

## **"Singapore's RTA Strategy"**

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Singapore is welcoming regional trade arrangements (RTA) with a variety of countries, such as the US, EU, Chile, New Zealand, etc. What is the driving force behind this movement? Even if it does not cause any friction among APEC members, what is the perspective in Singapore?

Singapore is not the only country embracing regionalism. Regionalism has already started to gain favor in the world, taking the place of multilateralism, which is often seen as merely a version of the WTO and is therefore thwarted by an abundance of negative baggage. But Singapore, a small state, often feels the need for more room to explore bilateral FTAs, as its relationship with larger economies tends to be asymmetric.

Hence the arrival of what is called "new regionalism." In a word, it differs from the older version in that it is a multi-polar system, which is more open and comprehensive than before, not only to regional members, but also to external economies. Non-state actors such as private companies and NGOs are welcomed to participate. This movement seems synchronized with the appearance of other concepts of our era: the "knowledge-based" economy, globalization, and others.

There is a difference between "regionalism" and "regionalization." While the former refers to a formal trade pact, the latter implies the concentration of trade, especially in the private sector. APEC, for example, is one model of open regionalism. Meanwhile, the close relationship among some of the East Asian countries, which owes much to the geographical proximity, is an example of regionalization.

Global entities, such as multinational corporations, are the catalysts of change in the global economic system. In Singapore, just as in Korea and Taiwan, the participation of MNCs in the market is welcomed because it is expected to enhance inter- and intra-firm relationships, and even help local companies to grow into larger, more global firms.

As a member of ASEAN, why should Singapore seek RTAs? Within successful RTAs, such as EU, there should be reciprocity of obligations that all economies respect regardless of size or power asymmetries. But if reciprocity is not realized, then acceptable RTAs become an alternative by providing more freedom to smaller states than does the WTO, and can liberalize trade, even with non-members. What Singaporean government had in mind, therefore, was a new type of RTA architecture with a different kind of institutional design and means of implementation.

ASEAN has a long way to go before it is considered a successful RTA. There are several reasons for the complexity of problems shared among ASEAN members: the diversity of size and resources of each country, the gap between the level of development, the asymmetry in trade policies, etc. The devastating Asian crisis in 1997-98 made the situation all the more difficult, shifting much attention back to domestic corporate and financial reforms and the politics of industrial policy.

Then Singapore shifted towards bilateral FTAs. Developed countries such as the US and EU were approached rather than neighboring developing countries. This change of direction was possible because of Singapore's nimble, sure-footed, top-down policy making, while in Japan, where consensus takes priority, it would have been considered too pragmatic or instinctual.

But this decisive change of attitudes in Singapore brought about a clash, especially with its old friends in APEC. On one hand the seemingly unreliable AFTA should never be disregarded, considering the political sensitivities among the region. On the other hand, free trade should be based on competition in the first place.

Singapore took the middle course: approaching the world's largest and other well-performing economies regardless of geographic distance, while continuing the participation and contribution to APEC just the same. Behind the movement was a sense of expectation of a "new age" FTA that would go beyond just traditional agreements on tariffs or non-tariff barriers.

Coping with the APEC sensitivities is not easy. APEC is more relation-based than rule-based. But Singapore's bilateral FTA evolution and progress such as those with the Americas, EU and India are not inconsistent with AFTA or WTO. Neither

Singapore nor ASEAN can be spectators or bystanders. Bilateral FTAs based on open regionalism is open to any country willing to undertake rights and obligations. ASEAN partners are free to join or forge their own bilateral FTAs.

Finally, Singapore is sparking fresh interest in ASEAN as the country plays the role of the gate-opener making exemplary deals. After all, we still have to wait for the verdict on what is the most ideal economic policy for all, if there is any: should new regionalism or multilateralism be exclusive of or coexist with RTAs?

With this situation in Asia, however, Singapore holds on to what it considers the best policy: multilateralism based on free trade and free competition. It is not difficult to see why this small state's contribution has become so much more than its size and resources. The next step for a country with such acclaim will be supported by its entrepreneurship in policymaking.

*-The RIETI editorial department is responsible for this article.*