

Singapore and Free Trade Agreements

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Singapore and Free Trade Agreements

Economic Relations
with Japan and the United States

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INSTITUTE OF SOUTHEAST ASIAN STUDIES
Singapore

Published by
Institute of Southeast Asian Studies
30 Heng Mui Keng Terrace
Pasir Panjang
Singapore 119614

Internet e-mail: publish@iseas.edu.sg

World Wide Web: <http://www.iseas.edu.sg/pub.html>

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ISEAS Library Cataloguing-in-Publication Data

Rajan, Ramkishan S.

Singapore and free trade agreements: economic relations with Japan and the United States / by Ramkishan S. Rajan, Rahul Sen and Reza Siregar.

1. Free trade—Singapore.
2. Singapore—Commercial policy.
3. Singapore—Foreign economic relations—Japan.
4. Japan—Foreign economic relations—Singapore.
5. Singapore—Foreign economic relations—United States.
6. United States—Foreign economic relations—Singapore.
- I. Sen, Rahul, 1965—
- II. Siregar, Reza
- III. Title.

HF1595 R16

2001

sls2001017419

ISBN 981-230-144-5

ISSN 0218-2114

Printed in Singapore by Seng Lee Press Pte Ltd.

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Introduction

Singapore's economic growth experience is of particular importance for at least two reasons. First, it has enjoyed one of the highest rates of growth in the world over the past three decades, with its gross domestic product (GDP) appreciating at an annual average rate of about 8 per cent during the period 1970–2000 (Tables 1.1 and 1.2). Second, this growth has been highly durable, the city-state having suffered only one year of outright economic contraction in the past three decades (in 1985–86). The durability of the Singapore economy is further highlighted by the fact that it was one of the few economies in East Asia to have emerged relatively unscathed from the regional financial crisis of 1997–98. Thus, while most of the other East Asian economies faced severe recessionary conditions, with real output declining by between 3 and 15 per cent in 1998 (Table 1.2), Singapore managed to register marginally positive growth despite having extensive trade, investment, and financial linkages with the rest of the region (Rajan and Sen 2000).

An essential ingredient of the city-state's growth strategy has been its outward orientation, particularly its openness to trade and investment flows. Despite a residential population of just over three million, Singapore is the world's sixteenth largest merchandise trading nation and services exporter and

TABLE 1.1
Singapore: Major Macroeconomic Indicators 1970-99
 (in percentages)

	1970	1980	1990	1995	1999	1970-99	1970-80	1980-90	1990-95	1995-99
Real GDP growth	14.6	9.7	9.0	8.7	5.4	8.0	9.4	7.6	8.7	5.9
Exports growth	0.32	33.98	9.29	13.70	5.73	14.1	23.2	11.4	11.7	5.8
Imports growth	20.70	33.90	13.36	12.74	7.57	12.9	22.2	10.7	10.6	4.1
Inflation rate	1.7	8.5	3.5	1.7	0.0	3.7	6.7	2.9	2.7	1.0

Source: The World Bank, World Development Indicators CD-Rom.

TABLE 1.2
Growth Performance of Singapore and Other
East Asian Economies
 (GDP growth [% per annum])

	<i>Average</i> <i>1981–90</i>	<i>Average</i> <i>1991–95</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
Singapore	7.3	8.7	7.5	8.0	1.5	5.5	6.0
Malaysia	6.0	8.7	8.6	7.7	–6.8	4.9	5.2
Thailand	7.9	8.4	5.5	–0.4	–8.0	4.2	5.0
Indonesia	5.4	7.8	8.0	4.6	–13.7	–0.1	3.8
Korea	9.1	7.5	7.1	5.5	–5.5	9.2	6.5
Japan	4.0	1.4	5.0	1.4	–2.8	n.a.	n.a.

Sources: International Monetary Fund, *World Economic Outlook* and *The Economist* (January 2000).

the world's largest transshipment point. With a trade-to-GDP ratio of over 250 per cent in 1999, Krugman (1995) places the country in the league of “super -trading” nations. Accordingly, it should come as no surprise that Singapore has been a major proponent of global trade liberalization and the free flow of goods and services across international borders. Nevertheless, recognizing that it has limited influence in the multilateral arena, where recent progress on many important issues relating to trade and investment liberalization is perceived to have been disappointingly slow and negotiations protracted and cumbersome (Sager 1997), Singapore has concomitantly pursued a second track to liberalization via the regional route.

Regionalism has involved both the SoutheastAsian region via the ten-member ASEAN grouping and the larger Asia and Pacific region via the twenty-one-member APEC grouping.¹ However, the recent financial crisis has held up the pace if