THE U.S.-SINGAPORE FREE TRADE AGREEMENT

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THE U.S.-SINGAPORE FREE TRADE AGREEMENT

AN AMERICAN PERSPECTIVE ON POWER, TRADE, AND SECURITY IN THE ASIA PACIFIC

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Contents

List of Tables ix

Foreword xi

Message xv

Preface xv

Acknowledgements xvii

Introduction 1

1. On the Crest of Trade and Globalization: Singapore and America 11

2. The Road to the United States-Singapore Free Trade Agreement 52

3. American International Trade Practices: History and Theory 104

4. The USSFTA Bridging Economic Regionalism and Security Regionalism 140

5. The American Politics of FTAs, Lobbying, and Domestic Reforms 186

6. A New Strategic Relationship in the Western Pacific: Asia's Preferences and America's Choices 223

Conclusion 255

List of Abbreviations 263

References 267

Index 291

About the Author 306

List of Tables

1.1 Economic Gains of FTAs to the United States, Estimated in 2002 13
1.2 U.S. Trade: Balance of Payment Basis: Exports and Imports, 1982–2007 14
1.3 GDP Growth: Ghana, Korea, and Malaysia, 1960–2006 31

2.1 Share of ASEAN-5 in Intraregional Trade, 2000 vs. 2006 66
2.2 Share of a Country's Exports to and Imports from ASEAN, 2000 vs. 2008 67
2.3 U.S.-Singapore Bilateral Trade, 2000–09 73
2.4 Cost of FTA Negotiations to the United States, 2003 74
2.5 Number of U.S. Staff Involved in FTA Negotiations as of October 2003 75
2.6 International Bank Exposures to Asia, as of January 1997 81
2.7 White House Guidelines for Selecting FTA Partners and Negotiating Goals 87

3.1 U.S. Merchandise and Service Trade, FDI Income, and Current Account Balances, 1985–2007, Select Years 122

4.1 FTAs and EIAs for ASEAN Plus Three and NAFTA, 2009 161
4.2 FTAs in Force and WTO Legal Cover as of April 2009 162
4.3 Total U.S. Investment in Top European and Asian Countries, 2005–08 169
4.4 Total U.S. FDI Stock in Select Asia-Pacific Countries, 2004–08 170
4.5 Intra- and Inter-regional Trade as a Percentage of Total, 2008 172

5.1 Top 20 Lobbying Spenders in American Politics, 1998–2009 200
5.2 Top 15 American State Exporters to East Asia, 2008 203

6.1 Combat Capabilities and Burden Sharing by 10 of America's 27 NATO and Non-NATO Allies and Partners, 2003 237
6.2 Asia-Pacific Countries' Defence Spending and Their World Ranking, 2005 243

Foreword

In 2004, my colleague Chang Li Lin and I edited a book entitled, *The United States-Singapore Free Trade Agreement: Highlights and Insights*. The contributors included key members of the Singapore negotiating team, as well as essays by the leader of the U.S. Delegation, the then U.S. ambassador to Singapore and a member of the U.S. Chamber of Commerce. It is an official and insiders' account. I wanted to record, while the memory was fresh, our common experiences in negotiating this remarkable bilateral trade agreement.

Now, Dr Eul-Soo Pang, a Korean-American scholar and visiting professorial fellow at the Institute of Southeast Asian Studies (ISEAS) in Singapore has written a book from an outsider's and American perspective, drawing principally on published and unpublished U.S. government documents, especially from the U.S. Congress, the United States Trade Representative Office, the International Trade Commission, the U.S. Chamber of Commerce, the American Federation of Labor and Congress of Industrial Organization (AFL-CIO), American Chamber of Commerce (AmCham) in Singapore, and corporations, as well as NGOs, all key players in the making of free trade agreements in the American system.

The most interesting part of Pang's book is how complex the American system of decision making was for the USSFTA. By law, the president is required to create twenty-eight national committees from agriculture to business, environment, financial services, labour, and everything in between. Corporate and citizen inputs must be solicited through timely announcements in the *Federal Register*. Based on data from public and private sources, Pang has shown in detail how these committees, corporations, NGOs, and individual citizens have supported or opposed aspects of the USSFTA's provisions.

The book also covers annual reviews. It reveals a host of issues that we, the negotiators, did not anticipate. One example is the case of polycarbonate trade. The USSFTA has created a situation in which the U.S. government was called upon to protect a German firm's market share in the United States, which was seriously challenged by a Japanese manufacturer residing in Singapore. Indeed, globalization has created strange bedfellows. Neither Japan nor Germany has FTAs with the United States. Singapore has an FTA with Japan and is negotiating one with the European Union.

Aside from a series of vignettes that Pang has used to reinforce the thesis of the book, his conclusion is compelling: FTAs are not about trade, but in the case of the USSFTA — between two high income countries — it is more about financial market access, tightening intellectual property rights, e-commerce, capital controls, binational licensing of professionals, government monopolies, bidding for government procurement projects, stronger IPR laws, introducing more up-to-date competition law and practices, and even visas for Singaporeans planning to work in the United States. Furthermore, underneath all these "WTO-plus" issues that we have built into the USSFTA, Singapore and the United States have managed to strengthen their existing security ties, which Pang sees as deeply embedded in the trade and investment relationship.

In hindsight, then Prime Minister Goh Chok Tong made a timely and prescient decision to start the FTA negotiations with the United States in 2000. At the time, the prospects for a single global market seemed low, as Doha in 2001 and Cancún in 2003 have confirmed. Just emerging from the devastating financial crisis of 1997–98, the ASEAN Free Trade Area also seemed to be moving at a more sluggish pace than we would have liked. The intra-NAFTA trade was maxing out. It seemed opportunities lay as much outside each other's RTAs (regional trade agreements) as inside. This common frustration was shared by Prime Minister Goh and President Bill Clinton. They agreed to start the process of the USSFTA during a midnight golf game in Brunei. I was contacted the next day to lead the Singaporean FTA delegation. At the time I was teaching in China.

Those willing to create more trading and investment opportunities should not put all their eggs in a single WTO basket. Those willing to move faster should be allowed to move ahead. Although President Clinton did not have the "fast-track" authorization from Congress — Congress had rejected his request twice and Clinton became the only post-Second World War president without one — we were willing to take the chance. According to Pang's research, between 1890 and 2002, the Americans had

eight trade promotion acts, or fast tracks. We began to negotiate with the Americans in December 2000, and by late summer of 2002, President Bush was granted a fast-track authority, or the Trade Promotion Act of August 2002. It required a stream of consultations.

As it turned out, the USTR (US Trade Representative) and his representatives consulted and briefed senators, congressmen, and their staffers no fewer than 1,605 times on ongoing negotiations! Furthermore, soon after the USSFTA was signed, President Bush, obviously motivated by the desire to build more post-9/11 security partnerships, instituted pre-FTA qualifications screening for future partners that the National Security Council and National Economic Council were asked to vet. Given all these constraints and bureaucratic hurdles in the American system, our timing was perfect!

A 2006 IMF study shows — cited in the book — that for the past twenty years, all the countries that have had good economic growth rates are the ones that opened their markets unilaterally, or through FTAs or RTAs, to the outside world. In the process, they were also able to reduce mass poverty by 2 per cent per annum, and this was a boon to poor countries. The same study has also shown that 70 per cent of all trade barriers that developing countries face today are coming from the South. The World Bank has discouraged South-South FTAs and RTAs for this reason. This is, however, a mistaken view as the success of the ASEAN Free Trade Agreement has demonstrated.

The USSFTA is unique in several ways. First, it is the first Asian-U.S. free trade agreement, and Singapore was delighted to play the role of leader for the region. Second, the FTA is between two advanced economies, and as such, it covers more than trade in goods. Third, the engagement of the United States in the region has been the big concern of our government, and the USSFTA has helped to anchor America in the region and allowed it to deepen its economic roots throughout the region. In addition to the $44 billion two-way trade in 2008, we hosted $106 billion of American FDI, according to the U.S. Department of Commerce. This is the largest in the region, more than what the Americans have invested in Australia, Japan, or China. Fourth, in spite of some concerns shown by our neighbors about bilateral FTAs as "backdoors" to ASEAN, we have been able to include parts of Indonesia (Bintan and Batam) in our access to the American market. Roughly 270 categories of products made by our companies on those two islands can enter the American market with a "Made in Singapore" label. This is a positive and salutary backdoor for our neighbour.

Finally, the Obama administration is responding to our wish. The Trans-Pacific Partnership negotiations, so far having completed three rounds, have to deal with a series of overlapping and even conflicting terms of agreements because the majority of the negotiating parties have bilateral FTAs with each other. At the third round in Peru, a consensus emerged: adopt the highest "gold standards" for trade, investment, environment, and labour. That means the USSFTA in effect.

So far, in addition to the original members of the group (Brunei, Chile, New Zealand, and Singapore), I am happy to say that we have been able to persuade the United States, Vietnam, Peru, and Australia to join us. In August 2010, Malaysia decided to participate. In September, the Philippines expressed its interest. Japan has also expressed interest. China, South Korea, and Canada are said to be looking into joining. When the APEC Summit meets in Honolulu, in November 2011, I am told that the negotiating parties of the Trans-Pacific Partnership (TPP) hope to complete their work. This will be a sea change for the region. The Bogor agreement was non-binding, and APEC has no formal commitment to create a single super-regional market. The TPP may be the answer. We should not take all the credit for it, but Pang will readily agree that Singapore and its USSFTA have played an indispensable role for the expansion of economic integration throughout the Asia Pacific, now including South America.

In this broad panoply of comprehensive bilateral FTAs, partial scope agreements, multilateral regional trade areas, and economic integration partnerships, Pang's book adds much to the understanding of the intricacies of international political economy. Trade is not just about trade. In Singapore's case, it is about expanding our political and economic space. What Singapore has been pursuing — trading partnerships — is not unique. What is unique is how we fashion our relationships. It is the breadth and depth that count. The book is full of new information, not readily available in this region, useful in-depth look at the complex American system of trade decision making, and new ideas for international political economy of trade and security.

Tommy Koh
Ambassador-at-Large, Ministry of Foreign Affairs, Singapore and
Chief Negotiator for the USSFTA
November 2010

Message

The linkage between trade and development has constituted a cornerstone theme for ISEAS research, seminars, workshops, and conference agendas for decades now. Dedicated to the study of large regional economic, sociopolitical, security, and geostrategic issues, the Institute has pursued multidisciplinary approaches to public policy analysis and policymaking. We have scholars in residence from all over the world, and their professional, academic, and intellectual backgrounds are so diverse that they reflect well the currents of globalization and regionalization that Southeast Asia and its close and distant neighbours have been experiencing for the past decades. Over the years, we have come to realize that such policy-focused issues as trade and development must be viewed and analysed from diverse disciplinary perspectives, not just from the single angle of economics, because the consequences of trade are far reaching, often impacting the domestic polity, society, culture, and even daily habits of peoples. By adopting this view, the Institute has produced more balanced and nuanced policy analysis and policy recommendations. We have established various programmes ranging from looking at religion and culture (the Nalanda-Sriwijaya Centre) to linking law, diplomacy, history, sociology, and business economics (the ASEAN Studies Centre and the Singapore APEC Study Centre). Their research output has considerably enhanced the current state of knowledge on how policy is made, how it could be made better, and how it contributes to development.

Professor Pang is a historian who has been working on trade and development issues from the perspective of international political economy. His book examines free trade agreement (FTA) issues, linking them to their broader development contexts. Political economy approaches can go far in explaining how FTAs can be used to enhance political, cultural, and even security cooperation while promoting domestic policy reforms for

trade partners. As a Latin American specialist, Professor Pang brings to the book both historical and comparative regional perspectives. I believe the book will be useful to the academic and policy communities because it bridges theories and policymaking, especially in the context of the U.S. politics of trade, its foreign policy objectives toward Southeast Asia, and its increasing trade and security partnership with Singapore. The book's focus on how American policymakers view FTAs and how this has contributed to bilateral relations between Singapore and the United States is a unique contribution to the scholarly literature as well as a readable treatise on the subject for the informed layperson.

K. Kesavapany
Director
Institute of Southeast Asian Studies

Preface

The aetiology of this book has an interesting history. In the summer of 2000, I met Ambassador K. Kesavapany ("Pany" to his friends), then high commissioner of Singapore to Malaysia and now director of the Institute of Southeast Asian Studies in Singapore. At the time, I held a joint appointment as a Fulbright Visiting Professor to the Universiti Kebangsaan Malaysia and the Institute of Diplomacy and Foreign Relations (IDFR), then a department at the Prime Minister's Office. My relationship with IDFR grew to be an eight-year summer stint from 2000 to 2007. I often stopped over in Singapore to visit with Ambassador Pany on my way home from Kuala Lumpur. During one of my stopovers, Pany told me that he had been appointed chief negotiator to lead the Singapore-Korea Free Trade Agreement negotiation. Then, he said, "FTA is not about trade; it is about political relationships; it is about finances; and it is about locking in or launching domestic reform." He also assured me that an FTA cannot hurt its neighbours, as some in Southeast Asia had feared that the Singapore-Korea FTA could serve as a "backdoor" for Korea into the ASEAN market. The ambassador published several articles in the Malaysian and Singaporean newspapers explaining why FTAs would help all of ASEAN, not just the signatories. The idea intrigued me, so I began to read about free trade in general and the U.S.–Singapore Free Trade Area (USSFTA) in particular. In the process, I discovered that there was no academic literature on the USSFTA. Here was my new research agenda.

I decided to tackle the project by testing Pany's ideas. The result was the publication of my 2007 article entitled, "Embedding Security in Free Trade: The Case of the U.S.-Singapore Free Trade Agreement". Soon after that, I had an opportunity to present a paper at a workshop at the University of Southern California and was able to "compare notes" to see how political scientists handled the subject. My perspective as a historian was quite

different from those who populated the workshop. As a Latin Americanist, I was a novice in the field of Asian studies, but I could at least bring a comparative viewpoint to bear. In 2008 and 2009, Ambassador Pany gave me a summer fellowship at the Institute of Southeast Asian Studies, where I began to deepen my understanding of Singapore's political economy and started writing this book. What follows in these chapters are the findings of my research, which confirm what Ambassador Pany has said: FTA is not about trade, especially not about merchandise trade. Rather, it is about a far more complex set of international relationships that are as much about security and development as anything else.

I chose to write this book from an American scholar's perspective because in 2004 the Singaporean negotiating team produced a fine piece of work on the subject from their frame of reference. Thus, I decided to rely on U.S. government sources as the principal set of data (Congress seemed keenly interested in the topic), complemented by scholarly works, newspaper articles, and the publications of various Asian and multilateral organizations.

Finally, I must mention that this book is not a quantitative economic study; nor is it political science. Rather, it is a work by a historian interested in international political economy (IPE) issues and the comparative history of trade and development. But unlike traditional historical monographs, the book does not dwell on details, facts, and dates. Instead, I provide historical analysis based on empirical data. In the process, I have sought to test whether many IPE theories and assumptions on FTAs are valid for the subject. As the reader will discover, while these theories and assumptions go a long way towards framing big questions, they fall short of capturing the real motivations, and explaining the objectives behind the crafting of free trade agreements. In the book, I suggest some ways in which the theories can be fine-tuned with case studies such as this one.

Acknowledgements

This is my first book on East Asia, or more specifically, Southeast Asia. As a Latin American historian, I needed guiding hands from Asian, North American, Latin American, and European friends and strangers to gather data and acquire the proper perspectives for the book. Ambassadors K. Kesavapany and Tommy Koh shared their personal views as Singapore's chief negotiators for free trade agreements (FTAs) with South Korea and with the United States, respectively. Thank you, Pany and Tommy.

At the Institute of Southeast Asian Studies (ISEAS), I got to know several retired ambassadors, development bankers, and academics from the region. They shared their views and insights on FTAs. Ambassador Keng Jin Tan, Ambassador Rod Severino, Dr Omkar Shrestha and Mark Hong (my Gang of Four) made me an honorary member of their lunch club. They shared with me their perspectives and personal experiences. Also at ISEAS, the administrative staff and librarians merit my thanks for the strong support they gave me.

My special thanks must go to Alan Colegrove (a former U.S. naval aviator) and Jim Tietjen. I met Alan in Kuala Lumpur in 2000 when he was selling Boeing aircraft in Southeast Asia. Alan shared with me his contacts in Singapore, which included an introduction to Jim Tietjen, former U.S. Air Force attaché at the U.S. Embassy in Singapore. Jim and his wife Valerie have been a constant source of encouragement and friendship. Singaporean ministry officials also helped me, but will remain anonymous at their request.

I also thank Ambassador Dr Yusof Ahmad and his wife, Niki, Dr Zakkybaby, Dr James Jesudason, Phil Overmyer, Emily Dunivant, Derek Loh, Dom LaVine, Jasmine Ng, Dr Debrah Kay Elms, Dr Helen Nesadurai, Dr Johan Saravanamuttu, Paulo de Miranda, Dr Razeen Sally, Dr Christopher Dent, Dr Kogi, Delfina, Shiruzimath, Begum, Suriani,

Razief, Mano, Nazcov, Amer, Aniza, Nasrul, Farizal, Sadik, Ganesh, James Ng, Halim Saad, David Ong, Dana Simmons, Katherine Emmanuel, and Philippe and Cynthia Dunoyer. Philippe is a former CEO of Total-America and taught an IPE honors seminar with me at Colorado School of Mines for nine years. He has shared his practical experience as an IPE practitioner in the petroleum business in the Middle East, North Africa, Europe, and the United States. I have learned much from him. At the Colorado School of Mines, I owe much to my students and staff. Tom Bonnie, Jentry Mitchell, An (Ethan) Ngo, and Kurtis Griess helped me collect data. In my IPE seminars, Jeremy Sauer, Chris Kretchman, Gemma Lockhart, Ikram al-Yacoub, Khan Vu, Jill Savage, Joby Rittenhouse, LeVell Hill, and others shared their views on FTAs and East Asia. Connie Warren and Janelle Duke also gave me invaluable staff support. Also, I thank the anonymous external reviewers who made constructive suggestions on how to improve the book.

Finally, I would like to thank my wife, Laura, who is a fine Latin American historian and my former boss at Mines. She has helped me with new ideas, made invaluable suggestions for structuring the book, and given me constant encouragement in completing it. My sons, Alex and Steve, have been enthusiastic about the project. And Ruth Peake Jarnagin, my mother-in-law, has shown an insatiable curiosity about this book, which I am dedicating to her.

Eul-Soo Pang
Singapore
15 March 2011

Introduction

This book presents an American perspective on how the United States views free trade agreements (FTAs) in general, and, specifically, how the government, business sectors, organized labour, NGOs, and civil society groups interacted among themselves and chose to respond to the making of the United States-Singapore Free Trade Agreement (USSFTA). Singapore's negotiator, Ambassador Tommy Koh, and his negotiating team produced an informative book in 2004 that has captured succinctly the Singaporean perspectives. Dozens of economists, international relations specialists, and political scientists have written about the positive and negative economic consequences of free trade agreements. Hence, I chose to focus on the little explored aspect of American domestic political economy dimensions in the making of the USSFTA, given the complex processes the Clinton and Bush administrations underwent to obtain congressional approval for it.

The United States has seventeen working FTAs. Between 2002 and 2007, the Bush administration signed eighteen FTAs. The U.S. Congress has approved fifteen while three are pending (South Korea, Panama, and Colombia). With this record, George W. Bush has emerged with the most number of bilateral and multilateral FTAs brought into effect by any president during his two terms, a remarkable accomplishment considering the cumbersome and divisive nature of the American political system. But what history will remember most is that Bush's FTAs were *less* about economics and *more* about consolidating the political and security objectives of the United States and its partners.

The tedious procedure for negotiation and congressional approval required the United States Trade Representative (USTR) and his associates to consult the Congress 1,605 times for the eighteen negotiated FTAs (an average of ninety consultations with congressional leaders and staffers for each FTA), in addition to endless meetings, documents and e-mail exchanges, and teleconferences at the executive branch's interagency and

interdepartmental levels. In addition, there was a plethora of unsolicited input from private business sectors along with labour, human rights, religious, and environmental groups, with real and perceived stakes in trade and post-FTA annual reviews. Congressional hearings in both houses on FTAs were numerous as well and questioned subject matter specialists for the pros and cons of the USSFTA.

Equally intriguing but largely hidden was how the free trade agreement between the world's largest economy and the Asian Venice could impact the security landscape of the Asia Pacific as well as Southeast Asia. The American GDP was at least 100 times Singapore's during the negotiations, but the U.S. ratio of GDP to trade was less than 20 per cent; Singapore's represented at least 350 per cent its domestic output. Like the Mediterranean trading state of yore, Singapore has the power, vision, means, and courage to influence both the great powers and its neighbours. In many ways, Singapore, like Venice, has more clout than a Byzantium in shaping the regional economic and security environment. Down the road, it will play an indispensable role in persuading the great powers from East Asia and beyond to embrace a constructive role in the now budding Asia Pacific economic and security architecture.

Specifically, at the USSFTA signing ceremony at the White House, President George W. Bush, his U.S. trade representative, and others emphasized how the FTA was a logical sequel to the existing security relationship that had been steadily growing since the early 1990s between Singapore and the United States. The response from Prime Minister Goh Chok Tong and his colleagues was no less emphatic about the link between trade and security. Singapore has no formal alliance with Washington and probably never will. But it has greater clout in shaping and reshaping America's strategy towards East Asia than some formal allies of the United States in the region. In this context, I have reviewed and explored the pros and cons of embedding security into trade relationships. The convergence of these two spheres persisted as the cornerstone of the Bush administration's free trade and global war on terrorism strategy, and President Barack Obama has not discarded it as of his second year in office.

On 14 December 2009, the president notified Congress that the United States would commence multiparty negotiations to become a member of the Trans-Pacific Partnership, a four-country economic and trade integration agreement among Singapore, Brunei, Chile, and New Zealand. Soon, Vietnam, Australia, and Peru decided to join the negotiations. The first round of the meeting was held in Sydney, Australia on 15 March 2010. The

second and third rounds were held in San Francisco in June, and Lima in August, respectively. Thus, Obama has taken the Asia Pacific economic integration to the next level. Others in the region are watching. In the Pacific, the United States has bilateral FTAs with Australia, Chile, Singapore, Mexico, Canada, five central American states, and Peru. The FTA with Korea as of March 2011 has yet to receive congressional approval. Washington has been receptive to overtures from Vietnam and New Zealand about potential bilateral FTAs as well. For too long, the core of American foreign policy towards East Asia has been focused on security, and Obama has launched serious efforts to push trade and economic ties with America's Asian allies and partners. If successful, these efforts will balance Cold War-era U.S. preoccupations with security nicely and can even enhance its overall position as a major Pacific power for decades to come.

Singapore was the first Asian country to sign an FTA with the United States and remains the only Asian country with an FTA *in force.* In the Asia Pacific of some sixty sovereign states, Singapore is one of two FTA partners with the United States — Australia being the other. For Singapore, this convergence offers a unique opportunity to reinforce its foreign policy tradition of opening to the world, but guarding itself from an uncertain regional security environment. It also sends a strong message to its neighbours that the city state is *no* beachhead of China. By engaging the United States in Southeast Asia and tapping into America's military technology and strengthening interoperability, Singapore has emerged as the region's formidable military power. Even before Manila refused to renew base rights for the American navy at Subic Bay and for the air force at Clark Field in 1991, the United States had already been exploring the possibility of access to Singapore's facilities. When the Philippine Senate failed to approve the renewal contract, the Singapore Government stepped forward, at no one's prodding, to offer the homeless American military access rights to its Changi and Paya Lebar facilities, at great risk of irking its northern and southern neighbours. Interestingly enough, the Singapore model ("places, not bases") has given a new dimension to the structure of America's twenty-first century Pacific strategy, in which having permanent bases may not be necessary to remain relevant in the Pacific Century, but having permanent staging grounds for economic interests will be.

Aside from the obvious economic gains that Singapore now has with full, unencumbered access to the world's largest economy and its largest hinterland, the city state has made several domestic political gains from the FTA. Singapore moved swiftly to improve its competitiveness by

implementing a host of reforms such as in the Competition Act of 2004, which spells out better enforcement procedures for business activities. The government has also strengthened the oversight of intellectual property rights. Doing so has attracted a slew of American and non-American multinational companies in the pharmaceutical, biotechnological, and digital sectors. Also Singapore has granted greater market space for more American banks to introduce full banking services for Singapore's citizens; it has opened up e-commerce; it has allowed cross-professional licensing (beginning with lawyers and engineers); and it has secured 4,500 business visas for Singaporeans to work in the United States *per annum*.

On the American side, there were few domestic gains, but the FTA debate brought to the surface a sharper partisanism in political discourse and worsened labour-business relations. In the process, the American system of open government proved starkly to be less efficient and even less competitive when it comes to dealing with such global issues as FTAs. But the participation of civil society on the American side was notable, and Congress, the USTR, and various agencies of the executive branch of the government went out of their way to involve non-state actors. The use of e-mail and the Internet made this broader discussion possible. On its own, the Singapore Government solicited views on the FTA from American firms and influential individuals in the city. All in all, the agreement received a fair review from all parties concerned in Singapore and the United States. The process turned out to be transparent and society-wide. As a result, it produced the most comprehensive ("WTO plus") and "gold standard" FTA in American history.

The World Bank, the International Monetary Fund, and the World Trade Organization have argued that trade contributes to growth and that the more free trade there is, the faster growth will be. It may be an advocate's tinted view, but there is much truth in it. Seen strictly from the economic standpoint of the United States, FTAs in general offer few benefits. U.S. government-sponsored studies, as well as academic researches on trade, have been unanimous in their verdict that the benefits from free trade to the American economy of US$12 trillion (at the time of the USSFTA negotiations) would be 4.5 per cent of GDP, or US$497 billion, *in the unlikely scenario of the entire world unilaterally removing all tariff and non-tariff barriers to American merchandise and services*. A study by the University of Michigan estimated that under the most optimistic scenario, the USFFTA would add, at most, US$17.5 billion to the American GDP per year. FTAs with

Australia could mean an additional US$14 billion, Korea US$30 billion, Chile US$4.4 billion, and the entire four Central American countries, plus the Dominican Republic, US$17.3 billion, less than that with Singapore. On the other hand, Prime Minister Goh stated that the USSFTA could raise Singapore's GDP by as much as 2 per cent per year. The FTA offers both economic and security benefits to the city state. But the jury is still out. As for the United States, none of these econometric predictions has been realized.

The negotiations for the agreement took eleven rounds (a year plus a few days, from late December 2000 to January 2002) and involved American 139 issue specialists from a dozen or so U.S. Government agencies. It cost American taxpayers US$172,000. Australia, with a GDP several times larger than Singapore's, took five fewer American specialists to negotiate. The largest number of the American participants came from the Department of Agriculture. This is not surprising, given that the two most senior senators of the Finance Committee (empowered to oversee trade issues) were from agricultural states. The Treasury also had sixteen staffers involved in the FTA negotiation, indicating that the financial services market opening of Singapore — reform, deregulation, and liberalization — was of the utmost interest to the United States, not manufacture trade. In 2008, the top three hosts of America's investment in the Asia Pacific were Singapore, Australia, and Japan, in that descending order. The city state hosts the largest amount of American investment: the 2008 year-end total investment stock was US$106 billion, followed by Australia (US$89 billion), and Japan trailing in third place (US$79 billion). Hong Kong ranked fourth (US$51 billion) and China was a distant fifth, hosting US$46 billion of U.S. investment in the Asia Pacific.

On trade of manufactures, the United States agreed to give a "Made in Singapore" status to medical instruments and informatics products that Singapore's firms make in Indonesia's Bintan and Batam islands. This provision of an "integrated sourcing initiative" (in a trade specialist's jargon) was unprecedented and validated Singapore's offshore production strategy. Indonesia now has access to the world's largest market through a "backdoor" (Singapore) even though it has not signed an FTA with Washington. Singapore has brought the benefits of the FTA to its neighbour. America's offshore production in the Mexican and Honduran *maquiladoras* was not included, however: the United States did not insist on *quid pro quo* and Singapore did not volunteer to reciprocate.

The emphasis on increasing American agricultural exports certainly complemented Bush's re-election strategy of wooing Mid-Western, Western, and Southern states well. The two top ranking senators of the Finance Committee came from agricultural and ranching states — Iowa (Republican Senator Chuck Grassley) and Montana (Democratic Senator Max Baucus). Singapore, with no commercial scale agriculture, has been an enthusiastic importer of American agricultural products. U.S. Department of Agriculture specialists unreservedly endorsed the FTA.

In the House, the leadership was equally supportive of the FTA. The chairman of a trade supervising subcommittee of the House Ways and Means Committee came from Chicago (Republican Congressman Phil Crane), where the chewing gum maker (Wriggley) has been a prominent civic leader and political voice for over a century. Crane wanted Singapore to lift the existing ban on the use of chewing gum. Ambassador Tommy Koh mentioned to me that the chewing gum issue could have been the deal breaker, appearing in the last hour of the negotiation. Both sides compromised, however: Singapore classified chewing gum as a therapeutic product that a dentist could prescribe to patients; thus, technically, the ban on the sale of chewing gum was removed. But the average person still cannot buy Big Red at a supermarket or a 7-Eleven in Singapore. These were some of the vagaries of American democracy in crafting the final version of the FTA, illustrating that a handful of powerful senators and congressmen can hold up interstate negotiations and can make or break international treaties.

In March 2010, the Congressional Research Service (CRS) reported an interesting titbit about Singapore's chewing gum imports. In 2005 (the second year of the FTA), Singapore imported US$1,298 worth of American chewing gum, and the following year, it spent US$246 for the American imports! In 2009, according to the congressional report, "none came from the United States". Indonesia exported US$627,016 worth of chewing gum and South Korea reported US$112,907 in its gum exports. The congressional researchers added an intriguing footnote: "CRS attempted to obtain export data from a major U.S. chewing gum company, but it declined to cooperate. Likewise, the International Chewing Gum Association [sic] would not provide CRS with data on exports to Singapore." This book has sought to analyse the extent of the power that a single House or Senate member can wield in the American system of government, but has little or no consequences for the big picture.

The American and Singaporean negotiators launched their first round of talks in Washington in mid-December 2000. Then, they agreed to hold subsequent meetings in London — not only a neutral ground, but less costly and time-consuming for travel to for both sides. If one looks at the ratio between the total two-way trade value, the expenses incurred for negotiators' trips and lodgings, and the comprehensiveness of the agreement (twenty-one chapters covering issues that the WTO has not addressed or does not dare to address, such as capital controls, e-commerce, worker migration, work visas, and competition law), the USSFTA was the least expensive and most comprehensive product that the USTR has ever successfully concluded: US$273 million per American specialist (dividing US$38 billion in bilateral trade value by the 139 issue specialists). Singapore came out even better; it fielded only fifty-three specialists for the negotiation.

There were several reasons and motives for the United States and Singapore to go for a bilateral FTA. Both were frustrated by the snail-paced progress being made in WTO-led multilateral trade liberalization, as subsequently confirmed by the stalemate of the Doha Round (2001) and the collapse of the Cancún Round (2003). The ASEAN Free Trade Area (AFTA) was fashioned in 1991. As the largest player in the intra-AFTA trade, Singapore became impatient with the equally slow pace of the financial market opening. Malaysia and Indonesia were unwilling to move any faster. The intra-ASEAN trade ratio has been stuck in the low twenties percentile ever since, reaching a peak of 25 per cent only once. By contrast, the intraregional ratio is 73 per cent for the European Union, and 50 per cent for the North American Free Trade Agreement (NAFTA). For the United States, the effect of NAFTA, comprising Canada, Mexico and the United States, has not been as magnanimous as what had been anticipated in terms of creating jobs and expanding U.S. exports to northern and southern neighbours. Mexico did overtake Japan as America's second largest trading partner, but that was not enough to fuel America's growth. Canada continues to hold the pre-NAFTA position of number one. In Singapore's case, the American agricultural sector fared better than labour-intensive manufacturing.

Thus, North American trade regionalism was, to use an American expression, "maxing out". Bill Clinton needed more ways to expand U.S. trade, especially in his twilight years in office when he was engulfed by a sex scandal, and rising tides of partisan rancour and media criticism.

The negotiation in building a thirty-four-country Free Trade Area of the Americas (FTAA) was going badly, as Brazil, Argentina, and Venezuela were determined to derail Clinton's dream of trade integration "from Alaska to Tierra del Fuego". Neither Singapore nor the United States was willing to leave the future of their trade policy to groups of obstructionist countries. It was the position of the American Government that those unwilling to liberalize trade regimes further should be ignored and left behind. The willing should rally and move forward. The leaders of the two countries shared this view and chose to forge ahead with a bilateral approach. It took one midnight golf game in Brunei between President Clinton and Prime Minister Goh for agreement to be reached on launching negotiations for the bilateral FTA.

If the bilateral FTAs were all about trade, one could argue that the logic of the Bush administration's and his predecessor's emphasis on focusing on small countries made little sense. In 2008, a little over half the world's trade takes place within 211 regional free trade areas and bilateral FTAs. That year, 44 per cent of the American trade was conducted with FTA partners and those *in negotiation* for FTAs; 56 per cent of the U.S. trade was with non-FTA partners — the three largest *non-FTA* partners being China, Japan, and the European Union. Over half of America's annual trade deficit has been incurred with those three entities. Also, the United States offers 131 developing countries one-way FTAs (preferential trade terms) for their economic growth and overall development. Cambodia and Bangladesh, for instance, enjoy preferential tariffs in their textile and apparel exports to the United States, but are not required to, and do not, reciprocate for similar American products. Therefore, the American FTAs are not about trade.

The foreign trade of the United States in 2008 came close to US$3 trillion. But it has been running a trade deficit since 1970, every year *non-stop*, except in 1973 and 1975. The American trade deficit in 1980 was US$100 billion; by 2003, it had surpassed the US$500 billion milestone, soaring to US$838.3 billion by 2006, the largest in history. In 2007, the deficit came down slightly to US$819.4 billion, thanks to a cheaper dollar and increased exports. The American deficit against China, Japan, and the European Union *combined* came to a whopping US$446 billion, or 55 per cent of the total. If the aim of free trade agreements is to eliminate or reduce the deficit, the Unites States should pursue FTAs with the European Union, Japan, and China, but to date it has not done so.

Furthermore, to prepare for better negotiation results, the United States has spent billions of dollars for small prospective FTA partners to upgrade their negotiating capacity and build up their trade-related infrastructure and bureaucracies. The U.S. Government invested US$47 million to improve the bargaining skills of four Central American countries and another US$40 million for a single country: Morocco. The Southern African Customs Union began to negotiate with the United States after receiving US$2 million for capacity building, and then both sides agreed to suspend negotiations. The African side was still ill prepared to deal with comprehensive FTA negotiations. Compared with these experiences, the Singapore case was an inexpensive and felicitous one. Taking all these factors into account, I argue that the American FTAs are more about advancing political objectives than attaining economic gains. The United States has used FTAs to push domestic reforms for its developing country partners, as well as to consolidate or "lock in" their democratic achievements thus far. Morocco, Jordan, Bahrain, Oman, the Central American countries, the Dominican Republic, Peru, and Chile are all examples. One might add Korea, Colombia, and Panama to the list. But with developed countries such as Australia and Singapore, there are other motives that this book will delve into in the coming chapters.

The book is organized into six chapters and a conclusion. Chapter 1 provides a historical overview of the role of trade and globalization in America, Singapore's economic growth and development, and both countries' objective of building overarching regional peace and stability. Chapter 2 deals with the making of the USSFTA against the backdrop of each party's motives to pursue bilateralism. Chapter 3 examines American trade practices and their impact on American thinking about how to forge the best trade policy, especially the political use of "fast track", including the 2002 Trade Promotion Act.

Chapter 4 explores the nuances of stand-alone economic regionalism and security regionalism, assessing the strengths and weaknesses of the convergence approach of merging the two realms, or embedding one into the other. Asia has practised the divergence approach, or separating, or delinking the two, while the United States has been the strongest advocate of convergence. Chapter 5 examines the harmful consequences of lobbying the U.S. Congress and a coterie of trade-related executive branch agencies. Chapter 6 traces the evolution of American foreign economic and security policy towards Northeast Asia and Southeast Asia, especially in terms of

weighing Asia's preferences and America's choices since the 1990s, a proper examination which merits a book-length treatment in itself.

The Conclusion sums up the highlights of the book and provides a prognostication of what lies ahead for the region in a world of convergence as opposed to a world of divergence. The rapidly shifting world geopolitical and geo-economic weight from the Atlantic-Pacific nexus to the now emerging Pacific-Indian Ocean system can create a brave new world, and these changes will redefine America's security and economic interests in the region. For the coming decades at least, the United States should play the vital role of being an important link in the chain, if not occupying systemic centrality, in both the Atlantic-Pacific as well as the Pacific-Indian system. America's central role in the Atlantic-Pacific and Pacific-Indian duality is the challenge that Obama and his successors need to address. Within it, FTAs will continue to remain an important foundation piece for the making of Asia-Pacific material prosperity and a stable security landscape for the coming decades.

1

On the Crest of Trade and Globalization: Singapore and America

Since our neighbours were out to reduce their ties with us, we had to link up with the developed world — America, Europe, and Japan — and attract their manufacturers to produce in Singapore and export their products to the developed countries.

Lee Kuan Yew, *From Third World to First: The Singapore Story: 1965–2000*

1.1 AMERICAN VIEWS ON TRADE GAINS AND LOSSES

Trade has been a positive factor in America's growth throughout its history and has been viewed as a driver for the expansions and contractions of the general economy. However, given the enormous size of the U.S. economy (US$14 trillion in gross domestic product [GDP] in 2007), economists have also argued that international trade *alone* does not affect the future of the American economy (CRS 2007*b*, pp. 9–12). It is known that once launched, free trade generates short-term, one-time static gains for partners. However, in order to turn the short-term gains into long-term, dynamic prosperity, the partners must invest in education, build modern infrastructure, attract fresh foreign capital and technology, discard unproductive plants in favour

of new ones, adopt a host of policies to improve competitiveness, and introduce domestic reforms to realign the country with the practices of a globalized world economy (USITC 1993). Without these additional reforms, human capital, and infrastructure, there can be no dynamic long-term gains to be had from free trade.

There are three standard trade impact models: gravity, partial equilibrium, and computable general equilibrium. Of these, the most frequently cited is the third one, known as "the Michigan model" (D. Brown, Deardorff and Stern 2002). One *assumption* built into this model is that with a 33 per cent reduction of tariffs in agricultural, manufacturing, and service products (had the Doha Round succeeded), the benefits to the United States would have been US$164 billion, or a 1.5 per cent gain in GDP. If the world would *unilaterally* remove all tariffs, the gains could be as high as US$497 billion, or 4.5 per cent. Also, a U.S. government report asserts that with worldwide free trade, the effect on job creation would be small: agriculture would increase jobs, but workers in textiles and apparel, the retail trade, and some service sectors would lose their jobs (CRS 2007*b*, pp. 13–16). Thus the overall benefits of free trade for the United States would be small. If this assumption is true, it raises an important question: if the projected gains from free trade are relatively insignificant economically, why has the U.S. government pursued free trade agreements (FTAs) around the world so vigorously?

On regional and bilateral levels, the economic benefits to the United States seem even smaller. The Singapore FTA was estimated to generate US$17.5 billion per year in additional revenue for the American economy while the Chile FTA would produce US$4.41 billion. Free trade with Australia is projected to generate US$19.39 billion, the Korea FTA US$30.1 billion, and the Morocco FTA US$5.97 billion. The five-country Central America — Dominican Republic — United States of America Free Trade Agreement (CAFTA-DR) is expected to add US$17.26 billion, slightly less than that with Singapore. Ironically, an FTA with the ten country members of the Association of Southeast Asian Nations (ASEAN-10) would generate US$12.98 billion, less than the single FTA with Singapore (see Table 1.1). If bilateral FTAs generate small gains, why has the U.S. government pursued trade liberalization strategies on multilateral and regional levels as well? There has been no shared common perspective on trade among large American firms, labour unions, small and medium businesses, environmental groups, or other special interest and non-

TABLE 1.1
Economic Gains of FTAs to the United States, Estimated in 2002
(US$ billion)

APEC FTA	*ASEAN FTA*	*FTAA*	*Chile FTA*	*Singapore FTA*	*Korea FTA*	*SACU FTA*	*CAFTA*	*Australia FTA*	*Morocco FTA*
$244.25	$12.98	$67.59	$4.41	$17.5	$30.1	$12.61	$17.26	$19.39	$5.97

Source: CRS 2007*b*, p. 15.

governmental organization entities. Often, these groups seek to influence Congress and the president to take their position as the official policy for international trade and bilateral trade agreements. For the most part, this lobbying has been counterproductive for the country and has often created rancour among the players, but it has also produced gains for particular industries. In the United States, it is politics rather than the economic stakes that has played the greater role in free trade decisions, as this book will clearly demonstrate.

1.2 AMERICA'S RECENT TRADE PERFORMANCE

In 2007, the total U.S. trade deficit in goods reached its second highest level in history: US$819.4 billion. The year before, the United States exported over US$1 trillion in goods and services for the first time in its history, but also racked up its largest trade deficit ever: US$838.3 billion (CRS 2008*h*, p. 9). By contrast, all of the United States' major security allies and trading partners have been generating trade surpluses: the European Union, US$107.2 billion; Canada, US$68.2 billion; Mexico, US$74.6 billion; and the four recently industrialized countries in Asia, known as the Four Tigers (South Korea, Singapore, Taiwan, and Hong Kong), a combined US$3.9 billion. Since 1990, the U.S. trade deficit in merchandise with the Four Tigers has been decreasing while it has been increasing with China, from US$10.4 billion in 1990 to US$256.2 billion in 2007, representing 35.3 per cent of all U.S. imports and a full third (32.2 per cent) of the entire American trade deficit (CRS 2008*h*, pp. 27–28). In fact, Singapore and Hong Kong, the two most advanced service economies of the four, ran a trade deficit in merchandise against the United States of US$7.9 billion and US$13.1 billion, respectively (CRS 2008*h*, p. 18). American exports