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Free trade agreements and Singapore

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FTAs, including Ceca, are vital to expanding Singapore's economic space

Free trade agreements (FTAs) are in the news lately. For example, India decided not to sign the Regional Comprehensive Economic Partnership Agreement (RCEP). The RCEP had been negotiated, for seven years, by 16 countries. It would have created the world's biggest free trade area.

India's decision not to join the agreement was very disappointing to India's friends, including in Singapore. We want India to play a leading role in our region. We hope that India will decide to join RCEP in the near future.

At home, some Singaporeans have attacked the free trade agreement between Singapore and India, called the Comprehensive Economic Cooperation Agreement (Ceca), concluded in 2005. The criticism is that Ceca contains a defect. The defect is that it has enabled too many Indians to work in Singapore, thereby taking jobs away from Singaporeans.

I was the leader of the Singapore delegation which negotiated the free trade agreement with the United States of America. In view of this, I would like to explain to readers:

- What is an FTA?
- Is there a difference between an FTA and a comprehensive economic partnership agreement?
- Are such agreements compatible with the World Trade Organisation (WTO)?

- What is the logic behind Singapore's FTA policy?
- How have our FTAs benefited the Singapore economy, Singapore's exporters and the people of Singapore?
- Is the criticism against Ceca valid?

FREE TRADE AND THE WTO

It is a well-known fact that Singapore's external trade is three times the size of its economy. Trade is therefore our lifeblood. The rise of Singapore and the other countries of East and South-east Asia has been due substantially to free and open trade and the international division of labour.

The international institution which governs global trade is the World Trade Organisation. The WTO has a body of laws and rules governing trade in goods and services between countries. In the event of a trade dispute, the WTO has a system of binding dispute settlement.

Singapore's allegiance to the WTO is of primary importance. We strongly support the transparent and non-discriminatory rules-based multilateral trading system embodied by the WTO. Singapore has not done and will never do anything which undermines the WTO's credibility and efficacy. On the contrary, Singapore firmly supports efforts to strengthen the efficacy and relevance of the WTO.

BILATERAL AND REGIONAL FREE TRADE AGREEMENTS

The WTO has 164 member states. The WTO works by consensus. These two facts explain why it takes a long time for the WTO to arrive at agreements. For this reason, some WTO members felt that it was necessary for like-minded countries to conclude bilateral and regional trade agreements, to complement and not to replace the WTO.

In 1996, this position was endorsed by the leaders of the Asia-Pacific Economic Cooperation (Apec) forum. Singapore has followed the principle that whatever bilateral and regional trade agreements it has negotiated must be compatible with its obligations under the WTO.

SINGAPORE'S FTA POLICY

Singapore's FTA policy was conceptualised and launched by former prime minister Goh Chok Tong and former trade minister George Yeo 20 years ago. Why did they do it?

They did it to expand Singapore's economic space. The strategy was to link our small economy to the economies of other bigger countries.

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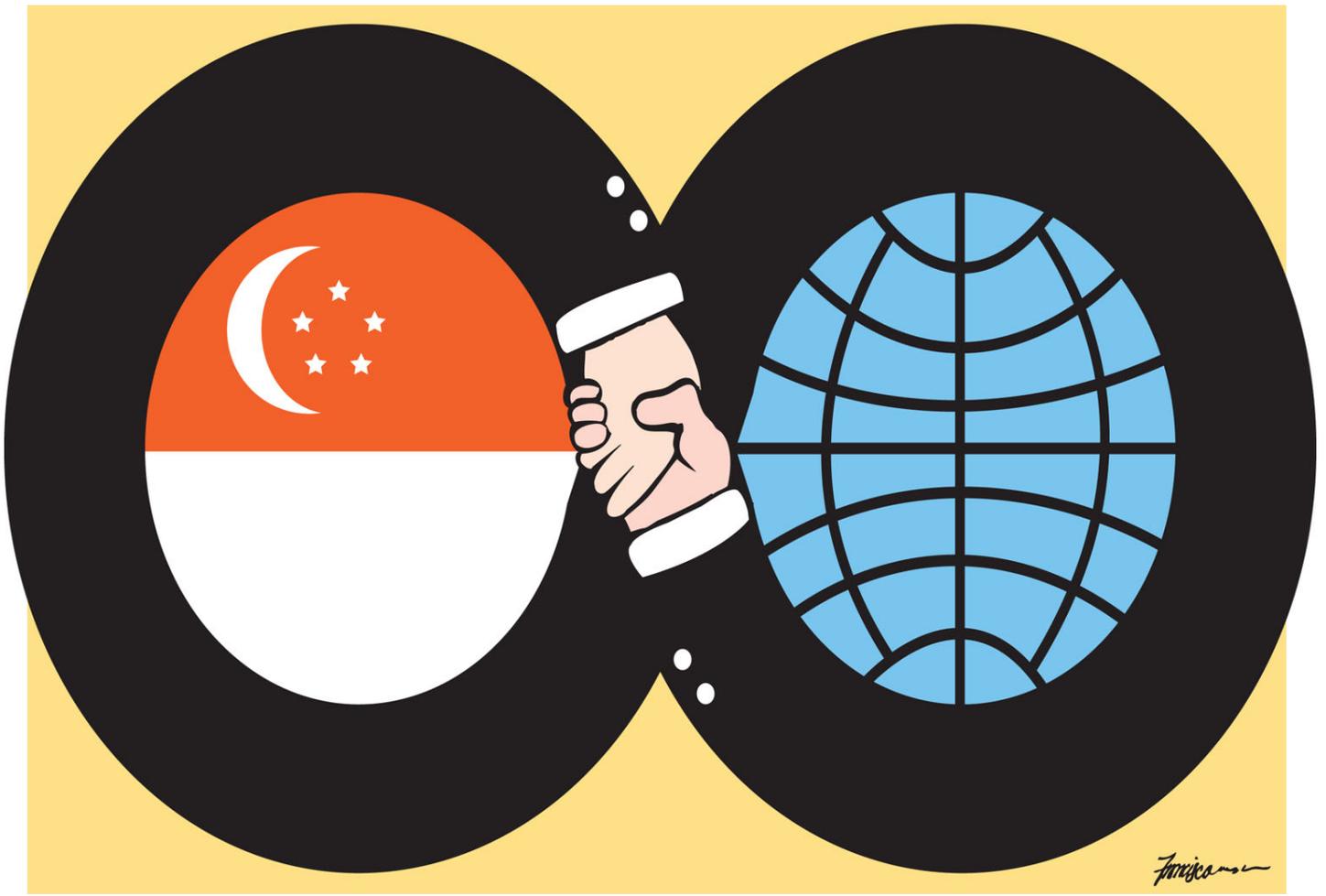
In this way, Singapore will be more deeply connected to the global supply chain and our exporters will have lower tariff or non-tariff barriers. To keep up with the progress of technology, we are expanding our FTAs into the digital sphere.

Singapore has been prolific in negotiating FTAs. To date, Singapore has concluded 13 bilateral FTAs and 12 regional FTAs. The two most recently concluded agreements are the RCEP and the agreement with the Eurasian Economic Union (Russia, Armenia, Belarus, Kazakhstan and Kyrgyzstan).

It is estimated that our FTAs are with countries that collectively account for more than 85 per cent of global gross domestic product and account for over 90 per cent of Singapore's trade. This is a very impressive achievement.

FTA AND COMPREHENSIVE ECONOMIC PARTNERSHIP

Some of our agreements are called FTAs, like the one with the US. Others are called comprehensive economic partnership or cooperation agreements, like the one with India.



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Is there any difference between them? In theory, comprehensive economic partnership or cooperation agreements are supposed to have a wider scope than FTAs. In practice, there is no difference between them. The two terms are used interchangeably.

GAINS AND LOSSES

Every FTA is the result of negotiation. In every negotiation, compromise is necessary.

Each negotiating party must be prepared to make concessions to the other party or parties. At the end of the negotiation, however, every party must have gained more than it has lost. This is possible because free trade improves efficiency and FTAs are win-win agreements. Otherwise, there would be no agreement.

This is true of the US-Singapore FTA and the India-Singapore Ceca.

BENEFITS OF THE US-SINGAPORE FTA

How has the US-Singapore FTA benefitted Singapore?

First, it has enabled Singapore's exporters to gain tariff-free access to the US market of 330 million consumers.

Second, it is not sufficiently known that the US has more investments in Singapore than it has in any other Asian country and more than the US investments in China, India and South Korea, combined. The primary attraction is that Singapore has the best intellectual property rights regime in Asia. The US investment has created many good jobs for Singaporeans.

Third, there are 4,500 US companies that have established factories or regional headquarters in Singapore. This has also created jobs for Singaporeans and benefits to our economy.

ANY LOSSES FOR SINGAPORE?

Did Singapore make any concessions to the US which it would not have done without the FTA? I can think of two.

First, the term of copyright has been extended from the life of the author plus 50 years to 70 years.

Second, Singapore would not have created a special category of medicated chewing gum, in order to satisfy the US manufacturer of chewing gums, Wrigley, in the absence of the FTA.

However, these are small concessions compared with the many gains for Singapore.

INDIA-SINGAPORE CECA

How has the Ceca benefited Singapore? It has benefited Singapore in the following ways:

- Eliminated most tariff barriers to access the Indian market;
- Enabled DBS Bank and United Overseas Bank to provide integrated banking services in India;
- Allows Singapore companies in sectors such as infrastructure, logistics and manufacturing to invest in India with greater confidence due to Ceca's provisions on intellectual property rights and dispute settlement.

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In 2016, India accused Singapore of not honouring its commitment under Ceca by blocking Indian IT professionals from securing the necessary work passes to work in Singapore. The issue was discussed during the second review of Ceca, which was concluded in June last year. The two governments decided not to make any changes to the chapter on the movement of people.

This issue is politically sensitive in both India and Singapore.

The Indian government is under pressure from its domestic constituency to ensure that Indian professionals are fairly treated. The Singapore Government is under pressure from its domestic constituency to ensure that there is fair competition for jobs and that Singaporean job seekers are not discriminated against.

Ceca does not guarantee Indian professionals jobs in Singapore nor preferential treatment over Singaporeans. What Ceca confers is for intra-company transferees and professionals from India to work in Singapore for specified durations, provided that they meet our work-pass qualifying criteria.

CONCLUSION

I shall conclude with the following three propositions.

First, Singapore lives by trade and, for this reason, attaches the greatest importance to the WTO.

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Second, Singapore has pursued a proactive policy of negotiating bilateral and regional FTAs with other economies. The aim is to expand Singapore's economic space and to enable our exporters to gain preferential treatment, including tariff-free access, to overseas markets, including those of the US, China, Japan, the European Union, India, etc.

Third, Ceca has brought many benefits to Singapore and to India. India is a talent surplus country and Singapore is a talent deficit country.

As long as the import of Indian talent is to fill the gap and not to displace Singaporeans, this is a plus for both countries.

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