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Singapore-U.S. Free Trade Agreement

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Summary

The United States and Singapore are close to completing negotiations on a free-trade agreement that would, with a phase-in period, eliminate tariffs on all goods traded between them, cover trade in services, and protect intellectual property rights. The agreement is expected to be submitted for legislative approval in early 2003 with an implementation date in 2004. This report will be updated as circumstances warrant.

In November 2002, the United States and Singapore concluded the eleventh round of negotiations on the U.S.-Singapore Free Trade Agreement (FTA) with the hope of completing the agreement by year end. U.S. Trade Representative Zoellick stated that the substance of the FTA was done except for one issue (whether Singapore can place controls on the transfer of capital during a financial crisis) and that the draft of the legal text was expected to be completed over the ensuing weeks after which Congress would be notified and the signing would occur early in 2003.[1]

The negotiations for the U.S.-Singapore Free Trade Agreement were launched under the Clinton Administration in December 2000[2] and have continued under the Bush Administration. The FTA would be the fifth such agreement the United States has signed and the first with an Asian country. As initiated, it was to be modeled after the U.S.-Jordan FTA and is to eliminate tariffs on all goods over time and cover substantially all services sectors. According to the U.S. Trade Representative, the FTA has broken new ground in electronic commerce, competition policy, and government procurement. It also includes what the USTR considers to be major advances in intellectual property protection, environment, labor, transparency, customs cooperation, and transshipments.[3]

The U.S.-Singapore FTA is of interest to the Congress because: (1) it would require Congressional approval; (2) if implemented, it would continue the trend toward greater

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[1] Asean and the US-S'pore FTA. *The Business Times Singapore*, November 21, 2002. P. 1.

[2] For information on U.S.-Singaporean relations, see CRS Report RS20490, *Singapore: Background and U.S. Relations.*

[3] Rahil, Siti. U.S., Singapore Strike FTA Deal. Kyodo News Service, November 19, 2002.

trade liberalization and globalization; (3) it is said to contain environmental and labor conditions acceptable to the Bush White House; and (4) it may affect certain trade flows that would, in turn, affect U.S. businesses, particularly import-competing industries such as textiles and apparel.

The U.S.-Singapore FTA may serve as a step toward realization of the Asia Pacific Economic Cooperation (APEC) forum's "Bogor Vision,"under which the United States and APEC's other 21 members are working toward "free and open trade in the Pacific." It also is in accord with the Enterprise for ASEAN Initiative, a new trade initiative with the Association of Southeast Asian Nations in which the United States has offered the prospect of FTAs with those countries committed to economic reforms and openness.

In March 2002, the U.S.-ASEAN Business Council and the U.S. Chamber of Commerce announced the formation of a new business coalition, chaired by Boeing, ExxonMobil, and UPS to support the FTA once negotiations are complete.[4] On February 19, 2002, the U.S. International Trade Commission (ITC) began investigating the probable economic effect of a U.S.-Singapore FTA (No. 332-439). On July 2, the ITC began investigation No. 332-443 into the effects of eliminating tariffs on certain agricultural goods under a U.S.-Singapore FTA. These reports have been submitted to the U.S. Trade Representative but are not open to the public.

Background

Singapore is a city state located in Southeast Asia at the southern tip of Malaysia and across the Strait of Malacca from Indonesia. It has a population of 3.5 million, an area roughly 3.5 times the size of the District of Columbia, gross domestic product of about $100 billion, and per capita income of about $30,500. Singapore has been a major proponent of trade liberalization and supports the U.S. security role in Asia.

Singapore is America's largest trading partner in Southeast Asia with two-way trade of $32.6 billion and a U.S. bilateral merchandise trade surplus in 2001 of $2.7 billion, up from a deficit of $1.4 billion in 2000. The United States generally runs a surplus in services trade with Singapore. Singapore is the 11th largest export market for the United States with $17.7 billion in merchandise exports in 2001. It is the 14th largest source for goods imported into the United States with $15.0 billion in 2001. As shown in the Appendix, in bilateral trade by sectors, the United States runs surpluses with Singapore in aircraft, plastic, instruments, chemical products, and aluminum. The U.S. incurs deficits with Singapore in electrical machinery, knit and woven apparel, special other repaired products, organic chemicals, books and newspapers, fish and seafood, rubber, and ships and boats.

Singapore already has 99% free trade. Only beer and certain alcoholic beverages are subject to import tariffs. Singapore, however, does impose high excise taxes on distilled spirits and wines, tobacco products, and motor vehicles (which are all imported). These are aimed at discouraging consumption for environmental and health purposes. The government also bans chewing gum (after it caused subway doors to jam).

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[4] Business Launches New Coalition to Pass U.S.-Singapore FTA. *Inside U.S. Trade*, March 15, 2002.

Singapore has signed a free trade agreement with New Zealand (effective January 1, 2001), with European Free Trade Area (signed June 26, 2002, with Iceland, Norway, Switzerland, and Liechtenstein), and in January 2002 concluded one with Japan that excludes agricultural products. The country also has concluded FTA negotiations with Australia and New Zealand, is negotiating with Mexico and Canada, and is seeking an FTA with the European Union. Asian nations also have been discussing an East Asian free-trade zone which would include ASEAN plus Japan, China, and South Korea.

The United States also has low trade barriers. The U.S. already has free trade agreements with Canada, Mexico, Israel, and Jordan, is considering free trade with Chile, Latin America, Australia, Morocco, and also is a member of APEC. A free-trade area with Singapore, therefore, is not likely to have a large effect on bilateral trade flows except in U.S. industries that are relatively protected (such as textiles and apparel).

Singapore generally has an open investment regime. At the end of 2000, the stock of U.S. foreign direct investment (FDI) in Singapore totaled $23.2 billion. In 2001, investment commitments from the United States dropped 13% to about $1.8 billion. U.S. FDI in Singapore is concentrated largely in manufacturing (notably industrial machinery and equipment and electronics), finance, and petroleum.[5] Singapore invested a net $6.1 billion in the United States in 2000 to bring its investment position here to $7.66 billion, much of which has been in real estate, wholesale trade, machinery industries, and depository institutions.

Issues

Since Singapore's merchandise trade already is virtually free, U.S. negotiators have 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.[6]

The sticking points in the negotiations included 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.[7] Access by U.S. banks to Singapore's retail banking sector and limits on the operations of professionals (lawyers, architects, etc.) also were negotiated. In legal services, under the FTA, provisions are designed to make it easier for U.S. law firms to operate joint ventures with Singapore firms. In financial services, there are provisions to allow U.S. banks to expand their current retail banking operations and gain some access

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[5] The American Chamber of Commerce in Singapore has about 1,200 members representing nearly 700 U.S. and foreign-owned companies.

[6] For details on Singapore's trade and investment barriers, see: U.S. Trade Representative. *2001 National Trade Estimate Report on Foreign Trade Barriers*. On Internet at [http://www.ustr.gov/html/2001_contents.html].

[7] Administration Works on Investment Position for Singapore FTA. *Inside U.S. Trade*, December 15, 2000.

to protected automated banking networks, as well as provisions for greater U.S. participation in securities, investment management, and insurance industries. The FTA also is to allow limited imports of chewing gum (despite Singapore's national ban on it) and 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.

The textile issue includes concerns that Singapore's increased access to U.S. textile markets could encourage the transshipment of apparel from neighboring countries through Singapore or other claims of Singapore as the country of origin to circumvent U.S. import tariffs and/or quotas. This problem may be more acute in the case of Singapore because it is a city state with limited land area, moderately high wages,[8] and a booming entrepot trade. Singaporean businesses have invested extensively in manufacturing facilities in neighboring Indonesia, Malaysia, and other lower-wage countries. The Integrated Sourcing Initiative may affect this activity.

On April 2, 2002, the National Retail Federation (NRF) threatened to oppose the FTA if proposed provisions dealing with textiles and apparel were retained. These would have kept quotas in place until 2005 and maintained high U.S. tariffs on the "vast majority of textile and apparel products from Singapore for 10 years after the agreement enters into force."[9]

With respect to intellectual property rights, Singapore has been on the Special 301 Watch List since 1995.[10] This stems from U.S. concerns regarding the consistency of Singapore's intellectual property rights (IPR) regime with provisions of the World Trade Organization (WTO) Agreement on Trade-Related Intellectual Property Rights (TRIPS) and the inadequacy of police enforcement against IPR piracy. According to the U.S. Trade Representative, a significant problem has been the open availability of pirated computer software, music, and cinematographic works and the high rate of use of unlicensed software, despite the recent changes Singapore has made in its regulations and enforcement activities.[11]

The Bush Administration is taking a different approach from that of the Clinton trade team with respect to including labor and environmental provisions. Such provisions in trade agreements have become a source of considerable dispute between Democrats and Republicans, business and labor, and among other interest groups in the United States. The Jordan-U.S. agreement attempts to address both labor rights and environmental

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[8] According to the U.S. Bureau of Labor Statistics, for production workers in 1999, hourly compensation costs were $7.18 for Singapore, $5.44 for Hong Kong, $6.71 for Korea, $5.62 for Taiwan, and $20.89 for Japan.

[9] National Retailers Federation. Comments Concerning Negotiation of a U.S.-Singapore Free Trade Agreement. Letter to Trade Policy Staff, U.S. Trade Representative, April 2, 2002.

[10] Under the Special 301 provisions in U.S. trade law, the U.S. Trade Representative identifies countries with particular problems of protection or enforcement of intellectual property rights, places them on a "watch list" or "priority watch list," and monitors them closely for progress.

[11] Singapore is a member of the World Intellectual Property Organization, has ratified the WTO Agreement on Trade-related Aspects of Intellectual Property Rights, is a member of the Berne Convention, and is a signatory to the Paris Convention, the Patent Cooperation Treaty, and the Budapest Treaty. It is not a party to the Universal Copyright Convention.

protection without impinging on the other's sovereignty. It mainly commits each country to enforce the laws they already have in place. However, the agreement also contains a mechanism for enforcement. Apprehension about possible trade sanctions resulting from the agreement was allayed somewhat by side letters between the United States and Jordan in which the U.S. Trade Representative stated that "appropriate measures for resolving any differences that may arise regarding the Agreement would be bilateral consultations and other procedures, particularly alternative mechanisms, that will help to secure compliance without recourse to traditional trade sanctions."[12]

In August 2002, the U.S. Trade Representative called for comments on its Draft Environmental Review of the U.S.-Singapore FTA.[13] The U.S. government is required to review the environmental effects of bilateral free trade agreements to ensure that such agreements contribute to the broader goal of sustainable development.[14]

Bilateral FTAs have been criticized because they introduce economic inefficiencies by distorting trade flows. They tend to divert export and import trade toward the countries involved. For example, under NAFTA, some U.S. importers have turned to suppliers in Mexico rather than buying from Asia, and manufacturers from Asia have relocated to Mexico to take advantage of the tariff-free access to the North American market. These inefficiencies caused by such trade diversion, however, may be offset by gains in efficiency through trade creation – additional trade generated by the existence of the larger, unified market. Bilateral FTAs, moreover, also play a role in the trade liberalizing process. Currently, markets are opened primarily through multilateral negotiations under the World Trade Organization, through organizations such as APEC, or by sectoral initiatives. Given the slowness of the WTO and APEC process and the lack of further progress on sectoral trade liberalization following the Information Technology Agreement[15] in 1996, countries can do an "end run" around the WTO or APEC and liberalize trade with other like-minded countries. The trade diversion created by such FTAs, however, unleashes pressures for governments to either create FTAs of their own or join into existing FTA arrangements. Traditionally protectionist countries, such as China or Japan, now are actively seeking FTA-type arrangements with other nations. Bilateral FTAs, therefore, can become building blocks, rather than stumbling blocks, to global trade liberalization.

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[12] Side Letter on Labor and Environment. U.S. Trade Representative Zoellick to the Ambassador of Jordan. July 23, 2001.

[13] U.S. Trade Representative. *Draft Environmental Review of the proposed U.S.-Singapore Free Trade Agreement*. On Internet at [http://www.ustr.gov/environment/2002singapore.PDF].

[14] Trade Act of 2002 and Executive Order 13141 (Environmental Review of Trade Agreements, 64 Fed. Reg. 63,169 (Nov. 18, 1999) and Implementing Guidelines, 65 Fed. Reg. 79,442 (Dec. 19, 2000).

[15] The Information Technology Agreement, concluded by 29 WTO participants in 1996, eliminated duties on most IT products with extended phase-in periods for some participants.

Appendix: U.S. Merchandise Trade Balances With Singapore, 1998-2001, by Major Two-Digit Harmonized System Commodity Codes

(Million dollars)

Harmonized System Code/Year	1998 Balance	1999 Balance	2000 Balance	2001 Balance
Total Bilateral Trade Balance	-2,662	-1,944	-1,372	2,652
Machinery	-8,182	-6,966	-5,020	-3,611
Special Other	-183	-423	-602	-463
Organic Chemicals	4	-199	-231	-463
Knit Apparel	-245	-252	-260	-228
Special Import Provisions	-94	-110	-116	-94
Woven Apparel	-51	-64	-82	-58
Fish and Seafood	-57	-50	-56	-49
Books/newspaper/manuscripts	-67	-54	-35	-46
Rubber	1	-39	24	21
Aluminum	137	141	67	25
Tanning, Dye, Paint, Putty	69	99	82	68
Inorgan. Chemicals/Rare Earths	46	58	71	73
Ships and Boats	18	-33	0	86
Iron and Steel Products	103	97	95	91
Photographic/Cinematographic	74	93	104	83
Misc. Chemical Products	249	278	341	259
Mineral Fuel Oil	-63	94	-47	264
Optical, Photo, Medical, Surgical Instruments	324	387	655	299
Plastic	445	498	602	504
Machinery Electrical	2182	2070	1,174	1,429
Aircraft, Spacecraft	1765	1490	782	3,475

Source: Data from U.S. Department of Commerce.