

A REVIEW OF THE US-SINGAPORE FREE TRADE AGREEMENT*

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1. Introduction

Bilateral and regional trade agreements have taken off in a major way around the world and Asia as a region is in the forefront of FTA activity having the most number of agreements either concluded or in the pipeline compared to the other regions.

Singapore was one of the earliest countries which pursued the bilateralism path as a major instrument of its commercial trade strategy by engaging in Free Trade Agreements (FTAs) with its trading partners around the world. And it is also the most active, chalking up more FTAs than any countries, certainly in Asia. It was the first in the region to sign an FTA with the United States and the FTA is often regarded as a model of a successful agreement as the US' attempts with a number of other Asian countries, namely South Korea, Thailand and Malaysia remained unfulfilled.

However, the agreement was a cause of concern among other Associated of South-East Asian Nations (ASEAN) members worried of trade and investment diversions from the region and the effects it would have on regional cooperation. For the US, the FTA had sparked debate over whether the US should pursue such bilateral agreements rather than maintaining existing trade and investment practices on both sides or pursue greater liberalization of trade relations through regional or multilateral forums.

The US-Singapore FTA (USSFTA) which came into effect in January 2004 is also significant in terms of scope. It encompasses provisions that are often not part of conventional bilateral trade agreements such as intellectual property rights, investment, government procurement, labour and environment, most of which are topics that are not covered or discussed in the World Trade Organisation (WTO). For both countries, the FTA was motivated by both economic and strategic interests. The USSFTA has the potential to encourage others in South-East Asia, fearing of being left out, to take the leap towards

opening their economies by concluding FTAs with the US. Some did but it has proved to be much more difficult than had anticipated.

This paper attempts to provide a general overview of Singapore's trade policy in relation to its move towards bilateral and regional FTAs. It will focus on the USSFTA and its effects five years after with a view of drawing some lessons from Singapore's experience with the world's largest economy.

2. Rationale and Development of Singapore's FTA Policy

Singapore is South-East Asia's most advanced country and relies heavily on international trade for its growth and prosperity. To this end, it is perhaps one of the most open trading nations in Asia. It also possesses the region's most impressive state-managed economic bureaucracy and is South-East Asia's premier entreport hub economy through which around half of ASEAN's trade passes. Its industrialization strategy has been principally based on attracting increasingly technology-intensive investments from foreign multinational companies (MNCs) who use the city-state as a platform from which to export to other markets in East Asia, and also worldwide. Besides being a regional hub, Singapore is also a host for regional MNCs headquarters and for the research, development and design centre activity for foreign MNCs. Securing FTAs with major trade partners is part of the same strategy that would also enable the country's foreign MNCs to export their Singapore-made products tariff-free to other FTA partner markets. Being a highly trade and foreign direct investment (FDI)-dependent economy, with one of the highest trade to gross domestic product ratio in the world, understandably, the country has been a strong advocate for free trade at both regional and international levels (Dent 2006; Lee 2006).

Ever since its independence in the 1960s, Singapore has adopted a "distant horizon", strategic approach in formulating the city-state's foreign economic policy. This relates both to the long-term as well as the geo-economic perspectives which in turn is based on Singapore's development and security interest. Singapore's deep security complex derives from the city-state's long-perceived, inherent vulnerability within its regional situation. Although advanced and prosperous, the city-state is a small economy with very limited

natural resources or economic hinterland and has experienced periods of difficult political diplomacy with its two much larger neighbours Malaysia and Indonesia. Cultivating economic security linkages with key trade partners outside the region – whether through FTAs most recently or by other means (eg. Inward foreign investment) – has been an important geo-strategic objective of Singapore’s foreign economic policy and the government sees these as further advancing the city-state’s economic prosperity (Dent 2006).

In this context, it has entered into deals with the largest trading Asian partners, such as, China, India, Japan and South Korea and others outside the region such as the US, Europe and Australia. Smaller economies are also not to be missed and agreements have been signed with countries such as Bahrain, Kuwait and Costa Rica.

Table 1: List of Singapore FTAs

Concluded	Under negotiations	Proposed/under consultation/study
ASEAN Free Trade Area (1993) ASEAN-Australia-New Zealand (2010) ASEAN-China (2010) ASEAN-India (2010) ASEAN-Japan (2009) ASEAN-Korea (2007) Australia (2003) China (2009) Costa Rica (2010) Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates) (2008) India (2005) Japan (2002) Jordan (2005) Korea (2006) New Zealand (2001) Peru (2009) Panama (2006) Trans-Pacific Strategic Economic Partnership Agreement (2006) United States (2004) European Free Trade	ASEAN-EU (2007) Canada (2002) Egypt (2006) Mexico (2000) Pakistan (2005) Ukraine (2007)	Chile Comprehensive Economic East Asia Free Trade (ASEAN+3) Economic Partnership for East Asia (CEPEA/ASEAN+6) Morocco South African Customs Union (SACU) Sri Lanka Taipei, China

Association-Singapore FTA (2003)		
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Source: *Singapore's Ministry of Trade and Industry; ADB FTA database; Kawai (2007)*

Singapore is by far the most active Asian economy in terms of the number and geographic coverage of FTAs. By April 2010, it has completed 20 agreements, six under negotiations while seven have been proposed or under consultation/study (Table 1). Its aggressive pursuit is in tandem with Asia's growing emphasis on FTAs as a trade policy instrument in the late 1990s and the region is today at the forefront of world FTA activity. The importance of FTAs is significant as nearly 60% of Singapore's total trade are with FTA partners (Kawai and Wignaraja 2009).

Singapore's FTAs tend to go beyond the conventional trade agreements of tariff reduction but are wide-ranging regimes incorporating non-traditional issues of investment, government procurement, competition policy, intellectual property rights (IPRs) most of which are outside the ambit of the WTO or what is known as WTO-plus issues. But WTO-plus agreements and new age FTAs, which are comprehensive FTAs, are also becoming more common globally. These are issues that the developed countries in the WTO have tried to push for their inclusion in the WTO but failed and are now being included in their bilateral and regional agreements. WTO-plus agreements are mostly between developed and developing countries but Singapore also strongly favours a WTO-plus approach to FTAs even with its agreements with many developing countries (India, China, Panama and Peru) thus behaving like a developed country in its agreement with many developing countries.

Though Singapore subscribes to free trade and multilateralism to safeguard and insure a free and open international trading environment, it is also conscious of the global political economy issues and difficulties (Low 2006). The trend towards bilateralism and regionalism stemmed from a combination of reasons including the dismal prospects for progress in liberalisation at the international (ie. WTO and regional levels - ASEAN and ASEAN Free Trade Agreement). To some observers (Desker 2004), the bilateral and regional route was a pragmatic decision given the frustration over the multilateral process even though it is a second best option over multilateral trade liberalisation.

Bilateral FTAs are also seen as a competitive response to China's rising economic power. The government is particularly concerned that China's growing techno-industrial capacity and its attraction of FDI, particularly those that relate to higher-technology production. But equally important is that Singapore was also worried that it will lose more value-adding corporate functions, such as research & development centres and regional headquarters of MNCs on the island-state. FTAs, therefore, are central to the government's strategy to retain and attract high value-added foreign investment from lower-cost countries (Dent 2006).

The shift in the Singapore government's trade policy may have been motivated by the perceived substantial gains made by other regional FTAs such as the North American Free Trade Agreement (NAFTA) in the 1990s and the possibility that FTAs with other countries in the region will be more beneficial than AFTA. During the 1990s, trade conducted under regional FTAs increased from 22% in 1955 to 66% in 1997. A study has shown that the economic benefits under AFTA are unlikely to be substantial for Singapore compared to other countries in the region. This is hardly surprising given that Singapore already has low tariff barriers while the others still have room to reduce their tariff and non-tariff barriers. Another study found that bilateral FTAs with other countries outside the region could potentially bring substantial economic gains to Singapore. It projected the cumulative effects of various FTAs on the Singaporean economy from 1995-2010 to range from \$3.98 billion to \$16.5 billion (Lee 2006).

The 1997 Asian financial crisis also served as an impetus for the country to seek FTAs as part of its trade policy in order to prevent being hit by future regional turmoil. During the crisis, it was further frustrated by the slow and inability of countries in South-East Asia to come together to resolve the crisis. As a result, it decided to broaden its trading base to serve as a buffer in the event the region is hit by another crisis.

The transition made by the government towards bilateralism has been a smooth process overall, unlike in many other countries in the region where strong and sometimes bitter oppositions have emerged. Strong political leadership of former Prime Minister Goh Chok Tong and institutional strength of the Ministry of Trade and Industry were said to have been

essential in making the policy move to bilateralism, reflecting the highly centralised nature of political leadership in Singapore. Domestic interest groups and foreign business, nonetheless, played important but secondary roles. The lack of societal pressure also allows for the Singapore government to push forward its policy with ease. This may be due to the lack of serious attempts to prevent the government from seeking FTAs. On the other hand, since government-link corporations (GLCs) are major players in many sectors of the Singaporean economy, the government is in good position to impose its policy preferences on key issues related to foreign economic policy. Another reason may be that the government have pre-empted any resistance by introducing measures that reduce the potential negative effects of the FTAs on sectors that may be affected to curtail potential oppositions (Lee 2006).

The reasons why countries in the region sign with Singapore is because it is seen as an easy country to negotiate with given its small size and therefore limited competitive threat to local industries, a virtually non-existent agricultural sector (no threat to domestic farmers) and open commercial regime (not many difficult protectionist barriers to negotiate) (Dent 2006).

Singapore's move towards multidirectional FTA strategy has raised some eyebrows among neighbouring countries who are worried that the FTAs would be used as a backdoor to ASEAN's markets. But as a survival strategy for a small, open country like Singapore in the context of ASEAN and the various hybrids of ASEAN and Asian bilateral FTAs, its aggressive pace of bilateral FTAs seemed justified and necessary, whether the principle is acceptable or shared by its other ASEAN and Asian partners, is another matter (Low 2006).

However, not to be left out, Singapore's bilateral activism has triggered its neighbours in ASEAN, China, Japan, South Korea, to do the same, some of whom had previously criticised Singapore's FTA engagements with non-ASEAN members. These webs of agreements are seen as distorting trade towards bilaterals. Added to the maze of FTAs is the rise of what is called the "noodle bowl" phenomenon of multiple complex interlocking is the Trans-Pacific Partnership (TPP) of which Singapore is a party. It is seen as a platform to rope in countries in the Asia-Pacific with the aim of building a region-wide free trade area.

3. Rationale and Development of US-Singapore FTA (USSFTA)

3.1 Background

Singapore is one of the closest allies of the US in South-East Asia and both countries share strong trade and security relations. Prior to the USSFTA, Singapore was the eleventh largest trading partner of the United States of America. The US, on the other hand is the second largest trading partner of Singapore (Nanto 2003a). In 2001, the total trade between the two countries amounted to \$93 billion and this constituted 15.9% of the total trade of Singapore.

The US generally runs a surplus in services trade with Singapore. In bilateral trade by sectors, the US runs surpluses with Singapore in aircraft, plastic, instruments, chemical products, and aluminium. The US incurs deficits with Singapore in electrical machinery, knit and woven apparel, special other repaired products, and organic chemicals, among others. Nearly all products from the US enjoy tariff-free status into Singapore, except beer and certain alcoholic beverages which are subject to import tariffs. These are aimed at discouraging consumption for environmental and health purposes. The government also bans chewing gum, one of the issues that proved to be highly charged in the course of the negotiations, at times holding back its conclusion. Due to pressure from American companies and the US negotiators, Singapore eventually gave way and partially lifted the ban, allowing its sale for health and therapeutic purposes.

Singapore generally has an open investment regime. American companies have a strong presence with about 1600 companies located in Singapore. Many use Singapore as their regional headquarters and base to export around the world. Most are concentrated in manufacturing (notably industrial machinery and equipment and electronics), finance, and petroleum. Much of Singapore's investments in the US, on the other hand, have been in real estate, wholesale trade, machinery industries, and depository institutions (Nanto 2003a).

Under the FTA, all imports from the US (99% of which already enjoy zero tariffs), will be completely tariff-free with immediate effect while the US is committed to remove 92% of current tariffs on Singapore exports to the US will be phased out within the first four years and almost all within eight years (Tongzon 2007). More importantly for the long run, the bilateral FTA ensured that Singapore will not impose duties on future US products that are not currently included but that will constitute the cutting edge and eventually the bulk of US-Singapore trade (Feinberg 2006).

Apart from the elimination of tariff barriers, the USSFTA includes trade in services, rules of origin, customs administration, telecommunications, e-commerce, investment, competition policy, government procurement, IPR, dispute settlement, temporary visa entry, labour and environment.¹

Since Singapore's merchandise trade already is virtually free, the US focused on removing Singaporean restrictions on a wide range of services. These included high-technology sectors, such as engineering, medical, information technology, environmental, legal, financial, education, and distribution (Nanto 2003b).

The areas that posed difficulties to negotiators were textile trade (including rules of origin, customs, and transshipments), banking, and investment issues. One investment issue was how to approach investor-to-state dispute settlements and the standards for what constitutes a regulatory taking in the FTA. Investor-to-state mechanisms allow companies and individuals to sue the government over regulations that deprive investors of rights to their property. Access by US banks to Singapore's retail banking sector and limits on the operations of professionals (lawyers, architects, etc.) also were negotiated. A number of concessions were made that allow US banks to expand their current retail banking operations and gain some access to protected automated banking networks, as well as provisions for greater US participation in securities, investment management, and insurance industries. In legal services, there are provisions in the FTA that will make it easier for US law firms to operate joint ventures with Singapore firms.

The FTA also includes an Integrated Sourcing Initiative that is to extend some of the benefits of the FTA to the nearby Indonesian islands of Batam and Bintan. Under this scheme, firms based in industrial parks on these two islands could dispatch components to Singapore for final production and be considered as made in Singapore, therefore are eligible for preferences offered in the USSFTA. This is important for Singapore, as about 70% of the 700 foreign companies on the islands are Singapore-based, and most of them are involved in information technology and electronics production as part of wider regional production networks operating in South-East and East Asia (Dent 2006).

The textile issue includes concerns that Singapore's increased access to US textile markets could encourage the transshipment of apparel from neighbouring countries through Singapore or other claims of Singapore as the country of origin to circumvent US import tariffs and/or quotas. The US was also worried about competition from Singapore exporters and wanted to maintain strong protectionist measures in the sector.

The USSFTA was particularly significant in that Singapore managed to retain its rights to use capital control as part of its national economic security. Following the Asian financial crisis in the 1990s, countries such as Singapore are acutely aware of the need to restrict in the event of a crisis, "hot money" or short-term capital flows, which were driven by speculation and could be very large. The US had wanted Singapore to completely relinquish its capital controls measures. After much protracted negotiations, the USSFTA finally included a provision whereby the Monetary Authority of Singapore would not be liable for claims by US investors if its capital controls lasted for less than a year and did not "substantially impede transfers". This only applied to capital transactions such as portfolio investments and inter-bank loans, but not to repatriated profits, dividend payments or proceeds from direct investments. Considering that a number of countries which have signed an FTA with the US had ceded their rights to emergency controls, this was quite an achievement on the part of Singapore (Nanto 2003b; Dent 2006).

3.2 The Birth and Rationale of the USSFTA

The actual proposal for the FTA was first brought up during discussions between then Singapore Prime Minister Goh Chok Tong and former US President Bill Clinton in 2000 during the Asia-Pacific Economic Cooperation (APEC) summit in Brunei. This was followed by the first round of talks two weeks later. Subsequent rounds of meetings were held to hammer out the details of the agreement and after much tensions and differences over some contentious issues, an agreement was reached in December 2003 (see Koh and Chang 2004 and Dent 2006 for more details on the negotiating process).

Both the economic and strategic motivations are played out in the USSFTA. Though Singapore has a robust trade relations with the US, since 1997 trade between the US and Singapore has steadily decreased and by 2001 Malaysia overtook the US as the number one trading partner. This trend continued into 2002 when trade fell by \$6.9 billion. The Singapore government was hoping to reverse the trend and to gain loss grounds when the effects of the USSFTA materialises (Lee 2006). On the strategic front, Singapore's chief negotiator to the USFTA Tommy Koh made clear that the FTA is far from just securing tariff-free entry of Singapore's exports to the US market or attracting FDI to the republic. It is to "entrench the presense of the US in the region because it underpins the security of the whole Asia-Pacific region." (Koh and Chang 2004) The Septem 11 terrorist attack in the US added a new strategic dimension to the USSFTA process which led some observers to believe that Singapore's strong support for the former US President George Bush administration's stance on terrorism and the Iraq war speeded up the USSFTA project over other FTAs the US was involved with (Dent 2006).

For the US, Singapore is also important economically as well as strategically. US is Singapore's largest foreign direct investor, while Singapore is the second largest Asian investor in the United States after Japan. Therefore, the US has a substantial stake in the country. Also an FTA with Singapore could serve as a template and set the standard for US in its negotiations with other Asian countries and for it to further strengthen its foothold in the region. The US-Malaysia FTA is a case in point. Though talks have stalled the template for the FTA follows closely that of the USSFTA.

4. Singapore-US FTA, five years on

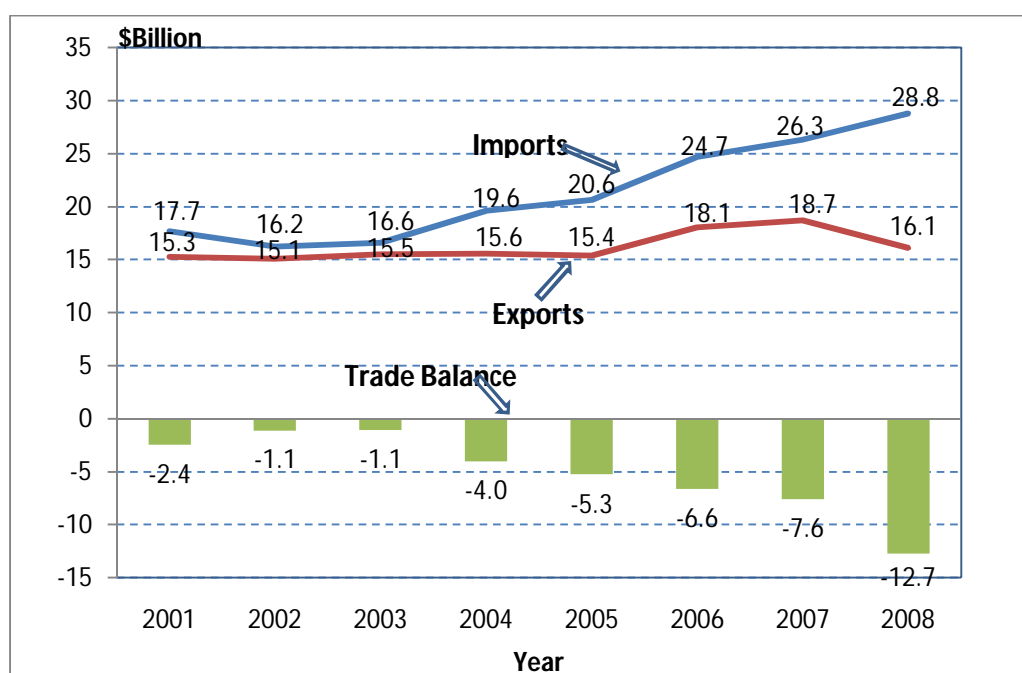
This section aims to provide a general assessment of the US-Singapore FTA since it came into effect in January 2004. It is not intended to give a comprehensive analysis but attempts to indicate the general direction in terms of a selected key economic impact of the FTA. ²

4.1 Trade in Goods and Services

4.1.1 Merchandise Trade

The USSFTA has over the years increased trade between the two countries as the volume of merchandise trade has consistently shown an upward trend. This may suggest that though Singapore has generally operated on a free trade mode, the FTA has further opened up markets in Singapore to the US. Under the FTA, all of Singapore's exports will enjoy duty-free treatment. Though exports from Singapore to the US has increased steadily since 2003 (except in 2008), it has been at a rate slower than imports. This is shown in the balance of trade which has increasingly favour the US. Prior to the FTA, Singapore recorded a merchandise trade deficit of S\$1.1 billion in 2003 with the US but this figure ballooned to \$12.7 billion in 2008 (Fig. 1).

Figure 1. Singapore Merchandise Exports to, Imports from, and Trade Balance with US



Source: International Monetary Fund

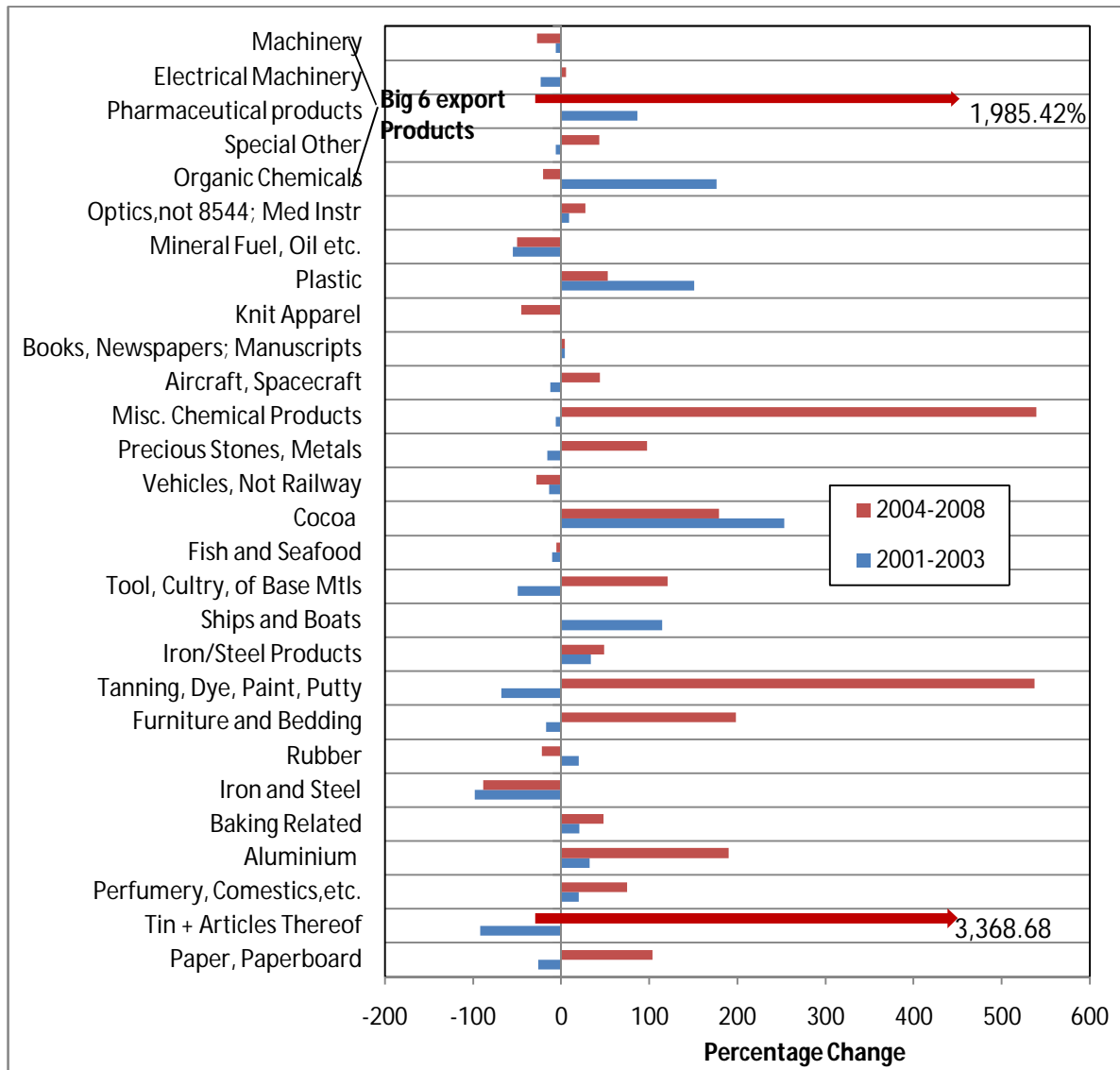
But despite the increase in trade and the US still being a major export destination for Singapore, it's importance has slipped from being second top export destination in 2001 to the fifth in 2008. Similarly, the share of exports for major trading partners such as Malaysia, Japan, Thailand has also decreased while those of China, Hong Kong and the rest of the world has risen. This may suggest that though traditional markets remain important as export destinations, Singapore is also expanding its trade into other markets (Table 2).

Table 2. Singapore's Export Market Shares
(percent)

Rank	Export Source	2001	2008
1	Malaysia	17.3	12.1
2	Indonesia(Est.)	10.6	10.5
3	Hong Kong	8.9	10.3
4	China	4.4	9.2
5	United States	15.4	7.1
6	Japan	7.7	4.9
7	Australia	2.6	4.1
8	Thailand	4.4	3.9
9	South Korea	3.8	3.6
	Rest of world	24.9	34.3

Source: International Enterprise Singapore

Figure 2. Growth in Singapore Exports to U.S. by 2-Digit Harmonized System Sectors



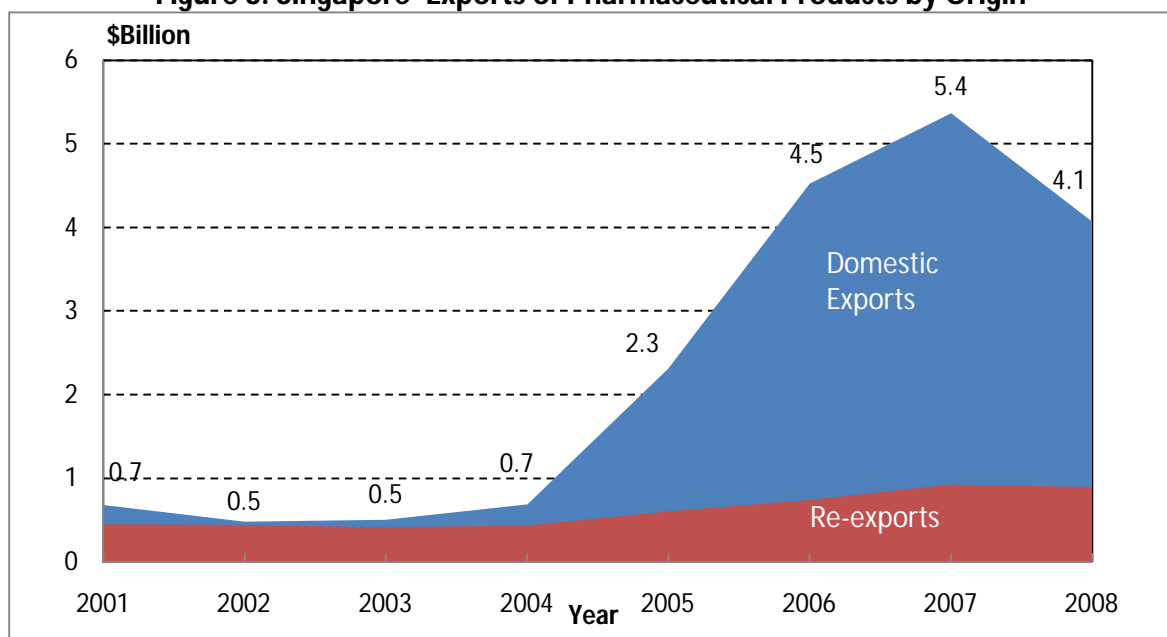
Source: UN Comtrade

Pharmaceuticals exports has emerged as a major export item following the USSFTA, and has grown tremendously over the last few years, from \$126.3 million (US\$91.8 million) in 2004 to \$2.6 billion (US\$1.9 billion) in 2008, an increase of nearly 2000 (Fig. 2; Table 3). It ranked third in 2008 among Singapore’s exports to the US, behind machinery and electrical machinery and together they account for more than half of total exports from Singapore. It must be noted that most are exports from MNCs which includes those from the US. To what extend the reduction in US tariffs under the FTA has contributed to the jump in pharmaceutical exports is unclear as it has been pointed out that such products already enter US duty free even prior to the FTA. But the USSFTA has led to policy reforms such

legislative changes that include the strengthening of the IPR regime. As a result, a number of US companies have relocated to Singapore such as Pfizer's \$479 million multi-purpose active pharmaceutical ingredient manufacturing facility.³

Concurrently, Singapore has also been pushing to develop itself into a regional center for multinational pharmaceutical companies — both for manufacturing and for research and development that include setting up of biomedical facilities aside from IPR reforms (Nanto 2008). This has shown results as the city-state is increasingly becoming a base for both regional and global pharmaceutical production for a growing number of multinational companies. Much of the production is for export, particularly to the US and Europe. Singapore is also a major importer of pharmaceuticals from other Asian countries for re-export. Before the FTA, a sizable proportion of Singapore's pharmaceutical exports were transshipments from other countries. Though such re-exports continue to increase, they are now far-exceeded by exports of domestic production (Fig. 3).

Figure 3. Singapore' Exports of Pharmaceutical Products by Origin



Source: *International Enterprise Singapore*

The country's manufacturers and exporters have gained a competitive edge through tariff savings and from a harmonization of customs rules and procedures. Under the USSFTA, US importers saved 3% on import duties previously imposed on electronic packaging. This benefited small and medium-sized enterprises (SMEs) such as Dou Yee Enterprises as the

scrapping of the 3% import tariff for the company's products has made them more price competitive, resulting in an increased in orders from their US customers.⁴

Another beneficiary is Rayco Technologies which manufactures customized precision elastomer (a material with the elastic properties of natural rubber) which is used in the Automotive and Aerospace, Data and Mobile Storage, Medical and Electronics industries. As a result of the USSFTA, US importers were spared the 0.21% Merchandise Processing Fee, thus reducing their business cost, making imports from Singapore more attractive.⁵

Textiles and apparel was one of the most politically sensitive areas for the US as it wanted to maintain its protection in the sector. The US insisted that Singapore apply the "yard forward rule" to quality for immediate duty-free entry into the US. The rule states that textiles and apparel from Singapore must be made from yarn sourced from the republic and/or the US with limited exceptions. This means that US yarn has to be used eventhough most cost effective yarn or fabric sourced elsewhere are available. Singapore agreed thinking that the savings from the zero tariff (it was facing US tariff of bet 10-33% prior to the FTA) would absorb part of the increased cost of sourcing the yarn from the US. Singapore also agreed to reduce all remaining tariffs on US imports to zero percent. (Khor 2008; Koh 2004) Over the 2004-2008 period, Singapore's exports of knit and woven apparels did not increase but have fallen. In 2008, the US posted a surplus in woven apparels (Tables 3 and 4).

Singapore's Imports from the US

Singapore's imports from the US have been showing a sharp upward trend since 2003 and though exports have been increasing, the balance of trade has widened significantly in favor of the US. The main US imports are machinery, electrical machinery, aircraft and spacecraft and mineral fuel and oil (Table 4).

Though Singapore has increased its imports from the US substantially, the US share of total imports has declined from 16.4% in 2001 to 11.9% in 2008 (Fig. 4; Table 5). The share of imports from Malaysia and Japan have also fallen during this period while that of China, Taiwan, South Korea and Saudi Arabia have risen, suggesting that Singapore is looking

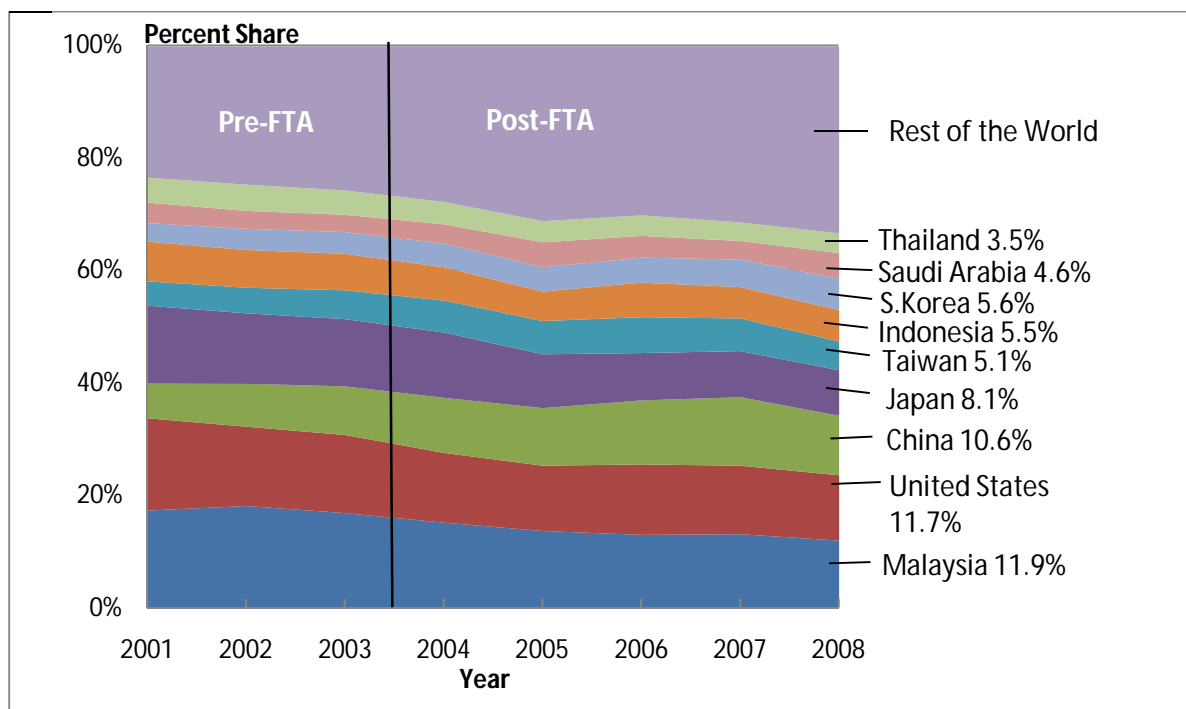
beyond its traditional import sources towards China and Taiwan and other countries outside the region. While Malaysia and the US remain the top two major sources of imports, China has overtaken Japan and by 2008, is ranked third among Singapore's import markets.

Table 5. Singapore's Import Market Shares
(percent)

Rank	Import Source	2001	2008
1	Malaysia	17.3	11.9
2	United States	16.4	11.7
3	China	6.2	10.6
4	Japan	13.9	8.1
5	Taiwan	4.3	5.1
6	Indonesia (Est.)	7.1	5.5
7	Korea, South	3.3	5.6
8	Saudi Arabia	3.6	4.6
9	Thailand	4.4	3.5
	Rest of world	23.4	33.3

Source: International Enterprise Singapore

Figure 4. Singapore's Imports by Major Country Shares



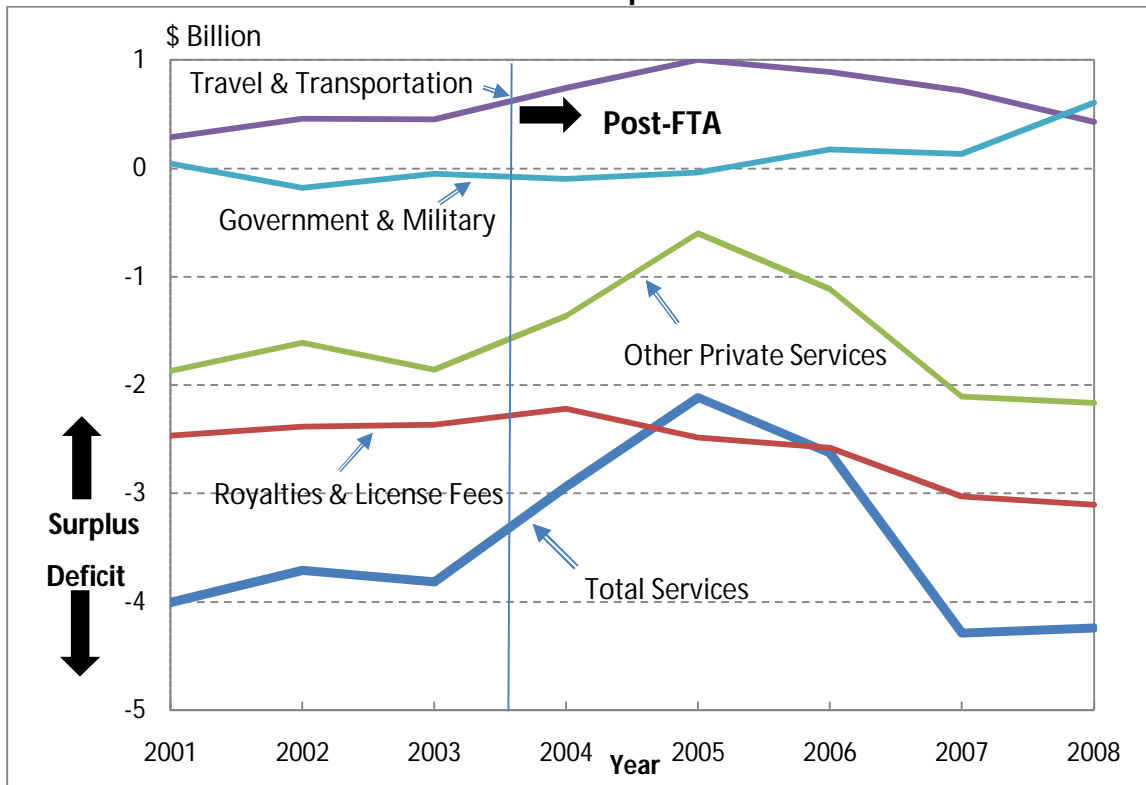
Source: International Enterprise Singapore

4.1.2 Trade in Services

US businesses believe that the greatest effect from the USSFTA is the potential of increased access to Singapore's market in services, which is also a key sector in Singapore's economy. Unlike merchandise trade the financial sector was not as open. Thus, it was understood during the negotiations of the agreement that the US would lower its tariffs and other restrictions on merchandise trade in exchange for Singapore liberalizing access to its services sector, with financial services being the key component (Koh 2004).

Singapore has traditionally run a deficit in its overall balance of trade in services with the US, but this deficit shrank from \$4 billion in 2001 to \$2.1 billion in 2005 before increasing in subsequent years and by 2008 it reached slightly below the level it was in 2001 (Fig. 5). Among the four components of the services trade, travel and transportation, has largely remained in the surplus though the size varies over the years. Transportation accounts for most of it, especially shipping, and the rest are passenger fares and travel. Government and military transactions, came out of the red in 2006 and posted a surplus of \$170 million, and increased to \$610 million in 2008. In royalties and license fees, the deficit deepened over the years from \$2.5 billion in 2001 to \$3.1 billion in 2008. The deterioration could be partly the result of increased fee for intellectual property attributed to the strengthened IP protection in Singapore resulting from the FTA (Nanto 2008).

Figure 5. Singapore Balance of Trade with US in Services and Its Components



Source: US Bureau of Economic Analysis

With regards to financial services, the USSFTA has speeded up the banking liberalisation programme that was started in 1990s. Under the USSFTA, the Singapore government lifted the ban on new licences for full-service and wholesale US banks. US banks with subsidiaries in Singapore were given full access to Singapore's domestic banking market. The increased competition has spurred the existing Singapore banks to improve their capabilities, service standards and expand into new activities and new international markets. The Singapore banks have maintained their strong presence in the Singapore domestic market, but are now more competitive and internationally diversified.⁶

But a US government report stated that despite liberalization, US and other foreign banks in the domestic retail banking sector still face barriers such as constraints on customer service locations or access to the local ATM (automated teller machines) network. Holders of credit cards issued locally by foreign banks or other financial institutions cannot access their accounts through the local ATM networks. They are also unable to access their accounts for cash withdrawals, transfers or bill payments at ATMs operated by banks other than those

operated by their own bank or at foreign banks' shared ATM network. Nevertheless, full-service foreign banks have made significant inroads in other retail banking areas, such as credit cards and personal and housing loans.⁷

In legal services, Singapore has in the past few years relaxed its rules on foreigners practicing law in the republic to address perceived shortage of practicing lawyers although restrictions remain in certain areas including criminal law, family law, and domestic litigation. US and other foreign lawyers have been allowed to represent parties in arbitration in Singapore without the need for a Singapore attorney to be present. US law firms can provide legal services with respect to Singapore law provided it is through a joint venture or formal alliance with a Singapore law firm.

Law degrees from Harvard, Columbia, University of Michigan and New York University are now recognised for admission to the Singapore bar. This has given Singaporean students a wider choice of universities to study law, as well as allowed Singapore-based firms to recruit talent from a broader catchment.

At the same time, Singapore companies now have guaranteed access to the US market in several service sectors, such as telecommunications. The USSFTA has also eased travel by Singapore's investors and employees of Singapore's companies to the US and to stay in the US for extended periods.⁸

4.2 Investment

Companies from both countries have also taken the opportunity created by market access and reduction in tariffs coupled with a conducive business environment to invest in each other's shores. US investment following the USSFTA grew yearly from \$5.4 billion in 2003 to \$13.4 billion in 2007 before slowing down in the subsequent two years which could be attributed to the economic downturn (Table 6). Nonetheless, the country remains a major investor being the largest investor in Singapore in 2008.

Major companies that have invested in Singapore include US-based biotech giant Genentech, now a wholly-owned subsidiary of Swiss company Roche.⁹ It has opened a new complex in Singapore in the Tuas Biomedical Park that houses a \$290 million biologics manufacturing facility to produce drug substance for Avastin, as well as invested in a new facility to produce drugs such as Lucentis, which is used to treat a form of blindness. This gives an added boost to Singapore's biomedical and pharmaceutical sector.

In 2004, Motorola established its 3G research & development centre in Singapore. This facility is the company's first in the world to have a full value-chain of activities in a single location on the 3G front churning out 3G phones for markets in South-East Asia, Australia, New Zealand, Taiwan, Europe and the US.¹⁰

Another example is Reed HyCalog's (a division of Grant Prideco, a leading oilfield equipment manufacturer) \$22 million investment in its manufacturing operations. This move was encouraged by the tariff savings from the immediate elimination of 5% duty for drill bits under the USSFTA (coupled with lower production costs in Singapore). While some of these investments were motivated by the US market, others came to take advantage of the FTA's access to other countries. A US company based in Utah, Huntsman, has invested US\$35 million in Singapore on its first manufacturing facility to produce polyetheramine (used in fuel and lubricant additives, herbicides and pesticides) aimed at the Asia-Pacific, including Australia.

Singaporean companies have also taken advantage of the opportunities presented by the USSFTA to invest in the US. The FTA also opened new sectors in the US economy, such as government procurement. Investment from Singapore rose in the first few years from \$348 million in 2004 to \$5.6 billion in 2007 before sliding back sharply in subsequent years. (Table 6) One of the Singapore companies which benefited is Bodynits International, a contract manufacturer for active fitness apparel, whose customers include major global brands such as Adidas, Fila, Nike and Puma. The FTA allows the companies' buyers to gain in tariff savings under the tariff preferential scheme. As a result, Bodynits International's products have become more price-competitive as compared to those manufactured by companies

from other countries and this has boosted its exports. Without the scheme, Bodynits International's synthetic fabrics garments would be subject to a duty of up to 33 percent.¹¹

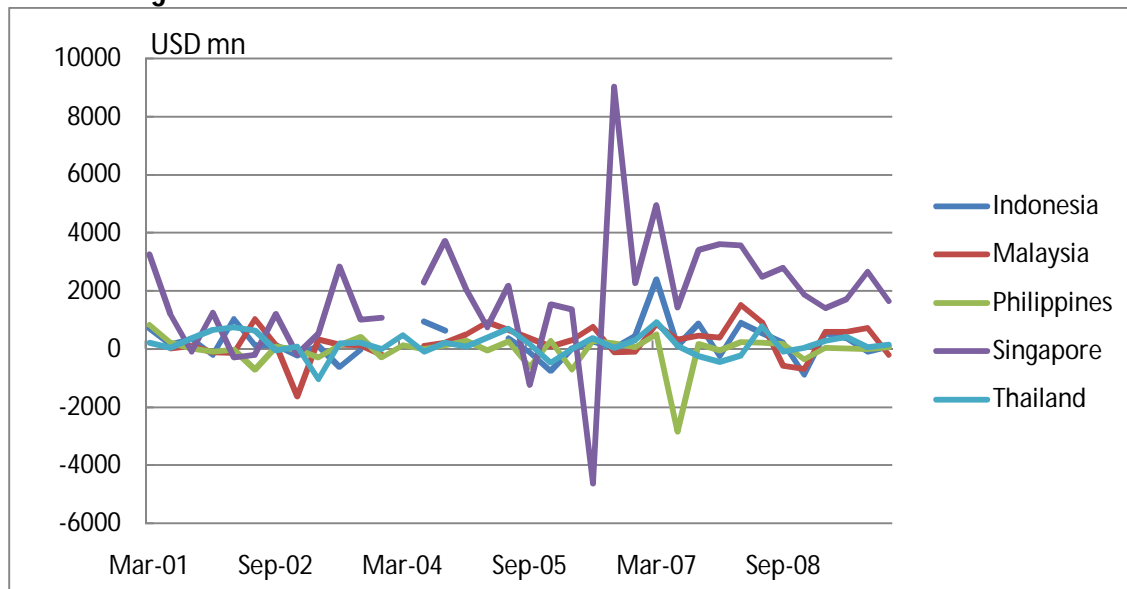
Other companies that managed to gain businesses from the US include: ST Engineering which won a contract worth US\$200 million (\$275 million) to supply rugged laptop computers to the US Army; Koda, a furniture manufacturer, won a contract to supply Pottery Barn with \$22 million worth of furniture; Aztech Systems, a manufacturer of multimedia products and computer peripherals, clinched orders worth US\$20 million (\$27.5 million) for its ADSL products; WinEdge & Wireless won a contract to supply communication chips for a new product by US toy manufacturer, Hasbro. Whether big or small, companies such as Singapore Airlines, NOL/APL, ST Electronics, Keppel, SembCorp, Creative, Asia Pacific Breweries, Osim, Eu Yan Sang and Tee Yih Jia, have increased their presence in the US.¹²

Table 6. US and Singapore Bilateral Investment (\$ Millions)

Year	Singapore investment in USA	US investment in Singapore
2001	-1451	5593
2002	-485	530
2003	1097	5447
2004	348	8064
2005	798	3207
2006	2216	8036
2007	5677	13406
2008	1437	10731
2009	39	7458

Source: US Bureau of Economic Analysis

Figure 6: US bilateral FDI to individual ASEAN countries for 2001 to 2009



Source: CEIC Data

In terms of US investment in the South-East Asian region, Singapore still draws more investments from the US compared to other countries in the region while US investments to the latter remain relatively unchanged in the years before and after the USSFTA came into effect (Fig. 6). As such, the worry that some countries in the region have that the USSFTA may divert investments away from their countries has so far not materialised.

4.3 Intellectual Property Rights

The non-economic effects brought about by the USSFTA are in the area of policy reforms such that Singapore now has one of the strongest IPR regimes in the region. In July 2004, amendments were made to the Trademarks Act, the Patents Act, the Layout Designs of Integrated Circuits Act, Registered Designs Act, a new Plant Varieties Protection Act, and a new Manufacture of Optical Discs Act came into effect. This was followed in 2005 by an amended Copyright Act and Broadcasting Act. Also included were implementation or ratification of various international conventions or treaties dealing with IPRs (Nanto 2008). As a result, a number of US companies have relocated or made new investments to Singapore. They are Microsoft Innovation centre, Lucas Film Animation's studio and production house and a Pfizer manufacturing plant. Others, that were also mentioned above, such as Motorola and Genentech also made new investments in operations in Singapore.

Table 3. Major Singapore Exports to U.S., Customs Value by Two-Digit Harmonized System Commodity Codes
(million US dollars)

HS	Commodity Description	2003	2004	2005	2006	2007	2008
	Total	15489.5	15594.0	15387.8	18068.5	18692.3	16161.2
84	Machinery	7807.9	7643.1	6911.7	6824.9	6007.0	5525.2
85	Electrical Machinery	2323.3	2853.4	2885.7	3373.7	3956.2	3009.8
30	Pharmaceutical Products	9.4	91.8	1161.8	2431.0	3043.4	1913.9
98+99	Other Special Import Provisions	1052.8	1169.5	1173.0	1677.7	1529.8	1679.7
29	Organic Chemicals	2380.6	1755.2	849.8	1253.3	1205.5	1392.0
90	Optics, not 8544; Medical Instr	806.4	956.1	1012.5	1061.5	1351.4	1218.4
27	Mineral Fuel, Oil, etc.	101.2	87.5	281.4	259.2	236.0	43.7
39	Plastic	114.1	160.2	267.0	243.8	209.7	245.1
61	Knit Apparel	243.7	219.1	151.3	146.1	148.7	119.3
49	Book, Newspaper; Manuscript	136.6	142.0	151.8	145.2	151.4	147.9
88	Aircraft, Spacecraft	64.6	74.7	81.2	82.4	90.5	107.6
38	Misc. Chemical Products	26.3	30.1	28.6	46.8	94.2	192.3
71	Precious Stones, Metals	20.1	22.0	43.8	43.2	62.7	43.4
87	Vehicles, Not Railway	29.9	44.4	45.9	39.0	49.6	31.8
18	Cocoa	40.7	26.2	21.3	39.7	62.0	73.1
03	Fish and Seafood	53.1	45.4	47.3	42.6	37.6	43.1
82	Tools, Cutlery, Of Base Metals	10.4	13.0	18.9	30.0	33.3	28.8

89	Ships and Boats	50.0	19.4	25.5	30.5	25.4	19.4
73	Iron/Steel Products	18.8	15.7	20.4	25.3	38.3	23.4
32	Tanning, Dye, Paint, Putty	3.2	5.8	11.0	24.1	34.9	37.0
94	Furniture and Bedding	8.3	10.2	16.7	23.8	33.0	30.4
40	Rubber	30.1	38.0	29.2	23.7	23.6	29.7
72	Iron and Steel	0.2	7.9	0.1	18.9	35.5	0.9
76	Aluminum	4.7	8.8	9.0	17.2	35.3	25.6
19	Baking Related	12.2	12.6	13.1	14.3	16.2	18.8
33	Perfumery, Cosmetics, etc	5.7	9.5	8.5	13.1	19.6	16.6
80	Tin+Articles Thereof	0.1	0.5	1.6	12.5	26.3	15.8
48	Paper, Paperboard	9.1	4.9	14.0	12.4	20.2	10.0
95	Toys and Spots Equipment	7.4	12.4	13.0	10.5	7.7	3.7
44	Wood	5.4	4.3	7.4	9.8	5.9	4.3
83	Misc Art Of Base Metal	6.0	10.5	6.8	8.9	11.9	12.6
62	Woven Apparel	38.9	35.6	12.7	6.6	8.1	6.1

Source: UN Comtrade

Table 4. Major Singapore Imports from U.S., Customs Value by Two-digit Harmonized System Commodity Codes
(million US dollars)

HS	Description	2003	2004	2005	2006	2007	2008
	Total	16574.86	19600.80	20646.36	24682.84	26284.36	28809.35
84	Machinery	4307.20	5331.17	5634.56	6437.53	7133.84	7782.26
85	Electrical Machinery	4062.51	5317.77	5183.78	6227.53	6852.37	6600.26
88	Aircraft, Spacecraft	2615.30	2350.53	2656.07	3570.80	2637.44	3090.75
27	Mineral Fuel, Oil, etc.	461.66	763.46	688.72	1089.07	1552.35	2261.21
90	Optics, not 8544; Medical Instr	1192.80	1539.22	1427.73	1773.90	1814.09	1827.10
39	Plastic	595.72	631.63	761.53	762.06	899.59	1137.61
29	Organic Chemicals	462.55	598.78	674.81	1052.91	972.22	954.52
38	Misc. Chemical Products	334.11	408.76	465.73	515.68	594.73	695.52
73	Iron/Steel Products	129.81	128.33	141.36	218.86	271.97	340.57
87	Vehicles, Not Railway	104.94	193.51	240.32	175.32	196.18	316.61
32	Tanning, Dye, Paint, Putty	123.33	157.07	190.18	200.01	242.64	230.19
37	Photographic/Cinemoer	84.16	86.38	103.00	124.91	127.89	175.06
82	Tools, Cutlery, Of Base Metals	45.17	52.03	59.65	109.60	116.09	151.27
71	Precious Stones, Metals	71.21	129.35	143.06	121.47	138.89	149.89
28	Inorganic Chem; Rare Earth Met	94.74	91.96	100.39	101.77	96.05	138.48
34	Soap, Wax, etc; Dental Prep	60.30	60.20	69.44	85.81	111.34	137.22
49	Book+Newspaper; Manuscript	76.84	86.17	80.65	86.98	102.75	113.44
33	Perfumery, Cosmetics, etc	67.21	68.48	80.11	82.21	98.65	113.75
40	Rubber	79.49	72.07	76.80	91.93	112.33	111.32
48	Paper, Paperboard	59.94	65.78	63.64	69.56	85.83	95.33
30	Pharmaceutical Products	49.86	28.91	280.02	38.65	83.04	89.31
72	Iron and Steel	34.90	33.39	35.72	52.75	72.19	79.62

02	Meat	21.05	12.64	19.54	20.83	30.39	70.57
21	Miscellaneous Food	56.80	48.10	50.67	44.75	51.88	68.36
70	Glass and Glassware	24.38	33.07	30.14	49.07	61.15	59.47
83	Misc Art Of Base Metal	121.79	72.65	31.03	43.01	39.91	51.32
08	Edible Fruit and Nuts	57.09	47.77	41.58	39.21	37.54	48.67
76	Aluminum	109.18	29.27	32.04	39.15	100.22	47.71
75	Nickel+Articles Thereof	8.04	11.20	10.96	18.90	29.73	45.59
20	Preserved Food	21.91	25.93	26.84	29.60	36.17	44.40
68	Stone,Plaster, Cement,etc	18.97	28.03	33.87	53.10	52.14	40.95
35	Albuminoids; Mon Starch; Glue	19.56	23.18	29.66	31.28	36.21	35.85
10	Cereals	11.70	20.39	12.75	10.90	26.08	32.21
74	Copper + Articles Thereof	37.84	34.62	31.62	34.05	36.27	31.59
22	Beverages	10.30	12.05	12.86	18.10	21.13	28.64
04	Dairy, Eggs, Honey, etc	5.00	12.59	15.73	18.89	17.98	26.92
81	Other Base Metals, etc.	14.31	17.95	14.25	18.16	17.98	25.27
62	Woven Apparel	7.35	6.74	9.56	10.28	10.44	13.63

Source: *UN Comtrade*

5. Conclusion

While much hope is placed on FTAs as the key driver of economic growth, this review shows that though the USSFTA has stimulated trade and investment somewhat the trend suggests that sustained growth is uncertain. In terms of merchandise trade, Singapore's exports to the US has been lagging behind US' exports to the city-state in the five years since the agreement was enforced. Singapore's trade deficit jumped from \$1.1 billion to a whopping \$12.7 billion in 2008, suggesting that trade growth is not as forthcoming in spite of the lowering of tariffs in the US. However, a closer look at the performance of the various sectors shows that certain sectors performed better than others.

Pharmaceutical exports, in particular, have been doing very well, posting a nearly 2000-fold increase between 2004 and 2008. But one needs to bear in mind that MNCs, some of whom are American, have a significant presence in Singapore. Of the total exports, increasingly more and more of Singapore's exports come from domestic sources rather than from other countries for reexport from Singapore. This may reflect the growing role played by the development of the biomedical sector in part contributed by the strengthening of IPR protection in the wake of the USSFTA.

The SMEs community especially those involved in electronics manufacturing have also benefited by the elimination of the 3% on import duties in the US, making their products more competitive.

While the tightening of IPRs provisions may be attractive to draw foreign companies seeking greater protection for their products, the flip side is that it can exert a higher toll in the form of increased fee for intellectual property resulting from the FTA. This is reflected in the deepening of the deficit in Singapore's royalties and license fees component of its services trade between 2001 and 2008.

Can those countries either planning to enter into or are already engaged in an FTA with a major economy like the US glean any lessons from the experience of Singapore? While each country's circumstances and structure vary and therefore cognizance should be given to such differences, Singapore's experience thus far with the USSFTA can be instructive for countries that have already entered into or plan to engage in talks with the US or EU (European Union), another party which has been actively engaging bilateral talks with countries in the region and like the US, it adopts the WTO-plus type of agreements.

One of the main objectives of FTAs is to boost bilateral trade. As shown in this paper, though tariff levels in partner country may come down, it does not necessarily translate into substantial growth in export figures, as in the case of Singapore in its FTA with the US. Countries also must be prepared for an influx in imports and be vigilant as to how this may impact on local producers. As the Singapore experience shows even though almost all US products enjoy relatively free-tariff in Singapore before the USSFTA and exports were therefore expected to increase substantially, nevertheless, imports from the US into Singapore increased significantly post-FTA. As such, for other countries which have high tariff rates, the impact could be quite drastic in terms of rise in imports if tariffs are eliminated.

With regards to foreign direct investment, which is a key objective of any FTAs, the FTA has stimulated two-way investments as companies take advantage of the reduction in business costs due to the elimination of duties and the strengthened IP regime; however, there is no

clear trend as growth of US investment into Singapore varies over the years under review and vice versa.

At the regional front, concerns that the FTA will divert US investments away from other countries in South-East Asia to Singapore seemed unfounded as the FTA has not resulted in significant changes to US investments in Thailand, Malaysia and the Philippines which has remained relatively constant over the few years prior to and after the coming into effect of the agreement.

Endnotes

- (1) Final text of the US-Singapore FTA, USTR website (<http://www.ustr.gov/trade-agreements/free-trade-agreements/singapore-fta/final-text>)
- (2) Some of the statistical data in this section is adapted and updated based on an earlier report prepared by the US Congressional Research Service on the effects of the USSFTA three years after (<http://fas.org/sqp/crs/row/RL34315.pdf>)
- (3) How Singapore Benefited from the FTA with the US (www.mfa.gov.sg/seoul/pdf/USSFTA_final.pdf)
- (4) 'More Orders for Singapore's Firms After FTA With US', *The Business Times*, 26 July 2006
- (5) How Singapore Benefited from the FTA with the US (www.mfa.gov.sg/seoul/pdf/USSFTA_final.pdf)
- (6) Ibid.
- (7) USTR, 2009 National Trade Estimate Report on Foreign Trade Barriers http://www.ustr.gov/sites/default/files/uploads/reports/2009/NTE/asset_upload_file107_15504.pdf
- (8) How Singapore Benefited from the FTA with the US (www.mfa.gov.sg/seoul/pdf/USSFTA_final.pdf)
- (9) 'Roche opens first Asia-Pacific biologics manufacturing site', 3 November 2009, Singapore Economic Development Board website (http://www.sedb.com/edb/sg/en_uk/index/news/articles/roche_opens_first.html)
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- (11) Ibid.
- (12) 'USSFTA: The year in review', 29 January 2005. International Enterprise Singapore website. (<http://tinyurl.com/y4eukrv>)

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