The Impact of Regional Economic Integration on Local and Foreign Investment in Enterprises in ASEAN

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Abstract

The paper first provides a broad overview of the macroeconomic impact of regional economic integration, most aptly symbolized by the recent rash of free trade agreements (FTAs), based on the analysis of cross-border trade, cross-border investment, and the like in ASEAN member countries. While case analyses of enterprises at the microeconomic level to learn about the impact of such integration on cross-border investment, marketing strategies, and other activities of individual corporations in ASEAN would be ideal, both the fieldwork and the difficulty of isolating macroeconomic and microeconomic decisions preclude this. Instead, some broad trade and investment empirical evidence reported on other FTA efforts are noted. The presumption is the same factors motivate ASEAN integration and FTAs, except possibly for one factor: public outreach and public education in ASEAN FTA efforts need more work. The general conclusion and prognosis of the paper is that while FTAs are necessarily of a political economy genre, over and above economics and commercial business interests, the impact of regional integration and bilateral FTAs may be a consideration, even a growing one on industrial and global corporate strategies.

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1 Introduction

The paper first provides an overview of the macroeconomic impact of regional economic integration, most aptly symbolized by the recent rash of free trade agreements (FTAs) in the Association of Southeast Asian Nations (ASEAN) member countries in Section 2 (See Appendix 1). With Singapore as particularly active and promiscuous in FTAs, its foreign economic policy on a multi-track through multilateralism in the World Trade Organisation (WTO), regional integration as in ASEAN and bilateral FTAs will be reviewed in Section 3. Reviewing Singapore's trade strategy and options is to see how much it reflects ASEAN's moves, how much it has stirred the competitive liberalization strategy in and outside the region in its urgency to be first comer and the consequences on the rest of ASEAN and the East Asian region.

Ideally, a few case analyses of enterprises at the microeconomic level to learn about the impact of such integration on cross-border trade, cross-border investment, marketing strategies and other activities of individual corporations would provide the empirical basis for such integration and FTAs. The difficulty and caveat of isolating and attributing such macroeconomic and political economy effects of FTAs on enterprise investment and business strategies have to be stated right upfront. Many of the FTAs are still being negotiated or barely signed such that results and responses from firms to take advantage of them are too early to ascertain.

Outreach programs to inform and educate the private sector of the benefits and role of FTAs to facilitate their trade and investment activities with partner countries is also a long and slow process. While business and commercial interests may be strong and have provided consultative and other inputs to the FTA negotiations in some economies like the US, European Union (EU) and Japan, their ASEAN counterparts may be more silent and provided a *fait accompli* of FTAs given different political economy settings. Despite many study groups involving academic and private sector representatives with government officials observed in Singapore's FTAs with Japan, Korea and India, how enterprise decisions with regard to trade and investment are influenced by the FTAs is not truly known. Section 4 highlights some macroeconomic outcomes of FTA efforts. At best, intuitive and deductive analysis may be harnessed in the paper which may give more intellectual and econometrically grounded colleagues an agenda for future research at a more robust and rigorous microeconomic level of industry and firm.

The general conclusion and prognosis of the paper is that while FTAs are necessarily of a political economy genre, over and above economics and commercial business interests, the impact of regional integration and bilateral FTAs may be a consideration, even a growing one on industrial and global corporate strategies.

2 ASEAN integration and FTAs

Starting with ASEAN integration, ASEAN economic ministers agreed tariff and non-tariff barriers in 11 sectors should be removed by 2007 by ASEAN's six most developed members and the rest by 2012. The 11 sectors for liberalization before 2010 is important as the ASEAN-China FTA is expected by then. The 11 sectors are wood, rubber, automobiles, textiles, electronics, agriculture, e-commerce, fisheries, health care, air travel and tourism. Getting the ASEAN Free Trade Area (AFTA) ready and in shape first is imperative, in turn allowing ASEAN to proceed with its bilateral with China, India and others. The ASEAN Investment Area (AIA) needs intellectual property rights (IPR) protection as Japanese investors who have relocated to ASEAN have noted. In IPR, ASEAN can do better than China to gain some leeway

While AFTA, ASEAN Framework Agreement for Services, AIA and ASEAN Industrial Cooperation (AICO) are all on-going and evolving (Low, 2004a), an overview of bilateral FTAs involving ASEAN members is useful to see the full picture on regional integration and the impact on foreign and local investment in enterprises. With global production networks and clusters based on regional global competitiveness, ASEAN is part of a bigger East Asian network. As strategic is economic cooperation and financial arrangement are in the ASEAN Plus Three, South Asia, notably, India and the Middle East are beginning to part of a much larger and complex geography for regional integration.

Starting with FTA involving ASEAN members, Thailand and Australia signed a FTA in 2004. This is an important step toward the inclusion of Australia and New Zealand in a Southeast Asian free trade zone, possibly cementing and ASEAN Free Trade Area-Closer Economic Relations (AFTA-CER) FTA in the future.

Even as that prognosis is made, ASEAN, Australia and New Zealand in a FTA is aimed for by 2007. Formal negotiations will start in 2005, a big move to higher integration of the two regions. However, tariff issues will be as tough as quality and agricultural issues. Priority Australian sectors include services, food and beverages, mining, energy and fuel, automotive industry, consumer items, textiles, medicines and paper. Australia has high protection in textiles, clothes and footwear and automotive. Protection agriculture in Southeast Asia is of interest to Australia and New Zealand. With two-way merchandise and service trade between Australia and ASEAN at A$40 billion or US$20 billion in 2003, total economic gain to the 12 countries could reach A$48 billion annually.

Despite some history of tensions and contentions, Australia and Malaysia have agreed to study the possibility of FTA talks in 2004. Malaysia is Australia's 14th largest trading partner.

Malaysia, Thailand and the Philippines are other ASEAN economies after Singapore in a FTA with Japan. For the Philippines, negotiations started after Japanese prime minister Junichiro Koizumi and the Philippine president Gloria Arroyo agreed in 2002 to consider such an accord. By 2004, the Japan-Philippines Economic Partnership Agreement draft covers trade in goods and services, rules of origin, customs procedures, paperless trading, mutual standards and investment. Specifically, it covers movement of persons, intellectual property rights, government procurement, competition, financial services, communication technology, energy, science and technology, human resources, small and medium-sized enterprises, broadcasting tourism, dispute avoidance and settlement. However, both sides have identified sensitive areas which need further deliberation as on investment rules, services, mutual recognition agreements, government procurement, rules of origin, competition, intellectual property and agriculture. The

Philippines wants to complete the FTA with Japan by end-2004, ahead of Thailand and Malaysia.

Vietnam will seek a FTA with the United Arab Emirates (UAE) once its trade increases substantially from 2003 total US$120 million which rose 62% over previous year and includes US$66.3 million in Vietnamese exports. Vietnam would pursue preferential trade ties as in a FTA with its opening of the Vietnam Trade Center in Dubai in 2004.

Thailand is the only ASEAN member in the Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation (BIMSTEC in 1997), joined by Bhutan and Nepal. BIMSTEC represents 1.3 billion people and US$7.3 billion in trade. Talks have started in mid-2004 to drive a FTA by 2017. However, BIMSTEC is long on symbolism as reflected by their intra-regional trade as only 4% of total trade while short on results as shown by tariff negotiations not even due to start till later in 2004. Only a roadmap to navigate market opening is drawn at the last summit with a gradual evolution on slow process to be expected for a grouping and cooperation of South and Southeast Asian economies. Its effectiveness may be hampered by countries like Singapore which is India's largest trade partner in Southeast Asia. India, Sri Lanka and Thailand as the most advanced BIMSTEC members are committed to trade liberalization by 2012, with the rest to follow suit within five years.

With Singapore's FTA efforts in Section 3, a noticeable absence of FTA activity from Indonesia is observed. Even Vietnam has put its target in the UAE while it is understandable that Cambodia, Laos and Myanmar are not quite as ready. Apart from ASEAN-wide FTA efforts, Indonesia is the only ASEAN6 member without any significant bilateral FTA. This does not imply that bilateral FTAs are necessarily the panacea for Indonesia's domestic socioeconomic and political economy. A scouting mission to the UAE for tourism prospects may be noted, whether or not Indonesia's appetite for FTAs may be whetted.

From ASEAN integration and FTAs involving ASEAN members, the FTA efforts of a few key Asian and Pacific economies are highlighted as they have either explicit or implicit implications in terms of competition and cooperation for the Asia Pacific region as a whole. China is an obvious economy to start with. Beside the ASEAN-China FTA and China's involvement in ASEAN Plus Three, China aims to sign a trade and economic cooperation pact with the Arab Gulf Cooperation Council (AGCC). Talks of such a FTA will begin, aimed at reducing tariffs, simplify flow of goods and investment. Clearly, China's energy demand which has outpaced supply, causing power shortages in some three-quarters of its 31 provinces is a huge motivating factor for China looking into the Middle East. China needs to establish strategic oil reserves and tries to diversify supply, much of which already comes from the Middle East.

China is set to be the UAE's leading business and trade partner with a quantum leap in its exports to the UAE reaching US$8.5 billion in 2003 compared to US$70 million in 1984 when diplomatic relations were established. Chinese investment in the UAE has reached US$50.1 million in some 350 companies in 2003 with some 60,000 Chinese nationals working and living in the UAE. In turn, the UAE has invested US$370 million in 351 projects in China. China has overtaken Japan as supplier of goods to the UAE by 2003.

China may grant the UAE the Approved Destination Status which would guarantee a massive of Chinese tourist arrivals. Only two other economies in the Middle East enjoy this status, namely, Jordan and Egypt. Visa procedures, service expansion including air connections and Chinese-speaking guides will follow suit to tap the tremendous potential of Chinese visitors who seek sights and experience beyond traditional Asian and ASEAN countries. That the Middle East is just a short hop away to the rest of the European Union (EU) members like ASEAN members all enjoy the same status should not be underscored.

China's largest white goods manufacturer the Haier Group has projected an 8% increase in market share in the Middle East as is entering the region's information technology market. Haier's sales recorded 300% growth in the UAE in 2003 with plans to invest US$1 million in logistics centers in Dubai and Sharjah zones by 2004. Haier has a target of US$100 million turnover in the region in 2004 against US$600,000 in 2003. It has three manufacturing units in the Middle East, including production facilities for washing machines, refrigerators and air conditioners in Iran, Jordan and Syria. The UAE is the second largest market for Haier products in the region after Saudi Arabia. While Haier has ventured into information technology only in 1998, its established brand in personal computers and notebooks has enabled it to finalize plans for a launch of the same in the Middle East region.

Australia would significantly boost agricultural and other exports to China if a FTA were forged with China. Australia's trade with China trebled to US$16 billion since 1996, making China its second largest export market after Japan. Australian grains, especially wheat, and wool, cotton, sugar, beef and dairy products have tremendous potential as exports to China. Other Australian products which benefit from a FTA with China include automobiles, vehicle parts, petroleum oils, iron ore, aluminum, alumina, coal, titanium and copper ores. Chinese banks are looking for strategic investors.

They two are accelerating the FTA with a feasibility study by early 2005, a FTA probably by October 2005. It is hinged on Australia granting China market economy status as China lobbies hard to boost its ability to fight antidumping charges. Extensive consultation with industries is deemed needed by Australia as around one in every seven antidumping cases worldwide involves China. Most of the world's big trade powers including the US and the EU have yet to grant China market economy status. This means China can use third-country prices like India's as a benchmark for its domestic prices to determine whether Chinese products have been dumped at below-market prices. China is Australia's third largest merchandise trade partner for both exports and imports. Two-way trade between them in 2003 reached US$16 billion. Australia is a key energy supplier to China.

Australia has certainly made reaching out one of its key foreign economic strategy as its parliament approved its FTA with the US mooted in 2002. The price of this FTA is the incumbent Liberal government's acceptance of Labor amendments safeguarding Australians' access to cheap prescription drugs. The Labor amendments are designed to stop US pharmaceutical giants from using the FTA as a tool to dismantle a government scheme which controls the price of prescription drugs.

As the traditional lynchpin in Asia, Japan's FTA activities need watching as well. Japan and Mexico has signed a FTA in 2004 as a springboard for Japanese technology and equipment aimed at the US market on the one hand and to give Mexican agriculture an important foothold in Asia, on the other. As Japan's second FTA after its FTA with Singapore, the deal took two years in the making. As Japan's first FTA to include agriculture, Mexico expects to export 80,000 tonnes of pork and 6,500 tonnes of orange juice annually to Japan under preferential tariffs. Mexico is also expected to attract US$1.3 billion in Japanese investment annually over 10 years from the current US$350 million. The rest of Latin America including Chile, Argentina the Panama, has been very proactive in taping East Asia. Again, there positive repercussions and competitive challenges for ASEAN even as the Forum for East Asia and Latin America Cooperation (FEALAC) has seemed to have gone into some hibernation.

Nonetheless, for all their cautious progress, ASEAN and the South Asian Economic Cooperation (SAARC) appear more effective representing their members. Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka met in mid-2004 to give a fresh impetus to the South Asian FTA slated for 2006. SAARC regional trade is only 5% of member states' global trade. Suffice to note, other South Asian FTAs involving SAARC and non-SAARC members have taken on a momentum of their own as well. Notably, India and the AGCC have begun negotiations for a FTA. Non-oil trade between India and the AGCC rose 47% to US$6.2 billion in 2003/4, making the UAE India's second largest trading partner after the US. India is as much looking East to Asia as it is tapping the Middle East in FTAs.

While ASEAN Plus Three has not moved formally to a FTA, its focus on financial arrangements involving currency swaps and any pretensions in moving toward an optimal currency area or some Asian currency union needs some rumination. Clearly, the EU model of integration is an inappropriate and unhelpful as ASEAN has neither the political commitment and will nor the institutional capacity to the likes of the EU such that any allusion to EU experiences is a distortion of ASEAN priorities, at least for now. For East Asia as a whole, it is better off with broad-brush rules convergence, not an optimal currency area.

There are many arguments for this point of view. First, the traditional economic argument is with AFTA yet to complete, the sequencing of liberalization of current account (trade in goods and services) and capital account (exchange rate and capital movement) is one issue. Since the Asian crisis, there seems further support for such a conventional sequencing as for Thailand.

Second, not only has AFTA not reached the EU level of integration, EU is not an appropriate model for ASEAN as in harmonization of regulations to create a unified market in a more fundamental sense. Removing tariff barriers in AFTA needs broad-brush rules rather than the pervasive rule-making of the EU. As agreement may be more practical and feasible either bilaterally or regionally, East Asia may benefit from common or at least coordinated rule-making in many areas as in investment, consumer protection and intellectual property. These rules can sometimes be codes of behavior agreed between parties. Sometimes, they may be incorporated into laws and regulations of participating countries. This supports greater global integration and upgrades Asia's domestic regulatory infrastructure with best practice rules and benchmarks to replace inadequate domestic ones. Some infringement of sovereignty may be tolerated with some domestic legislation needed. But it is not so much a case of diminished sovereignty as adopting a set of superior rules. The CER integration may be a more suitable model than the EU without currency union and without loss of sovereignty.

Third, exchange rate flexibility is in Asia's interest. ASEAN Plus Three as intrinsically diverse from Indonesia to Japan, exchange rate flexibility is not available to countries in a currency union. Yet, it is one buffer against trade shocks which are as asymmetric to Asian economies. Each has to set its own exchange rate to absorb trade shocks as the terms of trade shift between industrial goods and resources. Since the Asian crisis, the failure of quasi-fixed rates does not mean a unified rate as a solution. Moreover, substantial passing of sovereignty to a central bank is not on the agenda.

Fourth is an argument against the new Bretton Woods system which claims to help increase demand from emerging Asia to reduce the global current account imbalance as much as the US needs to increase saving (Dooley, et al, 2004). This new Bretton Woods system suggests the imbalances reflect a conscious and stable arrangement between surplus and deficit countries. An undervalued nominal peg to the dollar is a perfectly reasonable arrangement such that calls for changes are misplaced (Dooley, et al, 2004).

This new Bretton Woods system contains seeds of its own demise (Raghuram Rajan and Arvind Subramanian, *Financial Times*, 27 September 2004). Free and perfect competition is unreal. At the domestic level, pervasive rules govern economic relationships, without which, transactions would be complex, uncertain and unenforceable. International transactions occur within a much lighter institutional framework, and are consequently more risky. Exporters cannot enforce a transaction just as an importer cannot know the quality of goods delivered. Multilateral and global rules of international economic relationships may be written by the WTO and Basel banking rules. But the need for a high degree of unanimity among a larger number of players limits the practicality of multilateralism.

The basic argument for the new Bretton Woods system is that countries like China at the periphery has 200 million surplus workers who must be reabsorbed into the workforce rapidly to avoid social instability. With inefficient companies oriented to domestic production, jobs and efficient companies can be created by exporting to the US aided by an undervalued exchange rate. While this creates tensions as jobs in core countries are lost to the periphery. The periphery helps overcome this by investing its surplus back in the core. This allows companies from the core to invest and also profit from using cheap workers. There is more to this in the outsourcing (products, services or components delegated to third party provider at home or abroad) and off-shoring (company relocates processes or production to lower-cost foreign location in subsidiaries or affiliations) debate.

That China need a strategy of undervaluation is another issue. The political economy sits inconveniently with the fact that the net direct foreign investment flowing to China comes from Japan and other Asian countries from which China is a net importer of goods rather than from the US. The bigger issue is if there were a conscious strategy of undervaluation, how sustainable and viable it could be. Economic theory suggests governments in the periphery cannot control real exchange rate by fixing the nominal rate. As trade expands, export sector will adopt new technologies and learn to do things better. With the resultant productivity improvement, real wage in the export sector and hence the whole economy must rise. This is development in action as the domestic-oriented or non-traded goods sector does not enjoy the export sector's productivity gains, so to break even, prices in this sector must rise. The surplus army of reserves unemployed and underemployed moderates the rise in wage and price. But as some forms of labor are in limited supply, wage and price must rise.

With a fixed exchange rate, real appreciation takes place through appreciation. The periphery can keep a lid on this inflation for a while. On the microeconomic side, this can be achieved through distortions such as price controls, but the domestic sector ends up even more unprofitable. On the macroeconomic side, inflationary consequences of current account surpluses and reserve accumulation can be addressed through sterilization (government papers sold to mop up liquidity), financial repression (interest rate control) and a closed capital account.

Sterilization neutralizes the monetary consequences of reserve accumulation while repression and a closed capital account limit direct fiscal costs and keep in check further capital inflows which could overwhelm sterilization. The costs of microeconomic distortions in an unviable domestic sector exerting a drag on long term growth will mount and be reflected in the fiscal burden of accumulating non-performance loans in the public sector banks. On the macroeconomic side, barring a sustained decline in growth, China will continue to attract capital. Its capital account will become more open as expanding trade makes it easier to evade capital controls. As sterilization reaches its limits, capital inflows will push up credit and prices. Given this, its is better to move toward flexible exchange rates which gives a better chance of steering while paddling, attempt to stay still will only have currents overwhelm the situation. This is the International Monetary Fund's (IMF) call, not just for reducing global imbalances, but for Asia's own interest.

That China and India as outsourcing and off-shoring models in manufacturing and service respectively, and India in particular, in service-led model facilitated by information communication technology and changing globalization have motivations and consequences for FTAs. Basically, the Ricardian comparative theory of trade remains right despite "creative" destruction that American winners are big enough to more than compensate the losers (Samuelson, 2004 and Bhagwati et al., 2004). Samuelson might have worried productivity gains spurred by technical progress as in semiconductors in China or financial services in India may turn trade entirely to the poor country's advantage which can reduce the price of the rich country's export by enough to make the country worse off. Theory may refute this as possible and evidence in practice has been thin like the Europeans worried about American growth in the 1950s, just as the US worried about the Japan in the 1970s.

Outsourcing is no different in economic terms from Ricardian standard trade results, including the possibility that a country's export price could fall so much that it becomes worse off. Empirical evidence show outsourcing has not hurt the US as the threat of Chinese and Indian innovation is overblown. As their skills improve, trade with them will become more like other rich countries the US has benefited from. Outsourcing abroad is still too small to matter much. Forrester Research's estimate of 3.4 million jobs outsourced by 2015 sounds enormous, but an annual outflow is only 0.5% of jobs in industries affected. In an average year, the American economy destroys some 30 million jobs and creates slightly more, dwarfing the off-shoring effect. A sanguine view of jobs which will replace those lost by outsource may be another comfort releasing skills to burgeoning fields and research areas.

3 Singapore’s foreign economic policy and FTAs

Singapore’s foreign economic policy articulated in its fast and furious pace of FTAs may be a reflection of its own economic needs, desire to gain first comer advantage with major trading partners and frustration with both dysfunctional regionalism in AFTA and WTO multilateralism (Low, 2003a, Low, 2003b and Low, 2004b). An overview of Singapore’s FTAs is germane before attempting to assess any macroeconomic or microeconomic impact.

The Agreement between New Zealand and Singapore on a Closer Economic Partnership (ANZSCEP) was the first FTA that Singapore concluded in 2000 after the ASEAN Free Trade Area (AFTA). The FTA negotiations between New Zealand and Singapore were completed on 18 August 2000. Singapore hosted first ministerial review of the agreement in November 2001.

The EFTA-Singapore FTA initiative was fastest from start in December 2000 to finish by mid-2002. EFTA is an arrangement consisting of Switzerland, Iceland, Liechtenstein and Norway. The FTA covers trade in goods (industrial products as well as fish and marine products), trade in services, investment and related areas, such as public procurement, competition and protection of intellectual property rights.

The Singapore-Australia FTA initiated in 2000, concluded in 2003 is a comprehensive agreement covering key areas such as trade in goods, trade in services, investment, telecommunication and financial services, movement of business persons, government procurement, intellectual property rights, competition policy, e-commerce and education cooperation.

The US and Singapore finalized their FTA in 2003 which more than the North American Free Trade Agreement (NAFTA) in a number of areas including protection of intellectual property, inclusion of e-commerce and information communication technology services, advanced rules of origin and customs cooperation. As the first FTA concluded between the US and an Asian country, the US-Singapore serves as a catalyst towards deeper US economic engagement in the region and spur other ASEAN-wide FTAs.

On going FTAs include Singapore in an ASEAN-China FTA in 2001 in a Framework Agreement on Comprehensive Economic Cooperation. Negotiations have started on trade in goods, services and investment. By January 2010, the FTA would be realized with the six original ASEAN members and by 2015, all the rest of ASEAN.

In 2003, Bahrain and Singapore entered into negotiations to conclude a FTA to have a catalytic effect in encouraging further economic cooperation between the two regions. Then Prime Minister Goh Chok Tong initiated the Middle East effort.

Bilateral negotiations for the Canada-Singapore FTA launched in 2001 have gone into six rounds by 2003. Substantial progress made in all areas, include market access in goods, financial services and government procurement.

It was then Prime Minister Goh Chok Tong’s visit to Egypt in 2004 when it was agreed to launch negotiations to conclude a FTA.

Negotiations for the India-Singapore Comprehensive Economic Cooperation Agreement launched in 2002 had a joint study group report as a framework for subsequent negotiation envisage the FTA structured as an integrated package of agreements. Included are a FTA on trade in goods and services, and investment, a bilateral agreement on investment promotion, protection and cooperation, an improved double taxation avoidance agreement, a more liberal air services agreement and open skies for charter flights and a work program for economic cooperation covering areas outlined in the joint study report, including the creation of the India-Singapore Fund, the setting up of a second India Centre in Singapore and tourism cooperation. Negotiations covered trade in goods and services, including financial services and telecommunication, movement of natural persons, investment, mutual recognition agreements and review of the bilateral double taxation avoidance agreement. In particular, the chapter for standards and technical regulations, sanitary and phytosanitary measures including sectoral annexes for food and telecommunication products has been substantively concluded. An e-commerce chapter has also been concluded, facilitating electronic delivery of Indian software, media and music products from to Singapore and vice versa. The annex for Telecommunication services is near conclusion. There was also better understanding and positive movement reached in the other subjects.

A Korea-Singapore bilateral FTA raised in 2000 had Korea noting the difficulty to conclude an FTA with 10 nations of ASEAN altogether due to different conditions, so mapping out an FTA with Singapore first made sense. The joint study group completed and submitted its report in 2003 recommending that the scope of the FTA include comprehensive liberalization and facilitation of economic relations in trade in goods and services, investment, government procurement and intellectual property rights. Targeted are financial services, information and communication technology, human resources development, trade, investment promotion and broadcasting and consultation and dispute settlement mechanisms. A comprehensive and WTO-plus FTA is aimed by end 2004.

Negotiations for the Mexico-Singapore FTA started in 2000. Sensitivity persists in trade in goods and services, like whether the NAFTA or General Agreement on Trade in Services (GATS) approach should be used as the framework. With Singapore securing a FTA with the US, its interest in other Latin American FTAs may be less urgent.

New Zealand, Chile and Singapore launched the Pacific Three FTA at the sidelines of the APEC Leaders' Economic Meeting in 2002. Negotiations since 2003 aiming for the FTA by 2004 for the first FTA spanning across three different continents aims to be comprehensive and forward-looking, with 98-99% of all the commitments being three-way. A differentiated approach will be used for the remainder of the obligations as this will probably be the best solution to handle sensitive dairy issues between Chile and New Zealand. The broader vision is for the FTA to be flexible enough so as to allow for other like-minded economies, such as those within the Asia Pacific Economic Cooperation (APEC) to come on board, provided they fulfill the high standards and uphold certain disciplines. These include trade in goods, rules of origin, trade remedies, customs procedures, sanitary and phytosanitary measures, technical barriers to trade, trade in services, financial services, investment, temporary entry of persons, intellectual property, competition policy, government procurement, institutional provisions, and dispute settlement and cooperation. Discussions were also held between labor and environment officials.

The Panama-Singapore FTA negotiated since 2004 covers a wide range of issues, including trade in goods, rules of origin, customs procedures, trade remedies, trade in services, financial services, maritime services, telecommunications, e-commerce, investment, government procurement, competition, institutional provisions and dispute settlement.

A Comprehensive Economic Partnership Agreement Singapore and Pakistan started in 2003. Bilateral trade and investment, spurring economic reform and contribute to the economic integration of the South Asia and Southeast Asian regions are targeted.

For all FTAs, the general principles of a general value added rule where a product qualifies for preferential treatment if at least 40% of the ex-factory or works cost is fulfilled. The concept of outsourcing procurement is recognized in all FTAs given Singapore’s extensive outsourcing activities. Each of Singapore’s FTAs goes beyond the basic tenets of liberalization to move toward deeper economic engagement. The salient features of liberalization in our FTA with the US, Japan, and Australia are worth noting.

In the US-Singapore FTA, mutual access to public telecommunication network means service suppliers from both sides have access including cable-landing stations. Robust competitive safeguards in the areas of interconnection, co-location, resale, and access to rights of way. Development of mutual recognition agreements for architects and engineers boost exchange of building and construction talent. Mutual consultations develop mutually acceptable standards for licensing and certifying professional service providers, especially architects and engineers. Easing of local requirements on professional services to spur investment and joint ventures is through recognition of law degrees from four US law schools, coupled with greater flexibility for US firms entering into joint ventures with local firms with relaxing of board of directors requirements for architectural and engineering firms, as well as capital ownership requirements for land surveying services in Singapore.

Promotion of e-commerce lies in mutual commitments to grant permanent duty-free status to products delivered electronically, as well as non-discriminatory treatment of digital products. This is the first time in trade history that e-commerce commitments are made in a trade agreement. More business opportunities from US government procurement projects are provided**.** Singapore service suppliers may bid for general government procurement projects worth more than US$56,190 and construction projects worth more than US$6,481,000 in the US. Singapore consumers enjoy a greater choice in retail banking as Singapore's quota on qualifying full bank and wholesale bank licenses for US Banks will be lifted within 1.5 and 3 years respectively, thus allowing more US banks to enter. Greater mobility for business visitors and professionals is in temporary entry for business visitors and investors for up to 90 days without need for labor market tests. The US provides an additional grant of 5,400 work visas for Singapore professionals, not subjected to labor market test or 6-year maximum limit.

From Japan, access to a traditionally conservative Japanese services market is because Japan committed an unprecedented 86% of its services sectors, as compared to 65% under the WTO. Improved commitments in key sectors include maritime transport, testing and analysis, research and development, medical and dental and education. Collaboration between Singapore and Japanese financial institutions are in initiatives to enforce securities laws on both sides, enhance liquidity of traded products, develop Asian capital markets and spark negotiations on bilateral financing arrangements among ASEAN Plus Three involving Japan, Korea and China. Greater financial investment opportunities in Japan lie in liberalization of public pension funds opens opportunities to

Singapore investment advisors. Investment trust managers may site in Japan as branches, rather than as subsidiaries, thus reducing set-up costs.

Better market access for Singapore-based businesses supplying information communication technology products and services is via liberalization of courier markets and tariff-free treatment for 21 such products. Singapore is also the first country in the world to enjoy an increased 33% foreign equity limit on Japanese telecommunications incumbent, Nippon Telegraph and Telephone Corporation (NTT). Ease of supplying telecommunication services is through the lowering of technical barriers and improved inter-operability in both countries. There will be improved interconnection services in both countries including provisions for telecommunication suppliers to provide a reference interconnection offer (RIO). Further cooperation is planned in the areas of broadband multimedia services, advanced telecommunication networks, e-government, and postal services. For mobility of business visitors and employees, there is guaranteed entry and stay in Japan for work and investment purposes so long as necessary conditions have been met. Companies in Singapore can also deploy staff to work in Japan with greater certainty.

In the Singapore-Australia FTA, greater opportunities for legal services will promote more joint law ventures and formal law alliances with Australian law firms. Stronger bilateral linkages in the financial sector bring about unimpeded transfers and processing of financial information. Provisions permit Singapore financial institutions to supply new services that previously only Australian firms could supply. Business certainty and a more level playing field are for telecommunication and e-commerce services. Telstra, the major Australian telecommunications supplier will be subjected to strong pro-competitive disciplines. There are provisions to resolve interconnection disputes within six months. On mobility of business visitors and employees, easier temporary entry into Australia through streamlined clearance procedures and business visitors permitted to enter and stay for business purposes for up to three months and intra-corporate transferees for up to 14 years are provided

4 How business and people benefit

Singapore’s network of FTAs goes beyond trade and business expansion. They are designed to support its business community in moving up the value-add ladder and knowledge chain. This is through developing an integrated manufacturing center in the region. Rules of origin in Singapore’s FTAs are designed to recognize the integrated nature of modern manufacturing in Singapore where production is outsourced to low cost centers, but initial research and development (R&D) and the final stages of high-end processing are conducted domestically.

A second aspect of Singapore’s FTAs is to nurture a knowledge-based economy through enhancement of intellectual property protection to raise Singapore's intellectual property standards to the level of sophistication found in developed economies. Greater cooperation in the area of science and technology will boost R&D in high value industries. Finally, driving a services hub is through liberalization of service sectors both at home and in the markets of its FTA partners to spur the growth of services and other creative industries. The Singapore FTA network is a tool integral to the business community’s business plans.

The ability to physically enter a foreign country is an important aspect of international trade. That is made possible under Singapore's FTAs so businessmen may be a potential investor entering a foreign market to conduct a feasibility study; an executive posted to an overseas branch of your company; or a sales person travelling to client's country to seal a commercial deal. The rights and obligations in the light of Singapore's FTAs come in with the chapter on the movement of business persons. It makes clear the immigration regulations applied in each market with regard to the temporary movement of business persons even though FTAs do not deal with measures regarding citizenship, permanent residence, or employment on a permanent basis.

The impact of FTAs on the people and businesses of the member countries can be significant in terms of enhanced trade and investment flows, and employment opportunities. For example, the Canadian Department for Foreign Affairs and International Trade has reported significant gains in trade, direct foreign investment and jobs created for Canada under NAFTA. Canada's merchandise trade with the United States increased 80% in the first five years of NAFTA, reaching US$475 billion in 1998. Canada's merchandise trade with Mexico doubled over the same period, reaching US$9 billion in 1998. Canadian exports to the US and Mexico increased 80% and 65% respectively in the first five years of NAFTA, reaching US$271.5 billion and US$1.4 billion in 1998. Investment to Canada from the US reached US$147.3 billion in 1998, up 63% from 1993. Investment to Canada from Mexico reached $464 million in 1998, tripling from 1993. Some 68% of foreign direct investment (FDI) into Canada accounted for by our NAFTA partners in 1998. More than one million new jobs created in Canada since 1 January 1994. NAFTA's temporary entry procedures facilitated travel to NAFTA markets by countless business visitors, including well over 100,000 Canadian professionals, intra-company transferees and traders/investors since 1996.

A similar story could be told of Mercosur, the third largest trading pact in the world after NAFTA and the EU. Formed in 1991, trade between the four Mercosur countries increased more than 400% from 1990 and 1997 when it reached a total of more than US$20 billion. A comparable picture for ASEAN, is however not available, but that there will be real benefits comes from the same theoretical construct of NAFTA and Mercosur.

One very significant missing ingredient is, however, no ASEAN company like Haier, no ASEAN brand as such. It is noted Indonesia as the laggard drags region down and out both by its own domestic situation and its lack of any foreign economic policy as in FTAs. It does not mean FTAs are a panacea, but doing absolutely nothing seems as empty an option. In muddling through, Indonesia's bearings or lack thereof has a tremendous image and confidence effect on ASEAN as a whole. Even China and India are probing and opening frontiers.

5 Conclusion and policy implications

This paper may fall short in fulfilling the task of evaluating the impact of regional economic integration on local and foreign investment in enterprises in ASEAN. Not only are there no ASEAN-wide studies by the ASEAN secretariat, but also individual ASEAN countries have not as much as statistics revealed for NAFTA or Mercosur. The agenda for empirical research is tremendous. In no way are such empirical evidence to be construed as good for regionalism and bilateral FTAs *per se*. The overall consensus from WTO to individual countries is that FTAs at best complement and supplement the WTO and multilateralism, not supplant them completely. WTO-consistency, WTO-plus FTAs if possible, are best for all.

Realistically, the very difficult path of the Doha Development Round and the WTO ministerial meeting in Cancun in 2003 are symptoms of the need for FTAs in whatever means to still put some optimism on to trade liberalization. The price in some possible under-cutting and even precipitating the dysfunctional state of WTO has to be realistically noted. On the other hand, having no FTAs at all does not necessarily guarantee WTO and multilateralism will get back on its feet. Politics, political economy, rather than pure economics have to be acknowledged, as economic welfare is always underpinned by the political framework of negotiation and distribution of resources and income.

The political economy in ASEAN is not easier or less than in the EU, NAFTA or Mercosur, if not more given the informal, less institutionalized ASEAN way. An immediate problem is the lack of an ASEAN will and vision whatever the rhetoric. Whether ASEAN will be hoisted by its own petard of being dubbed the most successful developing country group in economic cooperation and integration is still open to discovery. Globalization, information and communication technology, deregulation, and hyper-competition have meanwhile changed business models and strategies. In this regard, bilateral FTAs, consciously forged as a business network as in Singapore, could still be business-friendly and supporting.

Appendix 1
Free Trade Agreements, Common Markets, Customs Unions, and Other Arrangements

Andean Common Market
1969 Bolivia, Colombia, Ecuador, Peru, Venezuela

Arab Common Market
1964 Egypt, Iraq, Jordan, Lebanon, Libya, Mauritania, Syria

Arab Maghreb Union
1989 Algeria, Libya, Mauritania, Morocco, Tunisia.

Association of Caribbean States
1995 Antigua & Barbuda, Bahamas, Barbados, Belize, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guyana, Jamaica, Haiti, Honduras, Mexico, Montserrat, Nicaragua, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad & Tobago, U.K. Virgin Islands, Venezuela.

Association of Southeast Asian Nations
1967 Brunei, Indonesia, Malaysia, Philippines, Singapore, Thailand

Australia-New Zealand Closer Economic Relations Trade Agreement
1983 Australia, New Zealand.

Bangkok Agreement
1976 Bangladesh, India, Laos, South Korea, Sri Lanka.

Caribbean Common Market
1973 Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Granada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad & Tobago.

Caricom-Bolivia Free Trade Agreement
1995 Antigua & Barbuda, Bahamas, Barbados, Belize, Bolivia, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad & Tobago, Venezuela.

Caricom-Venezuela Free Trade Agreement
1994 Antigua & Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad & Tobago, Venezuela.

Central American Common Market
1960 Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua

Economic and Customs Union of Central Africa
1964 Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon

Economic Community of Central African States
1981 Burundi, Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Gabon, Rwanda, Sao Tome and Principe, Zaire.

Economic Community of West African States
1975 Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo.

Economic Partnership, Political Co-ordination and Co-operation Agreement
2000 European Union, Mexico

European Union
1957 Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom.

European Free Trade Association
1960 Iceland, Liechtenstein, Norway, Switzerland.

Group of Three
1995 Colombia, Mexico, Venezuela

Gulf Cooperation Council
1981 Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates.

Latin American Integration Association
1980 Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, Venezuela.

Mano River Union
1973 Guinea, Liberia, Sierra Leone

Mercosur (Mercosud)
1991 Argentina, Brazil, Paraguay, Uruguay

North American Free Trade Agreement
1994 Canada, Mexico, United States.

Organization of Eastern Caribbean States
1981 Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts-Nevis, St. Lucia, St. Vincent and the Grenadines.

Preferential Trade Area for Eastern and Southern African States
1981 Burundi, Comoros, Djibouti, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Rwanda, Somalia, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe.

Southern African Customs Union
1969 Botswana, Lesotho, Namibia, South Africa, Swaziland,

US-Canada Free Trade Agreement
1989 Canada, United States (absorbed into NAFTA in 1994)

US-Chile Free Trade Agreement
2004 Chile, United States

US-Israel Free Trade Agreement
1984 Israel, United States

US-Jordan Free Trade Agreement
2001 Jordan, United States

US-Singapore Free Trade Agreement
2004 Singapore, United States

West African Economic Community
1959 Benin, Burkina Faso, Cote d'Ivoire, Mali, Mauritania, Niger, Senegal

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