is relatively smaller because the rest of Asia's developing countries gain market access into Japan (Goto, 2001). The welfare of the US under a countervailing Asian FTA is lower than that of pre-NAFTA, explaining its opposition to an East Asian block. If all APEC economies unite under one FTA, its impact on Asian developing countries as well as larger members like the US and Japan, is dramatic. A very much welfare-improving situation occurs for an APEC FTA though to the detriment of non-APEC economies. Finally, in a completely case, the welfare level of members of major FTAs substantially declines but dramatically improves for the rest-of-the-world (ROW). For the US and Japan, this case gives them the lowest welfare compared to all other FTA configurations compared to case of no FTAs like NAFTA or Asian FTA or APEC FTA. The free world trade case would thus be difficult to achieve with these vested interests of major countries which will oppose it.

The prognosis seems either for APEC to pick up the challenge as a CRFTA, tying up the Americas and East Asia or East Asia under APT comprising ASEAN10, Japan, South Korea and China to go it alone in the first instance. APT may suit Asian nationalism, identity and ideology but these attributes are still nebulous, ephemeral and complex with a potential power struggle between China and Japan on one hand, and ASEAN and Northeast Asia within the region on the other. Linking up with the Americas as in APEC is economically more sensible but what is common sense is usually lost to policy-makers in general, politicians in particular, the Asian genre notwithstanding. The experimentation with ideas such as the Asian Monetary Fund (AMF) and ASEAN monetary union (AMU) has succumbed to political considerations. Currency swaps have made some headway with Japan agreeing to currency swap agreements with Korea, Thailand and Malaysia, sharpening the focus around APT (Asian Wall Street Journal, 4-5 May 2001, p 9). Until ASEAN and its three Northeast Asian partners are prepared to look into the required institutions, processes and political commitment to commit to Asian regionalism, APT remains moot as a FTA. Meanwhile, some ASEAN states remain stymied by ongoing economic restructuring, promised corporate and financial reforms, China is pursuing its WTO accession, Japan profoundly, irrevocably stagnated and the Koreas busy with their unification.

What is more visible and immediate are Asian CPNs in electronics, hard disk drives and other high-technology manufacturing and service sectors which de facto tie Asia into the global economy. Private sector-driven, activity-based CPNs, including growth triangles are not like the pure rule-based, government-to-government trade pacts in



terms of motivation by real economic efficiency, productivity and competition attained and can be enhanced by FTAs. One possible and potentially divisive issue in Asian CPNs is should or need they be ASEAN-centred or with the fulcrum in the much bigger market in China around East Asia. China's reentry into the global capitalistic economy has greatly altered the traditional flying geese hypothesis which explained rather well the role and influence of Japan in ASEAN trade and DFI-driven industrialisation. Increasingly, China and Northeast Asia constitute a competitive resource and market base to ASEAN which may explain it is more in the interest of ASEAN to have APT.

Across Asia, Northeast and Southeast dynamics and diversity have to be appreciated to extent South Asia remains kept out of Asia Pacific and Australasia is unacceptable in East Asia configuration. Both China and Japan are the important centres of the new Asian regionalism (Katzenstein, et al, 2000, p 1). Which would be a possible regional hegemon has to be weighed even if ASEAN10 is a countervailing force. Generally, ASEAN has longer and more experience dealing with Japan and there is a lingering mistrust of China as communist state.

Japanese capitalism and regionalism rest on its economic regionalisation which created an integrated Asian regional economy driven by Japanese DFI and MNCs or the flying geese trade and investment model sanctioned implicitly by its Ministry of International Trade and Industry (MITI). Chinese capitalism and regionalism is less tangible and more in the bamboo network of overseas Chinese which is less formal and has nationality sensitivities. Even greater China encompassing the mainland, Hong Kong and Taiwan is more viable as an economic and even cultural construct than political. Overseas Chinese bonding seems potent in economic integration as informal private sector activity-based initiatives. As long as Asian regionalism is defined in market terms and business networks both Japanese keiretsus and Chinese family business are relevant in their own ways.

Japan has yet to demonstrate any leadership in Asian regionalism. In economic space, Japan may be ambiguous and pragmatically ambivalent even as a constituent state in Asia. Until it was joined by Korea in 1996, it was the only Asian state in Organisation of Economic Cooperation and Development (OECD) and aligned in economics and security and with the US. It was a founding member and benefactor of Asian Development Bank (ADB) underpinning its role as an institutional financial pillar together with its outpourings in DFI and overseas development assistance (ODA) in the region. Japan turned from a free-rider in multilateralism to navigator in the 1990s starting with greater visibility in United Nations (UN) peacekeeping operations (Fukushima, 1999, pp 160-78). Seeing the American two-track approach since NAFTA, Japan has relented on a strict diet of multilateralism (Japan, MITI, 2000, White Paper on International Trade, September). It may be timely for Japan to pool together such economic, financial and institutional capital to exert a greater regional influence though it is mired by its economy, socio-political and demographic issues.



## **4. SINGAPORE'S BILATERAL FTAs**

### **RTA rationale and philosophy**

First and foremost, a more focused and strident foreign economic policy to support Singapore's economic restructuring into a KBE and virtual state is clearly and patently discerned. Since 1993, its regionalisation policy has been to take advantage of both growing demand and market potential as well as enlarged resource and cost-effective opportunities in booming Asia. The regionalisation policy was itself a more enlarged and driven strategy of its growth triangle with Johor and Batam/Riau Islands (SIJORI) in the first instance before it became the Indonesia-Malaysia-Singapore growth triangle. The relocation of MNC was already occurring based cost and profit considerations and the opening of China. Local SME subcontractors were also following MNC activities as the city-state ran out of space and resources.

Taken to its logical conclusion, Singapore's trade policy which has always been based on free trade as the best policy must complement, supplement and support regionalisation and globalisation. It is a free port, believes and practises free trade with no protection of local industries, competition and efficiency. Increasingly, market access and national treatment in services has been embraced as it liberalises and deregulates its services sectors as well. Granted that it took a more sectoral approach, first telecommunication, followed by finance and banking, utilities and others rather than an across-the-board competition policy, it is gradually getting there in terms of matching WTO and OECD standards and benchmarks. Hence, its direction of its foreign economic policy in consonance with its trade policy is the holistic, package deal, follow-through principle of policy-making the city-state has been pursuing. Its policy on foreign talents, easing immigration laws where deemed necessary with some domestic social repercussions is along a similar flow-through model of competition for intellectual capital and human resources.

Second, foreign economic policy-making in Singapore is based more on pragmatism and eclecticism than theoretical or rigorous econometric modeling prior to pursuing bilateral FTAs. Academics were involved in a sole study group for the Japan-Singapore Economic Partnership Alliance (JSEPA) together with business representatives to seek views and moderation. In transforming to a KBE by embracing ICT, new globalisation and upholding free trade and competition, both regional and global trade and economic cooperation are equally imperative. In understanding and analysing Singapore's RTA strategy, economics is the guiding principle but the political economy or noneconomic arguments may well influence or prevail.

The current spate of bilateral FTAs, however, do not detract from Singapore's fundamental belief and philosophy as a small open city-state located in Southeast Asia even if that strategic asset is fast eroded by ICT. Nimble and relatively sure-footed, Singapore is an enigma, if somewhat exemplary in its free trade, economic management and efficiency. The city-state is known for its state-led and topdown policy and decision-making stance which has served well to date. As a maturing



economy faced with hyper competition from both neighbouring ASEAN as well as its counterparts in newly-industrialising economies (NIEs) in Northeast Asia, its city-state status is inherently adverse to business cost with no scale economies. While its manufacturing exports are more diversified and robustly anchored in matured and stable OECD economies, its services remain oriented toward the region and regional health is equally vital for its socio-political stability. Relying on a "flow-through" model deriving foreign talents, resources and market opportunities from the region, its regionalisation policy enunciated in 1993 has been extended by foreign economic policy including bilateral FTAs

The Asian crisis and its aftermath demonstrated not so much the economic downturn and checkmate in hubris of miracle economies but the sad remiss of some economies not to have adopted institutions and processes as in globalism to follow through globalisation. ASEAN economies have successfully adapted to first-tier globalisation in terms of certain macroeconomic fundamentals and attaining comparative and competitive advantage through infrastructure and related human resources development (Morrison and Soesastro, eds, 1998). What they failed to achieve at the next level involved painful political economy choices when further economic reform, market opening, financial sector development and trade liberalisation ran foul of indigenous policies or conflict with ethnic and national income distribution and related policies. Singapore topped in a new globalisation index (Foreign Policy, January/February 2001) driven largely by technology especially Internet access which has widened the globalisation gap between developed and developing countries. Small countries top the globalisation ranking as Netherlands, Sweden, Switzerland, Finland and Ireland follows Singapore.

But a study by Global Entrepreneurship Monitor, a joint research venture between London School of Business and Babson College, Massachusetts partly funded by Singapore's National Science and Technology Board (NSTB) found Singapore ranked near the bottom and the hard truth that the government has cultivated a generation of followers rather than innovators (International Herald Tribune, 24-5 March 2001, p 24). While not exactly foolproof or sustainable especially in the new economy (Low, 2001f), Singapore's paternalistic developmental state through Singapore Inc is based on rule-based meritocracy in a relatively transparent and accountable fiscal system. Public sector budget surpluses constitute a political resource where the ruling government since 1959 has utilised cleverly to engender harmonious economic, social and political base, reinvesting in infrastructure, human resources and new technology. Its wealth is wholly from strategic competitive advantage policies, some foresight and vision in picking "winners" and niches as opportunities present themselves in the region or globally, very much "government-made", indeed. This led to a stronger belief that leadership for a small, open city-state is imperative and leadership also means always being ahead of the pack to exploit firstcomer and other strategic advantages.

Increasingly, the Singapore Inc model is extracting a price in its government-linked companies (GLCs) being synonymous with the government and preempting creativity and innovativeness which are deemed so crucial in the KBE it is evolving to be. With



characteristic fervour and energy, Singapore Inc has chosen to preside over its own demise by trying very hard to reinvent itself, energise the public sector and private sector. Public Service for the 21<sup>st</sup> century (PS21) is about remaking its first-class regulators and bureaucrats to try to facilitate rather than regulate business, focus on solving problems of the public and individuals rather than on ensuring people adhere to rules. Privatisation of GLCs is epitomised in the government's giving up of its "golden share" in Singtel (Straits Times, 7 May 2001, p 1) and more aggressive regionalisation as in Singtel acquiring telecommunication corporate, Optus in Australia. The other rapidly regionalising GLC, Development Bank of Singapore (DBS) is not just being modest aiming to be a regional bank, not an international bank to compete in the global economy; it does best what it is best at doing.

However, no matter how aggressive, proactive and nimble Singapore can be, its progress and prospects remain set in the context of the region. The region's overall economic and socio-political health is vital to all Singapore's hubbing activities, from financial and banking services to communication, telecommunication and logistics services. The Asian crisis has uncovered more rivalry and jealousy and such sentiments are inimical in neighbourhood economics and politics. With economic prospects trending downward, Singapore can only suffer with its ASEAN neighbours for so long and so much in getting AFTA and regional prospects recharged and rebuilt. Recovery including quality of restructuring had been stilted as the political economy of reforms gave stop-start signals to investors and confidence was stealthily won over to Northeast Asia, even China got on despite its reform of state-owned enterprises (SOEs) and all the baggage of a huge economy in transition.

The basic dilemma in Singapore is by its exclusively unique small, open city-state economy, it had to pursue a diametrically opposite set of macroeconomic strategies and policies from the rest of bigger, more ethnically diverse and complex neighbours. While both ASEAN and AFTA could be as reliable engines of growth for Singapore as its bilateral FTAs, it is caught up with other ASEAN partners' domestic difficulties to proceed with liberalisation and opening. As "small brother" too, its asymmetry in influence in other ASEAN partners' trade policy and macroeconomic policies is circumscribed. It may have greater leverage with its bilateral FTA partners based on relatively more rational political economy interaction. While sympathetic, it cannot afford to wait and suffer alongside even if it appears to have the wealth and reserves accumulated through hard efforts over the years. By sheer size and arithmetic, Singapore alone cannot help all its ASEAN neighbours, especially when their problems are beyond monetary solutions and require a holistic approach which no external party, not even the International Monetary Fund (IMF) has the right to dictate. Singapore's principle of technical assistance (TA) rather than cash, displeased Indonesia, viewing humanitarian aid as charity. Mindful of unintended inequities resulting from the bilateral FTAs, they may be intended to catalyse AFTA to level up instead of racing to the bottom.

Bluntly put, bilateral FTAs with more stable, relatively better managed OECD countries and countries outside ASEAN are as much Singapore's insurance as





diversification strategy. With OECD economies, the learning curve for Singapore includes some ratchet effects to meet their standards and benchmarks to enhance its competitiveness and globalisation ranking. In bilateral FTAs outside the region, Singapore goes one-on-one even with superpowers and economic giants like the US, Japan, EU, EFTA or India. The partnership is on the basis of mutual gains and benefits, no hidden political economy agendas. There is as much to learn and experiment as different partners have different wants and no FTA is the same or can be the standard for all partners. As much as JSEPA is exemplary, Singapore's bilateral FTAs try to go beyond traditional tariff and NTB liberalisation to exploit opportunities in ICT, human resources development (HRD) and the KBE under new age deals. Singapore's KBE and future directions must harness further its pool of talents and technology entrepreneurs (technopreneurs) wherever and however they can be brokered or groomed. Good governance including electronic-government (e-government) which enhances transparency and accountability is promoted in bilateral FTAs as economic competitiveness goes cyberspace as well.

Singapore is sensitive to its bilateral FTAs seen by other ASEAN partners as possibly undermining AFTA, creating a backdoor for Singapore's partners in bilateral FTAs to access ASEAN markets. Relations-based rather than rule-based ASEAN partners also see Singapore's bilateral FTAs not quite in the spirit of ASEAN solidarity. Three points have to be stressed. One is Singapore is not acting ultra vires or inconsistent to AFTA or WTO which allows multiple membership in more than one RTA. All bilateral FTAs are WTO-consistent, requiring WTO's exemption from MNF under GATT's Article XXIV, GATS' Article V or the enabling clause. Neither is Singapore abrogating or reneging from its AFTA commitments. Two is it is precisely because AFTA is stalled and not progressing that Singapore has gone bilateral. Neither Singapore nor ASEAN can afford to be spectators or bystanders as RTAs are progressing elsewhere as in FTAA. Finally, Singapore's bilateral FTAs are based on open regionalism and are open to any country willing to undertake the necessary rights and obligations. Prime minister Goh has in fact, welcomed ASEAN partners to join when they are ready or forge FTAs of their own with their trading partners (Straits Times, 9 May 2001, p 1).

Singapore should combine their joint strengths of asymmetry and symmetry. There is nothing wrong with Singapore forging doing what is does best with other trade partners and can in fact value-add to the region if interest is spurred by its bilateral FTA partners. For instance, in terms of attracting more foreign talents from the region and around like from India and China, before they are attracted further elsewhere to the US or EU, Singapore's regional hubbing status should be given free rein to excel. In turn, there will be spillover, partnership effects with growing global capital alliances and CPNs in the region as in electronics and hard disk drive.

Trade policy should not be confused with being loyal, faithful as in a catholic marriage. Free trade is based on competition and is not the same as joining ASEAN or AFTA and debarred from other trade partners. Otherwise, AFTA becomes inward-looking, protectionist and not in keeping with the global political economy environment. Every country has more than one trade partner, by the same token, every country can be in





more than one RTA, bilateral or regional. It may be asked why Singapore is so aggressive and aiming for a bilateral FTA with every other trade block, including hegemon and other advanced, industrialised trade partners. Therein lies a message; south-south RTAs may be fine if they can work hard at diversifying trade and dependence from the north, ratchet upward rather than drag down to the bottom. ASEAN has potential and scope to redeem and prove itself and Singapore can help, not sabotage ASEAN solidarity and ASEAN way if the politics dictate these to be such. Singapore may disagree with some policies but it understands why they have to be so. By the same token, it is probably asking for the right to disagree but the grace to understand by other ASEAN partners as it does what it must do, do what it is best at doing.

### **RTA evolution and progress**

The New Zealand parliament passed the FTA bill with Singapore in early November 2000, sealed by both prime ministers by mid November (Straits Times, 15 November 2000, p 1). The Agreement between New Zealand and Singapore for a Closer Economic Partnership (ANZSCEP) is a comprehensive agreement covering goods, services, investment, government procurement among others. All tariffs on products qualifying for preferential treatment under ANZSCEP will be eliminated when it comes into force. Companies to benefit include those in electrical and nonelectric machinery and other manufactured products and New Zealand has committed to liberalise a wide range of sectors. Singapore's service producers can provide access to New Zealand's markets for services such as engineering, financial, info-communication technology, maritime transport and equipment repair. New Zealand has committed to removing residency requirements for the registration of certain professionals. With greater openness in investment, Singapore Airline's (SIA) throes of trying to raise its stake in Air New Zealand to 25% may get a boost. Free trade in services will be phased in over 10 years and phased arrangements will be made for mutual recognition for professional qualifications and technical standards. While neither side expect to benefit much from free trade in goods given small volumes, likely gains from services will go mostly to New Zealand. It is small, remote with little bargaining power and no "natural home" should the world breaks up into trilateral trade blocs in North America, Europe and Asia, making it keen to work with ASEAN. ANZSCER has been an important tutorial for Singapore as it goes about with bigger more complex FTA partners.

Even while New Zealand and Singapore were working on a FTA (International Herald Tribune, 14 September 1999), that seemed to fall in step with US Trade Representative (USTR) Charlene Barshefsky's Project 5 (Far Eastern Economic Review, 9 September 1998, p 11). She proposed that during APEC Leaders Summit in November 1998, later dubbed Pacific Five (P5) comprising Australia, Chile, New Zealand, Singapore and the US. This plurilateral FTA of P5 seems becoming closer. Having declined earlier to join New Zealand and Singapore in their FTA negotiations, Australia has warmed up to a FTA with Singapore. Singapore's coveted prize of a FTA with US was realised when Goh and Clinton announced at the Brunei APEC summit the commencement of talks which was to conclude before the Clinton administration ended (Straits Times, 17



November and 6 December 2000). Unfortunately, more time was needed as the political economy of layers of interested parties and groups is immense in the US and talks have begun under the Bush administration in January 2001. Some US business groups and other ASEAN neighbours, especially Malaysia are wary of labour and environment being included in the US-Singapore FTA as in US-Jordan FTA signed in October 2000 which may set an undesired precedent (Malaysian Business Times, 11 December 2000, p 1).

Singapore started FTA negotiation with Mexico in 2000 with NAFTA in mind and it is also negotiating with Chile, both before Singapore initiated with US itself. Chile was not too happy with the US-Singapore announcement in November 2000 and announced a fortnight later that US and Chile were starting their own FTA (Straits Times, 14 January 2001). Interestingly, Chile, set to be a member of Mercosur, noted in June 1999 that it was no longer interested to become the fourth member of NAFTA and wants instead to establish a FTA with US. This did not succeed as Clinton did not get the fast-track authority from Congress to open new trade agreements or enlarge existing ones as US Congress was influenced by labour union opposition. Its FTA with Singapore supported strongly by Barshefsky may fare better as there is practically no labour threat from the high-technology city-state. The Bush administration proceeding with Clinton's pan-American FTAA (International Herald Tribune, 8 January and 22 April 2001, p 11 and Asian Wall Street Journal, 22 April 2001, p1) as well as FTAs with Chile may weaken Mercosur as much as Singapore is accused of hurting AFTA.

Singapore may single-handedly attained P5 in one fell swoop. Singapore's plunge outside AFTA is to shake and stir the lethargic and laggard inertia after the Asian crisis is matched by New Zealand's fear of isolation. Elsewhere in APEC, New Zealand and Hong Kong were holding exploratory FTA talks by November 2000, Australia and New Zealand seeking ties with AFTA but put on hold because of political concerns. Australia is sounding out Japan and Korea in a deal beside Singapore and AFTA-CER. Singapore's FTA with New Zealand took ASEAN by surprise, understandably so with strategic game theory or the prisoner's dilemma applied in trade policy. But Malaysia<sup>3</sup> was not as unhappy as being concerned that ASEAN must look into whether Singapore's move was inconsistent with AFTA. While Malaysia expressed being "puzzled by Singapore's moves, Thailand was interested in possible AFTA-CER integration. Tariff-free entry for textiles and garments into Australia-New Zealand Closer Economic Relations (ANZCER) by 2005 was mooted and ANZSCEP could keep the pressure up for wider AFTA-CER (Straits Times, 15 November 2000, p1).

A FTA is on the agenda of a three-year memorandum of understanding (MOU) which set up a task force on economic cooperation together with two other agreements to promote cultural relations between Singapore and India (Straits Times, 11 November 2000). The task force will also focus on how Singapore can be catalyst for India's reforms, measures to expand bilateral trade, economic and financial sector cooperation

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<sup>3</sup> Minister for trade and industry George Yeo briefed his counterpart Rafidah Aziz only just before the formal announcement, sensitive both of "big brother politics" and desire not to be held back in time-consuming ASEAN way and rhetoric.



in the next decade. India is Singapore's 16<sup>th</sup> largest trade partner and Singapore is India's 13<sup>th</sup> largest investor in 1999. Since reemerging as a diplomatic player on the world stage, drawing on Clinton's visit in March 2000 and the new cutting edge in information technology (IT) manpower and skills, India's foray into ASEAN and Asia through Singapore is logical and strategic.

Talks are starting in 2001 too for bilateral FTAs separately with EU and (European Free Trade Area) EFTA. Certainly, Singapore seems to have a voracious appetite if all the deals come through, namely, New Zealand, Australia, Japan, the US, EU, EFTA, Chile, Mexico and India, not forgetting AFTA. Apart from being stretched in resources including manpower, in concluding so many FTAs since the momentum started in 1998, there may potential issues in implementation, working through various ROOs and evaluating economic and political economy benefits and costs of both individual and all FTAs and the manner they have been wooed simultaneously. Insofar as they all add to free trade, Singapore is comfortable to go this far and this fast.

### **Why new age JSEPA?**

Domestic politics as a source of new regionalism beside international politics is taking precedence in new regionalism (Haggard, 1997). This view is perhaps most applicable for Japan first in detracting from pure multilateralism to accommodate regionalism and second, in doing its first deal with Singapore. Japan's "single track" approach to multilateralism relying exclusively on WTO made it only one of few nations (others being China, Taiwan and South Korea) not to have any bilateral trade or investment agreements. South Korea and Chile may be the first trans-Pacific RTA modeled after Canada-Chile FTA with disciplines similar to NAFTA to give Korea access into Latin America. Japan has recognised market-led regionalism is a political economy reality which is compatible and supplementary with the evolution of a civil society. Both Japan and Singapore can be seen to be embarking on JSEPA to overcome domestic challenges in a market-led and competitive way without compromising MTN. Thus, JSEPA may possibly be situated in quadrant II in Table 2.

Japan has been approached by Mexico in November 1998 for an investment treaty progressing to a FTA study by Japan External Trade Organisation (JETRO) in February 1999 to have an outcome by April 2000. The Japan-Mexico FTA appeared scuttled for but Mexico made another formal proposal in 2001 (Japan Times, 31 May 2001, p 9). Another JETRO group consisting of Japanese academics and business leaders are studying a proposal with Chile covering trade and investment. Also in November 1998, South Korea suggested a FTA and JETRO's Institute of Developing Economies (IDE) and Korean Institute of Economic Policies (KIEP) are studying the proposal independently. The Korean report reiterates that the FTA will improve international competitiveness of companies in both countries for the medium and long term and included the idea on integration of financial capital markets and establishment of the Japan-South Korea investment bank. Japan has broached idea of a Northeast FTA with the NIEs, namely, China, Taiwan and South Korea. Its advance to China appeared



## REGIONAL TRADING ARRANGEMENTS: Stocktake and Next Steps

Trade Policy Forum

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rebuffed. Table 3 summarises the RTAs and bilateral FTAs involving Asia Pacific economies.

**Table 3 Bilateral FTAs involving Asia Pacific economies**

STAGE	FTA	YEAR
<b>Under study/ proposed</b>	TAFTA (Transatlantic FTA, EU-US)	1995
	Japan-Korea	1998
	Japan-Mexico	1998
	Japan-Chile	1998
	Japan-Canada	1999
	P-5 (US, Singapore, New Zealand, Australia, Chile)	1998
	Northeast Asia Research Initiative (China, Korea, Japan)	1998
	APT	1998
	New Zealand-Hong Kong	1999
	New Zealand-Chile	1999
	AFTA-CER	2000
	ASEAN-China	2000
	Singapore-Canada	2000
	Singapore-EFTA	2000
	Singapore-EU	2000
	Singapore-India	2000
	Korea-Chile	2000
	EU-Chile	2000
	US-Chile	2001
<b>Negotiation</b>	FTAA	1999
	Singapore-Japan	1999
	Singapore-US	2000
	Singapore-Australia	2000
	Singapore-Mexico	2000
<b>Signed</b>	Singapore-New Zealand	1999
	Mexico-EU	1999
<b>Implemented</b>	NAFTA	1994
	AFTA	1993
	Canada-Chile	1996

Source: Drawn by author.

In August 1999, Singapore's ambassador has sounded out the same and JETRO's chairman called on Singapore's prime minister Goh to initiate idea. Goh and the late prime minister Obuchi met in November 1999, setting up a joint study group of officials, businessmen and academicians for a new age Japan-Singapore FTA (JSFTA) in March 2000 to conclude by November 2000. When the study was concluded, JSFTA was renamed JSEPA. Going beyond the economics of regionalism, the political economy of JSEPA involves institutional governance structures in functional terms to manage increased economic interdependence in a spirit of political cooperation. It is more market-driven, less by policy or fiat, more a product of globalisation and competition to meet the challenges and maximise economic opportunities of the new economy.



Japan and Singapore are at their respective crossroads meeting the challenges of the evolving new MTN and new economy. Both view themselves as small and resource-lacking even if more in a psychologically sense for (Korhonen, 1994). They are into a nontraditional FTA covering areas including HRD and ICT. Instinctually, economics should be the foundation of any arrangement between Japan and Singapore even if some political economy arguments of two leading Asian economies in steadfast collaboration would not hurt. Japan's reactive foreign economic policy has been increasingly challenged by external force or foreign pressure such as that from the US and WTO to prise open excessive regulations for market liberalisation (Mikanagi, 1996). By contrast, the political economy of Singapore appears less complex at the international level, more complicated at the domestic. In both Japan and Singapore, the web of economic links has given rise to a fusion of ideas as their economic success has wedded indigenous work ethics with HRD and education, emphasising communal cohesion and socio-political stability. Singapore is relatively more internationalised and cosmopolitan by sheer force of circumstances. Joint collaboration would benefit Singapore in consolidating its place in the region just as Japan can overcome its belief of being differentiated from Asia by virtue of its inherent "exceptionalism" and antiquated notion that its purpose is to bridge the East and West (Funabashi, 1995).

The JSEPA study reviews traditional aspects as in tariffs, rules of origin, customs procedures, NTBs and mutual recognition agreements (MRAs), anti-dumping, safeguards and subsidies, trade in services and investment. Despite Singapore's relatively free trade status, there are still difficult and sensitive areas to be negotiated. Predictably, from Japan's vantage, agriculture is the hardest but omitting agriculture altogether creates a credibility problem. WTO stipulates all goods be substantially included in FTAs and liberalisation would be reversed if only certain areas are included. There is no precedence of FTA with only services sector or exclude agriculture. One solution could be to postpone reduction of tariffs in agriculture sector for a certain period, as a maximum of ten years is allowed and NAFTA is using the same method.

New dimensions include deep integration like intellectual property rights (IPR), competition policy, dumping, conducive regulatory climate and investment codes for foreign investors, product standards, government procurement, sectoral liberalisation as in financial services, telecommunication, services, tourism and media and broadcast are considered. It may possibly lead to an agreement emphasising on services (distribution, transport, information technology, info-communication), greater scope in electronic commerce and electronic government, human resources development. Other areas of cooperation to meet the challenges of the new economy more creatively include political economy issues of ageing population and workforce, equity and income distribution.

The conditions for successful cooperation between Japan and Singapore are not difficult and a lot of common grounds have already been broken after years of trade, investment and other factor exchanges. But packaging and marketing a bilateral and potentially regional arrangement is critical as politics and policy-making are such that





pure economics, facts and statistics are only necessary but not sufficient means to rally support and legitimisation by other trading partners. As a dynamic duo used to dealing with challenges pragmatically and creatively, the JSEPA must be sufficiently bold to be a model for cooperation for the future while adhering to MTS and WTO.

After a year-long study by officials, academics and private sector business representatives, JSEPA started negotiations in early 2001 to conclude by end 2001 (Straits Times and Financial Times, 23 October 2000). Going beyond tariff elimination in goods, the JSEPA is another innovative approach which would accommodate even Japan's politically sensitive agricultural sector. A vital focus is in service trade liberalisation, investment and movement of natural persons and the new age elements include cooperation in science and technology, media and broadcasting, high growth areas in financial and telecommunication, electronic-commerce, human resource development and management and promotion of small and medium-sized enterprises (SMEs) in both countries. As Japan's first and Singapore's second FTA after New Zealand, JSEPA would institutionalise regulatory and other policy reforms for both to remain attractive to capital and talents. It is a first step between Northeast and Southeast Asia, consistent with WTO and global goals of APEC. It could be an exemplary model for Asian regionalism and is likely to be energised by the flurry of RTAs happening elsewhere than be adversely affected by these deals as the objective toward liberalised trade and cooperation is common to all.

## **5. CONCLUSION AND POLICY IMPLICATIONS**

East Asian regionalism has a long way to go toward deep integration as it cannot sidestep issues of intellectual property rights (IPR) labour standards and environmental which would only retard and slow down global integration and globalisation. But as RTAs are first and last political, never mind the economic rhetoric, political maturity and vision vie with economic idealism as to how far, how deep and how fast Asian regionalism could go. A guarded optimism is expressed as institutional and policy capacity is not Asia's strong suit and politics are still rivalrous, emotive and state-centric. The situation can be more acrimonious when mired by political and economic north-south contentions and a few farsighted and visionary leaders go a long way to bring enlightenment. In the final analysis, the market and economic logic of globalisation will be the ultimate taskmaster. If the human face is missing, the fault should lie as much with states and leaders for not preparing the ground, both in institutions and policies and will to implement them, not just blaming the market and global capitalism, the nonlevel playing field of MNCs, capitalists and imperialists.

ASEAN may be overtaken by APT, an East Asia trade block, however defined simply because East Asia is economically and politically more mature and see the need to adopt more transparent, open and competitive approaches. ASEAN is pressurised by CRFTAs and new regionalism as it is still taking the cautious 15-product group approach and long time-table to go about with AFTA, not made easier by new members. While the dilettante, it would be a waste and shame for either ASEAN and





APEC to run out-of-date by sheer inaction and lack of vision or leadership. Singapore's foreign minister Jayakumar has warned that if ASEAN continued to be ineffective and not convince investors about adopting best standards of government, governance, transparency and rule of law, it could be marginalised in trade (International Herald Tribune, 27 July 2000, p 1). Prime minister Goh Chok Tong has urged ASEAN to make efforts in economic integration for both strength and confidence building (Straits Times, 9 May 2001, p 1)

The political economy of Asian regionalism cannot be underscored and the various hybrids, new age partnerships and agreements are pulling together creative innovations to help partners overcome the challenges of globalisation, ICT and KBE. These require socio-political reforms and adjustments as well as economics and JSEPA hopes to help Japan attain all these elements as it embraces new regionalism together with its past singular approach to multilateralism. A pure traditional FTA will neither convince nor budge the political interests in agriculture, fishery and forestry sectors. As a new age package, it is easier to put the hard and necessary medicine with the more logical straightforward economic gains. The modalities, sequence of economic integration have to suit partners which enter freely and on their own volition. A pair starting first like JSEPA or ANZSCEP which then appear attractive to others to come on board or initiate open regionalism with free access is more pragmatic than force pacing all in a group to enter into negotiations concurrently. The demonstration effect should create the right and sufficient pressure supported by market approval and sanction.

Singapore is pushing open regionalism in real terms, already also happening by default, de facto or design outside of APEC involving many APEC members and non-APEC members as in FTAA. This is a vindication for APEC architects, a blessing in disguise so long as the momentum is toward freer trade and more investment. As more north-south rather than south-south CRFTAs are appearing, the prognosis is optimistic and in keeping with WTO consistency. New regionalism involving the political economy dimension, not just traditional trade-creating and diverting and in keeping with multilateralism is already fact. Asia has still to ingest and digest the after effects of the Asian crisis, China's imminent accession into WTO, reunification of Koreas and some cross strait settlement before another round of sustainable East Asian growth can be speculated. Financial globalisation is the outstanding and critical ingredient all round and politics have to deliver as much the regulatory environment and legal mechanisms.

Small countries have the insurance argument to partner advanced developed economic powerhouses like the EU or the US in RTAs. However, they make side payments for the regional hegemon's concession to exempt retaliation and staying outside any discriminatory arrangement this way places them in the underdog position with the danger of one or several trading blocks conspiring against small states. Economists thus argue MFN treatment or multilateralism as the best international regime for small states. But the reality of growing large RTAs is that small states cannot remain nonaligned for long. Entering more than one RTA may be sensible and is allowed but



the limits to such a strategy include whether new or existing blocks remain relatively open, whether they are open to new membership and whether membership in one RTA does not preclude simultaneous joining other clubs.

Whether the P5 project is taken to its logical conclusion purposively or coincidentally by Singapore is equally difficult to prove. Senior minister Lee only said the current spate of FTAs is no accident as Singapore has to leapfrog ahead of a region which does not seem to be managing itself forward (Singapore Today, 9 December 2000). The bilateral FTAs and CRTAs sprouting among many APEC members and some, is open regionalism of sorts or at least, open access for others to join. Singapore is an active catalyst in forging bilateral FTAs with New Zealand, Japan, US, Mexico, Chile, Australia, EU, AFTA and India for now and stimulating and endorsing CRTAs as AFTA-CER, AFTA-China, ASEAN-Mercosur and an East Asian bloc. Prime minister Goh has spawned the ideas of Asia European Meeting (ASEM) and East Asia-Latin America Forum (EALAF).

Asian regionalism is important be it in APT or ASEAN and AFTA. With a free trade policy, it is easy enough for Singapore to stir the pot and energise others though it remains a small economy even with the liberation of economic space by ICT. Its dual track approach, bilateral FTAs with likeminded countries which can move as agilely and encouraging ASEAN into CRFTAs both to keep itself within ASEAN and catalysing the rest along is strategic. Small states by their very size and capability to move nimbly constitute what John Nye has called Singapore a “soft power” (Straits Times, 8 November 1999 and Business Times, 9 November 2000). Singapore's influence and goodwill give it reputation and credibility as a source of power as opposed to hard power in military might and resources. As a city-state which thrives on open and free trade, Singapore may have the opportunity to turbo charge regionalism. It would not do to have ASEAN in collective paralysis concurrent with regional economic adversity and its enlargement, no longer commanding an international alignment relevant to Singapore's interests (Leifer, 2000, p 131).

Singapore's bilateral FTAs constitute a check and balance of aggressive regionalism which is the creation of continental trading blocks led by regional hegemons with the explicit or implicit aim of increasing bargaining power vis-à-vis the rest of the world (Tovias, 2000, p 323). The real world is about new globalisation and new regionalism which needs foreign economic policy to be balanced, sharpened and focused. It remains committed to AFTA but cannot be dragged down by the state of inactivity and retrogression. Its fast and furious pace with the spate of bilateral FTAs has a number of objectives. Enhancing its free trade policy is imperative both as an insurance policy and diversifying strategy and it is running with the trend of CRFTAs as witnessed elsewhere. There is also recognition that there is increasingly non-synchrony or asymmetry of macroeconomic policies arising from approaches suited to the city-state and the rest of ASEAN. It has limited influence given ASEAN way of non-intervention with domestic policy and politics to urge more aggressive market opening, trade liberalisation or freer competition which are among its leitmotif. It can only hope to be



exemplary to show ASEAN and AFTA that the global environment is neither waiting nor forgiving of mismanagement and recalcitrance.

It has however, to suffer possible disgruntled or retaliatory measures if ASEAN partners feel possible backdoor effects of Singapore's bilateral FTA partners into AFTA or charges of lack of concern and cold-hearted selfishness as AFTA cannot level up as quickly or expediently. There are inevitable unintended inequities and spillover effects but other trade blocks are no better advantaged than ASEAN to work through adjustments and compromises. What is baffling is perhaps how ASEAN policy-makers are blind-sighted by the call for second-level adjustment to globalisation having succeeded so remarkably at the first-level in enhancing international competitiveness. ASEAN is always inventive and anachronism should not be its premature middle-age crisis. Granted that there is no definitive and ultimate study yet to determine the overall economic and political economy effects of all of Singapore's bilateral FTAs, instinctually, if free trade is enhanced, they cannot be welfare-reducing or bad. In any case, there are as many like-minded countries, much larger, advanced economies like the US, Japan, EU and EFTA in partnership with Singapore which must bring benefits to them as well.



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Trade Policy Forum

Bangkok, June 12-13, 2001

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