

# **A SINGAPORE PERSPECTIVE OF EAST ASIAN REGIONAL INTEGRATION**

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## **1 INTRODUCTION**

The momentum for new regionalism will grow with the World Trade Organisation's (WTO) September 2003 Cancun ministerial meeting which failed as an interim stocktaking for the Doha round scheduled for completion by January 2005. Distinguished from old regionalism as economic regionalisation, the political economy of regionalism traditionally driven by globalisation, information technology, knowledge-based economy and deregulation will be increasingly motivated by strategic security interests. More unilateral, bilateral, trilateral, pluri-lateral and cross-regional free trade agreements and regional trade agreements have been notified to the WTO as a response to mismanaged multilateralism, perceived or otherwise.

A realignment of the traditional triad made up of the US, the European Union (EU) and Japan under new regionalism is a reformulation of enlarging European Union and American hemispherism of North and South America, on the one hand, and emerging East Asian regionalism on the other. Burgeoning China has altered both the dynamics of the Association of Southeast Asian Nations (ASEAN) and the Japanese lead in its flying geese pattern of trade and direct foreign investment. Instead of the Asia Pacific Economic Cooperation (APEC) which seemed "lost" with new regionalism and intrinsic APEC difficulties,

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there is now ASEAN Plus Three (APT) and bilateral and regional trade agreements in spades.<sup>2</sup> Non-completion of the ASEAN Free Trade Area by 2002 and synchrony with new regionalism as the WTO wanes have prompted individual ASEAN countries' bilateral and regional trade agreements. The ASEAN Economic Community (AEC) by 2020 proposed by Singapore at the 2002 ASEAN summit as free trade area-plus, not quite a customs union with some common market features<sup>3</sup> may muddle through without resolute political will, much like the ASEAN 2020 vision enunciated at the 1998 ASEAN summit. Ironically, ASEAN's geographical and buffer value between rising China and eclipsing Japan has nonetheless increased. ASEAN has attracted free trade agreement offers by Common Economic Relations (CER, Australia and New Zealand), Japan, China, India and the US.<sup>4</sup>

Singularly, Singapore, Korea and Japan have initiated their own bilateral free trade agreements, be it contiguous or contagious. Singapore has signed bilateral free trade agreements with five Organisation for Economic Cooperation Development (OECD) economies and is under negotiation with many others, including as "unnatural" a trading, but strategic partner as Jordan.<sup>5</sup> Thailand's aim to become a *halal* food

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2. See Takashi, Terada, (2003), "Constructing an 'East Asian' Concept and Growing Regional Identity: From EAEC to ASEAN+3", *The Pacific Review*, Vol 16, No 2, pp 251-77; Robertson, Jeffrey, (2002), "ASEAN Plus Three: Towards the World's Largest Free Trade Agreement?", Research Note No 19, Commonwealth of Australia, Foreign Affairs, Defence and Trade Group; Urata, Shujiro, (2002), "Globalization and the Growth in Free Trade Agreements", *Asia-Pacific Review*, Vol 9, No 1, May, pp 20-32 and Wee Kiat Yip, (2001), "Prospects for Closer Economic Integration in East Asia", *Stanford Journal of East Asian Affairs*, Vol 1, Spring, pp 106-11.

3. Beside zero-tariffs, a customs union imposes a common external tariff on non-members while a common market means free movement of labour and capital too. While AEC alludes to an European-style single common market and production base, AEC denotes "free flow of goods and services and investment and freer flow of capital". Non-traditional FTA seems in vogue, witness offers to ASEAN by Japan's Comprehensive Economic Partnership, US' Enterprise for ASEAN Initiative and India's "look East" economic pact which appears as creative, innovative and realistic as New Zealand and Singapore on a Closer Economic Partnership, Japan-Singapore Economic Partnership Agreement and Singapore-India Comprehensive Economic Cooperation Agreement.

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5. See Low, Linda, (2003a), "Policy Dilemmas in Singapore's RTA Strategy", *The Pacific Review*, Vol 16, No 1, February/March, pp 99-127; Low, Linda, (2003b), "Multilateralism, Regionalism, Bilateral and Crossregional Free Trade Arrangements: All Paved with Good Intentions for ASEAN?", *Asian Economic Journal*, Vol 17, March, No 1, pp 65-86; Low, Linda, (2004, forthcoming), "Comparative Evaluation and of Asia Pacific Bilateral and Regional Trade Arrangements", *Asia Pacific Economic Literature*; Rajan, Ramkishen, S, Sen, Rahul and Siregar, Reza (2001) *Singapore and Free Trade Agreements: Economic Relations with Japan and the United States*, Singapore: Institute of Southeast Asian Studies and Rajan, Ramkishen, S; Sen, Rahul (2002) "The Japan-Singapore 'New Age' Economic Partnership Agreement: Background, Motivation and Implications", Institute of Policy Studies Working Paper No 13, April and Hertel, Thomas, W, Walmsley, Terrie and Itakura, Ken, (2001), "Dynamic Effects of 'New Age' Free Trade

centre has motivated its free trade agreement with Bahrain. Its free trade agreement with China liberalising some agriculture and food products may set the trend, contrarian to Japan's traditional protection of agriculture. Malaysia initially resisted Singapore's free trade agreement, but its instinctual competition with its nearest neighbour prevailed as Malaysia recognises new regionalism in its first pact with Japan.

Against the contextual multilateral and regional backdrop in Sections 2 and 3, Singapore's bilateral free trade agreements are surveyed and assessed in Section 4, not econometrically or quantitatively as in trade-creating or diverting, but from the political economy perspectives of a small, open, city-state caught in the crosscurrents of globalisation, regionalisation and regionalism while upholding its sovereignty. Section 5 presents the issues, challenges and prospects for Singapore, generalised in the concluding section with policy implications for East Asian regionalism.

## **2 STATE OF PLAY OF MULTILATERALISM**

It took time and realpolitik to persuade traditional economists like J Bhagwati that a first-best free trade regime as championed by the General Agreement on Tariffs and Trade (GATT)/WTO, up against imperfect market assumptions and dysfunctional multilateralism can be supplemented and complemented, not necessarily harmed by regional trade agreements. Old regionalism with European integration heightened since the 1960s and US bilateralism by the mid-1980s, is contrasted with abandonment of many regional trade agreements among developing countries in the 1970s to ebb-tide by the mid-1990s. As the twenty-first century dawned, the EU expanded eastward to complete its European destiny, the US strengthened hemispheric relations as a response to both European regionalism and Asia's export competitiveness, and crisis-hit East Asia surged into regional motion. Seattle's 1999 WTO ministerial meeting was a graphic summary of how the external trade and technological terrain and domestic political economy have changed conjunctively. In the final analysis, in a two-level game of international and domestic politics, that the latter always prevails is sufficient reminder that an enlarged WTO with

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Agreement between Japan and Singapore", Center for Global Trade Analysis, Purdue University, mimeo, August.

developing economies disproportionate by number and economic growth capacity is a victim of its own success. The triad no longer holds all the bargaining power.

Cancun failed not from principle, not from intelligent calculation, but from cynicism, delusion, and incompetence, leaving the poor worse off.<sup>6</sup> The triad was at fault in agriculture subsidies (the US on cotton, the EU on farm products, Japan on rice). As the EU pushed the Singapore issues of new rules on investment, competition, government procurement, and trade facilitation on developing countries, G22<sup>7</sup> formation was unsurprising, using Doha round's<sup>8</sup> pro-poor promise to make demands instead of seeking compromise. Traditional multilateralists have turned to regional trade agreements including Japan under re-elected J Koizumi and the US under GW Bush using a competitive liberalisation to get what they cannot get through the WTO. The US has threatened it "will act alone" in some 14 bilateral free trade agreements if the WTO fails.<sup>9</sup> However, its competitive liberalisation via regional trade agreements is also deemed to run counter to multilateral WTO goals and not even in the US' best interest.<sup>10</sup> After Singapore, Thailand proceeded to negotiate with the US, neither waited for US-ASEAN initiative.<sup>11</sup> Rather than resume its multilateralist helm in the WTO, the US may be more protectionist given China's trade surplus and refusal to revalue its yuan.

Considering the latest WTO debacle in Cancun 2003 more deeply, the G22 may be a temporary alliance, but proponents would claim that it contributed to plurality and supplemental views beside those of the triad. The US may have misread the G22 strategy and intentions as much as the developing world may have overly reacted based on emotionalism and politics more than on pragmatic calculation. Cancun 2003 is deemed to have failed for reason of substance, tactics and organisation. The basic parameters

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6. See *The Economist*, 20 September 2003, p 11, 26-8.

7. G22 comprises Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Venezuela; see *The Economist*, 20 September 2003, pp 26-8.

8. A successful Doha round could raise global income by US\$500 billion a year by 2015 according to World Bank. Over 60% of that gain would go to poor, pull 144 million out of poverty.

9. Straits Times, 6 September 2003.

10. See Gordon, Bernard, K (2003), "A High-risk Trade Policy", *Foreign Affairs*, Vol. 82, No 4, July-August, <http://www.foreignaffairs.org/2003/4.html>, 8 pages.

11. See Far Eastern Economic Review, 28 August 2003.

include agriculture, services, nonagricultural market access, and Singapore issues (investment, competition, government procurement and trade facilitation).

On substance, issues included the African demand on US trade-distorting cotton subsidies, though the EU was more positive and general discomfort with the joint US-EU agricultural approach on farm subsidies and market access as a mix of tariff reduction and tariff rate quota offered since mid-August 2003. It was deemed as a compromise to give developing countries leeway to reduce own subsidies, especially those related to rural development and protection against disruptive market opening in particular for "special products" essential for food security. The EU was prepared to phase out all forms of export subsidies on products of particular interest to developing countries.

The Singapore issues on trade facilitation and government procurement are classical GATT issues to strengthen GATT provisions, reduce bureaucratic and obscure trade obstacles, and introduce minimum visibility into public tender process. Initially, they were meant to be taken to be a single undertaking. Investment and competition are new issues. While the General Agreement on Trade in Services (GATS) deal with investment, the EU promotes the new issues as an alternative to the law of the jungle with stronger members imposing interests. The EU went from optional participation to being prepared to drop investment and competition issues altogether as developing countries reject on basis of technical capacity.

On non-agricultural market access, the contrast is between US-EU high ambitions and India-Brazil low ambitions. As in the United Nations, a north-south tactic emerged in Cancun with Brazil and India as the leaders in the south confrontational stance in response to US-EU initiative. A single position under Cairns group on agriculture may have been possible, but it did not come to be. First, disciplines were only for developed countries while India fronted a defensive position on market access and China requested for newly acceded countries be subject to no new liberalisation commitments. The EU could accept special and differential treatment, flexibility for export subsidies of particular interest to developing countries, but the US increasingly pressurised as others were not convinced US-EU framework would oblige the US to undertake agricultural obligations. The US saw no real prospects of market opening in developing countries, which was the main offensive US objective. Thus, the politicised emotional atmosphere on

agriculture may have some developing countries see some north-south success at Cancun.

On organisation, Cancun failed to get into its stride until the last 48 hours despite good preparatory work. The sheer volume and substantive importance of the issues was overwhelming. New country groupings, prominent as they may be, but without the infrastructure or internal decision-making means, led to cumbersome coalitions. These can only agree on lowest-common-defensive or highest-common-offensive denominator as found true for G22 and African Group/African Union. On technical but intrinsically political issues, most developing country participants were willing to listen to, but not to resolve.

The multi-polar situation since the Uruguay Round has become more complex and complicated. The Doha development agenda (DDA) intended both to pursue market opening, but distinct pro-development flavour, and to extend the remit of WTO to new issues. Cancun 2003 showed 148 member states openly divided between those wanting the status quo, especially with their own international commitments, and those committed to Doha objectives to pursue a basic market opening agenda and accept whatever outcome from new issues. The divide comes from a mix of economic fear of market opening and political opposition to the multilateral approach, even the development agenda misconstrued.

The first and fundamental question is can WTO pursue any meaningful, comprehensive progress on basis of consensus or should a structure with weaker and/or more reluctant members limit commitments, that is, WTO negotiation limited to more basic classical GATT-type issues of tariffs and some basic rules. Optional pluri-lateral WTO binding only on those who accept to subscribe to negotiation of additional rules may be a practical way out. The basic super- and sub-structure may remain, but part of the WTO rulebook will be different, that is, deeper and wider for those willing to accept commitments, WTO-II type rules. Non-participants make no commitments, but benefit because of the most-favoured-nation principle. More problems are on technical changes of an organisational nature, transparency, and the format of ministerial meetings to focus on basic political choices which can be dealt with by large ministerial gatherings. Developing countries especially are confronted with the technicality, breadth, and substance of issues where fundamentally contradictory positions overwhelm capacity of their systems.

Cancun 2003 showed that proper use of multilateral rules, modification, development and extension into new fields versus national policies and measures for domestic reasons which affect international economic relations, mean a continuous search for better rule-making. The frontier between national and international rule-making is blurring; whether the WTO rulebook should remain status quo or be interpreted by WTO panels and appellate body as the real rule-making authority has changed with times. In sum, alternatives to multilateralism in bilateral initiatives need reconsideration and reflection. That the single undertaking of Singapore issues was clearly out and a pluri-lateral dual track for those ready more as demonstrated in the past as in the Information Technology Agreement, seem more reasonable is being gradually accepted. Breaking into north-south and other alliances as in the US-EU agricultural initiative as spurned by G22, is not a healthy, but fast-growing trend. G22's tactics are hard to understand. India is largely offensive, Brazil's strong competitive position makes it more comfortable, China on the "right" side as it considers itself always a developing country.

### 3 STATE OF PLAY OF REGIONAL FREE TRADE AGREEMENTS

Be that as it may, the political economy outcome of new regionalism is as ambiguous as Vinerian customs union theory<sup>12</sup> on net resource allocation effect balancing trade creation versus diversion. While specific examples of second best policy change can be evaluated, one cannot generalise that every regional trade agreement is welfare-improving or decreasing as first-best building or second-best stumbling block. Indeed, research interest has switched from immediate welfare concerns to how they set up forces for or against globally freer trade and GATT/WTO multilateralism.<sup>13</sup> Political economy reality of trade and non-

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12. See Viner Jacob, (1950), "The Economics of Customs Unions" in *The Customs Union Issue*, Chapter IV, New York: Carnegie Endowment for International Peace and London: Stevens & Sons Ltd, pp 41-81; Lipsey, RG, (1960), "The Theory of Customs Unions: A General Survey", *Economic Journal*, Vol 70, No 29, September, pp 496-32; Johnson, Harry, G, (1960), "The Theory of Customs Unions", *Pakistan Economic Journal*, Vol X, No 1, March, pp 13-32 and Pomfret, Richard, ed, (2003), *Economic Analysis of Regional Trading Arrangements*. Cheltenham and Northampton: Algar Reference Collection.

13. See Winters, Alan, L, (1999), "Regionalism and Multilateralism" in Baldwin, Richard, Cohen, David, Sapir, Andre and Venables, Anthony, eds, *Market Integration, Regionalism and the Global Economy*. Cambridge: Cambridge University Press, Chapter 2, pp 7-49.

trade barriers, sectional interests, and political modeling of new regionalism<sup>14</sup> joined general equilibrium analysis, foreign tariffs, scale economies, technical efficiency, production function shifts, imperfect competition, and deeper integration as in competition policy, rules of origin, regulatory and tax harmonisation.

Cross-border or global production networks give regional trade agreement a competitive advantage to attract producers of intermediates. When time element is considered, the regional trade agreement debate as a complement or substitute to multilateralism depends on whether the maturity of regional trade agreement operation based on market power motives undermines incentives to play by multilateral rules. Systemic analysis inquires into the prospects of a three-bloc world, where unnatural trading blocs would be a pessimum rather than optimum<sup>15</sup> in a dynamic international integration setting and the impossible trinity.<sup>16</sup> Policy-induced regionalism is further differentiated with economic regionalisation as occurring naturally globally between natural trading partners, within national economies or in sub-regions, from Tijuana-San Diego and Great Lakes to Pearl River Delta. The general conclusion is worldwide liberalisation remains best, bilateral and regional trade agreements as half a loaf is better than none may still have misgivings, but a healthy dose of political science and process of bargaining in trade negotiation is par for the course.

In the long run, some 60 liberalising developing countries and others emulating them are ultimately

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14. See Levy, Philip, I, (1997), "A Political-Economic Analysis of Free-Trade Agreements", *American Economic Journal*, Vol 87, No 4, September, 506-19.

15. For arguments on regionalism as second-best, complement, not substitute to multilateralism, see Krugman, Paul, (1991), "Is Bilateralism Bad?" in Helpman, Elhanan and Razin, Assaf, eds, *International Trade and Trade Policy*, Chapter 1, Cambridge, MA: MIT Press, pp 9-23; Summers, Lawrence, H, (1991), "Regionalism and the World Trading System", in *Policy Implications of Trade and Currency Zones*, Kansas City, MO: Federal Reserve Bank of Kansas City, pp 295-301 and Organisation for Economic Cooperation and Development, (2003), *Regionalism and the Multilateral Trading System*. Paris: OECD.

16. In standard trilemma, pick two, any two: if government chooses fixed exchange and capital mobility, it gives up monetary autonomy. If it wants monetary autonomy and capital mobility, it goes with floating exchange rates. If it combines fixed exchange rates with monetary autonomy, at least in short run, it had better restrict capital mobility. Augmented trilemma suggests, by analogy, a different kind of political trilemma of the world economy. The three nodes of the extended trilemma are international economic integration, nation state (depicts territorial-jurisdictional entities with independent powers of making and administration of law) and mass politics (refer to political systems where franchise is unrestricted, with high degree of political mobilisation and political institutions responsive to mobilised groups); see Rodrik, Dani, (2000), "How Far Will International Economic Integration Go?", *Journal of Economic Perspectives*, Vol 14, No 1, pp 177-86.



of the greatest importance for future of trading system in terms of covering 95% of growth in world labour force, modest productivity growth performance, and demographic trends implying rapidly growing markets.<sup>17</sup> Evidence of industrial production in Eastern Europe, Latin America and China has grown by 30% annually since mid-1980s, with India and even Africa in the league belatedly. These trends need reinforcing which means G22's profile and bargaining power as a group which ignominiously brought down the WTO ministerial meeting in Cancun 2003. Trade policy needs to proceed on all fronts to lock-in gains, be creatively exemplary to inject new gains.

Regional trade agreement liberalisation is very likely to be good based on four propositions.<sup>18</sup> One is the existing structure of trade makes trade-creation exceed trade diversion. Two, even a trade-diverting regional trade agreement increases welfare between countries which trade disproportionately, that is, natural trading blocs in terms of observed trade for various entities to trade, expected to be equi-proportional to gross national product.<sup>19</sup> Three, apart from trade, other benefits are possible. Finally, reasonable, "clean" not "dirty", regional trade agreements are as likely to accelerate the general liberalisation process as to slow it down. They may also pace the WTO.

A conclusion for Asian regionalism based on natural trading partners is how much disproportionate share of trade is observed among East Asia economies. American hemispheric integration as in the North American Free Trade Agreement and Free Trade Agreement of the Americas and industrialised Europe appears natural. But growing trade affinity with Asia and Latin America suggests that neither an America-based approach for US or isolation of industrial Europe which trades disproportionately with itself, is synchronous with globalisation. Asian regional trade agreements linking developed and developing countries or among heavily specialised developing countries make trade created substantially welfare-enhancing. Eclectically favoured regional trade agreements have salutary effects of competition and openness on domestic policy and locking-in. Far from more manageably sized regional trade agreements

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17. Noted by Summers, 1991, op cit, p 296.

18. Summers, 1991, loc cit, p 296.

19. The US and Canada engaged in six times as much trade as they would if US trade with Canada were proportional to Canada's share of world non-US gross domestic product.

making multilateral trade reduction impossible, concern should be with monopoly power of large blocs, reduced cross-bloc trade doing more harm than increased intra-bloc trade. Welfare is worsened in regional trade agreements among groups of small, highly distorted, protectionist countries which diminish momentum for greater overall liberality. Most dicey is alliance of convenience of “losers” from labour to environmental groups against “winners” as exporters, multinational corporations, and financial interests.

Asian regionalism, which is yet to be conceptualised and identified, is a laggard and a response to the EU enlargement and American hemispherism. Despite ASEAN’s over three-decade monopoly in the region, it was the Northeast three which started the momentum toward greater Asian regionalism, starting with financial and currency swap arrangement since the Asian crisis, following the Chiang Mai initiative in 2000.<sup>20</sup> The ASEAN Plus Three summit after ASEAN’s 2002 Phnom Penh summit aimed at greater regional economic coordination without explicitly edifying its natural and logical extension to an East Asian Free Trade Area. ASEAN Plus Three is institutionalised from the East Asian Vision Group launched in 1998 at Kim Dae-jung's initiative which resulted in a 1999 study, but Malaysia's proposal and offer to set up ASEAN Plus Three secretariat was opposed by ASEAN as eroding ASEAN secretariat. The East Asian Vision Group’s proposal at the ASEAN summit in Brunei in 2001 for freer markets in the region was similarly one step short of a formal free trade area. While there is general consensus for ASEAN Plus Three free trade area led by Korea and Japan in the 2001 summit, there is no agreement on timing and details. Singapore’s prime minister has chorused the same for a single ASEAN market, progressing to East-Asian-wide market in his visit to Japan in 2003. But it was not until the 2003 ASEAN Bali summit that efforts bore fruit, prodded as much by several ASEAN+1 proposals which could marginalise ASEAN.

ASEAN Plus Three is a misnomer led by the three rather than ASEAN as in other ASEAN post-ministerial meetings with dialogues partners and ASEAN Regional Forum. ASEAN lacked direction and

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20. See Henning, C Randall, (2002), *The Case for Regional Financial Cooperation in East Asia*, Washington DC: Institute for International Economics; Katada, Saori, N, (2002), "Japan and Asian Monetary Regionalization: Cultivating a New Regional Leadership after the Asian Financial Crisis", *Geopolitics*, Vol 7, No 1; Liu, Fu-Kuo and Regnier, Philippe, eds, (2003), *Regionalism in East Asia: Paradigm Shifting?* London and New York: RoutledgeCurzon and Muanakata, Naoko, (2002), "Whither East Asian Economic Integration?", *Brookings Working Paper*, June.

organisation since the Asian crisis. ASEAN Plus Three's currency swaps signalling monetary cooperation constitute a legacy of that crisis and aborted Asian Monetary Fund proposed by Japan which morphed into the Miyazawa fund following US opposition. ASEAN Plus Three is logical considering both the combined financial strength of the three, Singapore, and Brunei and considering that the three need ASEAN10 as a buffer in any integration effort because of their historical and political legacies. If and when ASEAN Plus Three progresses from monetary cooperation to trade liberalisation and single market, however defined, ASEAN Plus Three free trade area will have larger welfare gains than the three or ASEAN Plus Three plus Australia and New Zealand as shown in Table 1.<sup>21</sup>

**Table 1: Changes in welfare (equivalent variation basis) as % of initial GDP**

	North Asia Three	ASEAN+3	APT+ANZCER
Singapore	-0.87	4.12	0.92
Malaysia	-0.70	1.24	1.74
Indonesia	-0.15	0.89	0.71
Australia	-0.05	-0.11	1.05
Japan	0.25	0.34	0.57
China	2.09	1.96	1.94
Korea	0.80	1.18	1.20

Source: Scollay and Gilbert, (2001), p 68.

But Asian regionalism is likely to be cautious and slow, more reactive than proactive, more defensive than offensive, depending on how European integration and American hemispherism pan out. A reformulated triadic configuration depends on how Asian leadership is crystallised between Japan and China on one hand, or some power-sharing with ASEAN on the other, or distilled from what is left of Japanese tutelage in its flying geese model of trade and investment. Clearly, geopolitics and geoeconomics have changed such that Asia-Pacific has less relevancy as an Asian identity gathers momentum. Be it economic regionalisation or political regionalism, Asian regionalism and free trade liberalisation by whatever modality is one whose time has come (Tables 2 and 3).<sup>22</sup> Government-to-government trade liberalisation should also take into account production networks and corporate alliances on the backs of

21. Scollay, Robert and Gilbert, John, P, (2001), *New Regional Trading Arrangements in the Asia Pacific*. Washington DC: Institute for International Economics, p 68.

22. See Liu, Fu-Kuo and Regnier, Philippe, eds, (2003), *Regionalism in East Asia: Paradigm Shifting?* London and New York: RoutledgeCurzon.

new technology which affect business attitudes and market sentiments. Regional, macroeconomic coordination must work with emerging business models and supply chains to maintain transaction costs and information flows or contain contagion as witnessed during the Asian crisis, morphing to collateral damage as in terrorism and severe acute respiratory syndrome.

**Table 2: Changing phases of East Asian regionalism**

Phase/timeframe	Representing arrangement*	Main features	Paradigms
Old regionalism (1950s-70s)	SEATO, ECAFÉ, ASEANI	<ul style="list-style-type: none"> <li>• Politico-military</li> <li>• superpowers &amp; alliances</li> <li>• UN &amp; US</li> </ul>	<ul style="list-style-type: none"> <li>• Cold war,</li> <li>• realist approach</li> </ul>
New regionalism (1980s onward)	PECC, APEC, ESCAP, ARF, ASEM, ASEANII	<ul style="list-style-type: none"> <li>• Openness,</li> <li>• industrial cooperation/division of labour</li> <li>• networking</li> <li>• regional institutions</li> <li>• interregionalism/sub-regionalism</li> </ul>	<ul style="list-style-type: none"> <li>• Flying geese model,</li> <li>• liberalist approach,</li> <li>• market integration,</li> <li>• trade competition,</li> <li>• corporate integration</li> </ul>
2 <sup>nd</sup> new regionalism (since 1997)	APT	<ul style="list-style-type: none"> <li>• Intraregional link</li> <li>• interregionalism/sub-regionalism</li> <li>• early stage of economic integration</li> <li>• regional convergence</li> </ul>	<ul style="list-style-type: none"> <li>• Security-economic nexus,</li> <li>• regional management</li> </ul>

Note: SEATO is Southeast Asian Treaty Organisation, ECAFÉ is Economic Commission for Asia and the Far East, ARF is ASEAN Regional Forum, ASEM is Asia-Europe Meeting  
Source: Liu and Regnier, eds, 2003, p 224.

**Table 3: Membership of East Asian countries in interregional arrangements**

Country	ASEAN	ARF	APEC	EAEC*	APT	ASEM
China		X	X	X	X	X
Japan		X	X	X	X	X
Korea		X	X	X	X	X
Hong Kong			X	?		
Taiwan			X	?		
Brunei	X	X	X	X	X	X
Indonesia	X	X	X	X	X	X
Malaysia	X	X	X	X	X	X
Philippines	X	X	X	X	X	X
Singapore	X	X	X	X	X	X
Thailand	X	X	X	X	X	X
Viet Nam	X	X	X	X	X	X
Cambodia	X	X		X	X	
Laos	X	X		X	X	
Myanmar	X	X		X	X	

Note: East Asian Economic Caucus (EAEC) was proposed by Malaysia in 1993, more geopolitical than geoeconomic ASEAN Plus Three (APT)  
Source: Liu and Regnier, eds, 2003, p 202.

Asian regionalism must reckon with deeper integration as in intellectual property rights, human

rights, labour standards, environment, competition policy, government procurement, governance, transparency, and other political economy issues entering economics. As the APEC has previously shunned “community” likened to European community spirit, ASEAN Economic Community is a surprising turnabout, adopting only the EU’s single market features, not its social security, welfare protection, and social safety nets still left to traditional communitarian and family nets. The priority remains economic integration as the means to reduce income and employment insecurity.

#### **4 SINGAPORE’S BILATERAL FREE TRADE AGREEMENTS**

The above discussion of multilateral and regional agreements may be a long preamble to Singapore’s perspective and how it maximises its options in trade policy and foreign economic policy. Singapore’s fast and furious pace in bilateral free trade agreements is reviewed against the multilateral and regional backdrops. Singapore is highly trade-dependent, with its trade to gross domestic product ratio rivalled only by Hong Kong. With free trade its only option, its more open and competitive macroeconomic and foreign economic policy puts it in a faster track than ASEAN. Supportive of global free trade, multilateralism, and WTO, it is realistically active in regional trade agreements, from ASEAN, and APEC to Asia-Europe Meeting (ASEM) and Forum on East Asia-Latin America Economic Cooperation (FEALAC) to being a first-mover in bilateral free trade agreements. Small, vulnerable, but nimble, Singapore's multi-track trade policy seeks to create balance, insurance and opportunity.

Its choice of free trade agreement partners is clear, starting with New Zealand as a “tutorial”, to sign with Japan, European Free Trade Area (EFTA comprising Switzerland, Iceland, Liechtenstein and Norway), Australia, and US. It is in negotiation with Canada, Mexico, Chile, EU, Korea, India, Sri Lanka, and Jordan. Singapore's bilateral free trade agreements also help to lock-in reforms. Its old developmental state, the Singapore, Inc. model featuring state intervention in government-linked companies, must open up in a private sector-led new economy. A competition policy being legislated by 2005 is one outcome just as innovative and creative design of bilateral free trade agreements takes care of the politically sensitive agricultural sector for Japan-Singapore Economic Partnership Agreement (JSEPA), the outward

processing nature of many multinational corporations for US-Singapore Free Trade Agreement and enhanced disciplines for telecommunication and financial services for EFTA-Singapore Free Trade Agreement (ESFTA).

Singapore's bilateral free trade agreements with so many partners have to cope with the "spaghetti bowl" effect involving different sets of rules of origin. The main principle behind rules-of-origin for manufactured products is that the country of origin is the last country where a substantial transformation took place under three criteria: 1) change in tariff classification, 2) value added rule, that is, local content rule, and 3) process rule. Each rule can be applied separately, as alternative, or in tandem. They could be applied as a general rule to all products, appearing in the main text of the free trade agreement as in the Agreement for New Zealand and Singapore Common Economic Partnership or as product-specific rules reflected in an annex which lists all products covered under the free trade agreements and their corresponding rules of origin, as in the US-Singapore Free Trade Agreement. Rules of origin take into account operational patterns of companies in Singapore, including the shuttling of parts and components to and from Singapore during various stages of production. Rules of origin are designed to allow greater flexibility in determining the qualification for Singapore origin. For products which have more than one rule, Singaporean manufacturers can choose the rule which best suits their manufacturing operations. This gives Singapore manufacturers additional flexibility to qualify for preferential tariff treatment as under the EFTA-Singapore Free Trade Agreement.

Variations from conventional rules of origin, with last country where a substantial transformation took place, can occur in two ways, namely, outward processing and integrated sourcing initiative. The first variation is the recognition of outward processing as a unique production pattern for Singapore. It acknowledges that part of the manufacturing process (usually the lower value added or labour-intensive activities) may be outsourced to neighbouring areas. For rules of origin in Singapore's concluded free trade agreements, products are divided into two categories as wholly obtained products and manufactured products. Wholly obtained products mainly refer to commodity products, such as orchids grown in Singapore. Such products are automatically accepted as originating in Singapore.

Admittedly complex and more varied than a one-size rule of origin design for all its bilateral free trade agreements, Singapore has to be thus creative, innovative, and flexible because of the nature and structure of its economic activities. Its domestic interests have to be balanced with regional and multilateral protocols as well as to satisfy individual free trade agreement partners. It has concluded free trade agreements with its two largest trade partners, Japan and US, and to a certain extent with the European Free Trade Area, though that with the EU is hung as the EU seems to prefer a group-to-group pact. Free trade agreements with developed industrial OECD economies have set down the general principles. In particular, given US competitive liberalisation policy with respect to its free trade agreements, some forced pacing by using other concluded free trade agreements as a template, is unavoidable and inevitable. If this justifies Singapore in being the first mover in free trade agreements which may set the scene for other Asian countries and even Asian regionalism, that is the nature of competitive global political economy.

Whether Singapore's creative, innovative, and flexible approaches can be helpful to ASEAN and Asian countries in their bilateral or regional trade agreements, will depend on how like-minded politicians and bureaucrats see Singapore as exemplary. ASEAN has adopted its change in tariff classification rule as a start. It would be to its advantage if Singapore's approaches and modalities are adopted by others, but it can neither force nor over influence on such matters. As a small, soft power, Singapore goes by its reputation and credibility in maintaining performance and outcome. Its international profile may be of a higher standing as it is treated as fairly, and respectfully, not necessarily equally, by big powers including US, than its voice as "small brother" in ASEAN. A simple ambition is to be proactive in its bilateral free trade agreements which are as consistent as possible to inspire some convergence into a larger East Asian or APEC-wide arrangement sharing similar principles and precepts, which are flexible and facilitating to all multinational corporations and foreign investors in the region.

The spaghetti bowl effect as in rule of origin variations among various free trade agreement partners is a tradeoff for flexibility and adjusting to different demands. In any case, different regimes in terms of regulatory, legal, and other standards are realistically as prevalent and difficult, a reflection that no public

policy can be perfect in not injecting side effects. Similarly, a hub-and-spoke effect may be the outcome if more and more bilateral free trade agreements revolving around the US, the EU, and Japan as hubs follow in the wake of Singapore setting the example and pace. More relevant is to what extent and how far a small, open city-state is really affected by global and technology trends beyond its control. Its only response is to live with the rest of the world as a price-taker and leave it to bigger and more influential economies to set global standards in fair and ethical ways, however defined.

Beside creative and innovative design, Singapore has learnt many lessons in its bilateral free trade agreement negotiation with different partners, economic as well as political economy problems and issues. At the domestic level, further trade and investment liberalisation entails a serious rethink of its developmental state and industrial policy, which revolves around Singapore, Inc. and its government-linked companies. If Singapore, Inc. was already devolving through announced privatisation, whether real or apparent, the lock-in effect on such domestic reform and making its government-linked companies more competitive is intensified and accelerated. Moreover, even sacrosanct national regulatory policies in import duties and non-tariff barriers to control the importation of cars, tobacco, and liquor products as well the control in supply of doctors and lawyers have to be reviewed as demanded by free trade agreement partners. If not total submission, some concessions and inventive compromises have been made regarding doctors, lawyers, other professionals and foreign talents from the US, European Free Trade Area, Australia, New Zealand, and Japan in the first instance.

With so many free trade agreements going on simultaneously, manpower, expertise, and time resources were stretched, and the right personalities, including ambassadors to lead the negotiating or study teams in Japan the US and Korea, are important considerations for successful free trade agreements. The teams and experts are challenged not only in their economic, trade, and technical expertise, but also on their negotiating skills and understanding the political economy of different groups and constituencies that they have to win over, including non-governmental organisations and civil society. Such environment and culture may not be familiar to amore top-down Singapore system, but winning over constituencies, media, and publicity at home and abroad, especially ASEAN members constitutes a soft skill learnt in



bilateral free trade agreements.

## 5 CONCLUSION AND POLICY IMPLICATIONS FOR EAST ASIAN REGIONALISM

Overall, the standard advice to developing countries to industrialise in labour-intensive manufacturing away from primary sector exports is a fallacy of composition and “immiserised” growth with falling terms of trade, falling net barter terms of trade as in export earning or purchasing power or income terms of trade.<sup>23</sup> Similarly, an export- and direct foreign investment-led industrialisation model has issues in competitiveness strategies, as in East Asia concerning technological capability in building up export competitiveness,<sup>24</sup> especially when innovation is noted as East Asia’s future growth.<sup>25</sup> As new globalisation, new technology as in information communication technology and heightened competitiveness with economic liberalisation and deregulation emerge, the old paradigm of just being open and trade-oriented must look deeper into the modality or approach to such liberalisation.

This paper has traced events and trends from the multilateral to regional and bilateral levels of trade liberalisation, focusing to a certain extent, on Singapore as it became a champion of many bilateral free trade agreements both within and outside the Asia region. While the conclusion remains that multilateralism is still the first-best approach especially for developing economies, the reality is that free trade agreements on both the regional and bilateral levels cannot be denied their political economy roles and aims. However, new regionalism has also witnessed a “runaway” trend and the emerging problem lies in bolting down the chaotic mass of free trade agreements together into a realistic regional trade agreement before they can be effective building blocks to multilateralism. The “runaway” tendency is witnessed at the 2003 APEC summit in Bangkok where bilateral trade accords worth some US\$70 billion

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23. See Yilmaz, Akyuz, ed, (2003), *Developing Countries and World Trade: Performance and Prospects*. Geneva: United Nations, pp 85-122.

24. See Jomo, KS, ed, (2003), *Manufacturing Competitiveness in Asia: How Internationally Competitive National Firms and Industries Developed in East Asia*. London and New York: RoutledgeCurzon and Lall, Sanjaya and Urata, Shujiro, eds, (2003), *Competitiveness, FDI and Technological Activity in East Asia*. Cheltenham: Edward Elgar. Also, Martin, Will and Pangestu, Mari, eds, (2003), *Options for Global Trade Reform: A View from the Asia-Pacific*. Cambridge: Cambridge University Press.

25. See Yusuf, Shahid and Evenett, (2002) *Can East Asia Compete? Innovation for Global Markets*. New York: Oxford University Press and Yusuf, Shahid, ed, (2003) *Innovation East Asia: The Future of Growth*. Washington DC and New York: World Bank and Oxford University Press.

in trade were negotiated or concluded.<sup>26</sup> Given the competitive liberalisation mood and demonstration effect of free trade agreements, how much of "free trade" as interpreted by the political agenda mixed with terrorist and security issues rather than economics is fudged.

With or without the bilateral and regional free trade agreements appearing to hurt WTO multilateralism, the multilateral process itself is clearly malfunctioning and in disarray. At the same time, Cancun 2003 has also hurt the Free Trade Area of the Americas as both the US and Brazil co-chair these talks, with the Free Trade Area of the Americas perceived as good for most Latin America except Brazil, and Brazil is a leader in G22. The unstable and temporary nature of G22 has also emerged with Costa Rica, Guatemala, Peru, Columbia and Ecuador pulling out of G22 to make deals with the US instead.<sup>27</sup>

The jury is still out for bilateral and regional free trade agreements as well. Even Singapore as an active first-comer for reasons related to its small, open economy has issues with the spaghetti bowl effects and rules of origin. Pluri-lateral arrangements may be practical and realistic especially when a political economy approach is adopted to effect real integration. Increasingly, as shown in the 2003 ASEAN summit which endorsed a common market plan by 2020, a two-speed approach is becoming popular within pluri-lateral arrangements.<sup>28</sup> ASEAN follows the EU model in this respect as Germany and France pushed a dual-track, using peer pressure to lead by example. Singapore has gone a step beyond, using its bilateral free trade agreements to make up for the slow pace in ASEAN. Together with Thailand which proposed a 2+X principle, where any two ASEAN states can go ahead on an initiative,<sup>29</sup> the duo is trying to make ASEAN more relevant in the emerging Asian regional context.

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26. Bilateral free trade agreements include the Australia-China free trade agreement involving US\$16 billion trade in the last six years; the Australia-Thailand free trade agreement involving US\$2.5 billion annual trade; US-Thailand free trade agreement, in US\$20 billion trade also signed an "open skies" accord promising Thai Airways and FedEx more cargo business as two-fifths of Asia Pacific trade carried by air and US buys 20% of Thailand's exports, more than any other country, first non-North Atlantic Treaty Organisation ally; Japan-Korea free trade agreement involving US\$45 billion trade; US-Australia free trade agreement by end 2003 involving US\$28 billion trade, with US companies having invested US\$110 million in Australia and 12% Australian exports to US; New Zealand-Thailand free trade agreement by November 2004; New Zealand negotiating with the US, Korea, Chile and Hong Kong; Thailand promising to buy light armoured vehicles from Canada; and Japan-Mexico, with Mexico exports to Japan about US\$1.6 billion; see *Business Times*, 23 October 2003, p2 and *Bangkok Post* 23 October 2003, p 1.

27. See *The Economist*, 18 October 2003, pp 43-4 and 1 November 2003, pp 65-7.

28. See *Far Eastern Economic Review*, 23 October 2003, pp 16-8.

29. See *Business Times*, 9 October, 2003, p 2.

Asian regionalism in real terms has China at the helm, be it in ASEAN Plus Three or in bilateral China-ASEAN free trade agreements. As long as China continues with its friendly diplomatic style to accelerate trade concessions and market access, Asian regionalism may be an alternative for the region as it awaits the WTO process to reassemble. This may be a more optimistic conclusion from this chapter given Asia's combined size and impact which also allows small, soft powers like Singapore to play along in niche markets and positions given its relative nimbleness. A relatively rich menu does appear for Asian regionalism,<sup>30</sup> adding South Asia would widen it further, notwithstanding the more complicated political economy. But India is weaving itself in with its "look East" policy as in its bilateral free trade agreements with Singapore as a start, progressing to one with ASEAN. With China, India, Japan and not least, Korea for size and impact, plus ASEAN10 for diversity and some buffer effect, emerging Asian regionalism is a force to be reckoned with at both regional and global levels of trade liberalisation. It is however, still in the interest of Asian regionalism to try to help reengage WTO multilateralism rather than de-rail it, if leaders believe in a functioning global trading system as the first-best policy.

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30. See Martin, Will and Pangestu, Mari, eds, (2003), *Options for Global Trade Reform: A View from the Asia-Pacific*. Cambridge: Cambridge University Press.