

Asia-Ready Webinar Series

Singapore Free Trade Agreements – Yay or Nay?

The Asia-Ready Webinar Series is co-curated with various partners to allow youth to gain a better appreciation of the regional developments and a greater awareness of Singapore's interconnectivity with the regional markets.

Sat, 24 Jul 2021

10:00 AM - 11:00 AM

Online event



About the Webinar

Speaker

Associate Professor Simon SC Tay – Chairman, Singapore Institute of International Affairs

Synopsis

If you're an avid follower of current affairs in Singapore, you would have heard that there is an on-going discussion in Parliament on Singapore's free trade agreements (FTAs), such as the Singapore-India Comprehensive Economic Cooperation Agreement (CECA). While FTAs

are essential for us to remain connected to the world, there are concerns that being open impacts our job opportunities and might fuel racism or anti-foreigner sentiments.

What do you, as a Singaporean youth, think about FTAs and Singapore's policy of openness and engagement with the world?

This webinar is brought to you by the National Youth Council (NYC) and the Singapore Institute of International Affairs (SIIA).

What We've Learnt

Loss of faith in globalisation

Singapore's economy is based on its connections to the world. However, many are already losing faith in globalisation and the pandemic has exacerbated the situation. The outbreak of COVID-19 has made many Singaporeans re-evaluate how much the country should engage with the rest of the world.

Additionally, increasing wealth gaps along with decades of globalisation has caused anxiety that inequality will only continue to grow, and that the current global trade system does not allow the lower-income to catch up. This division could also be accelerated by rapid digitalisation because of the pandemic. While digitalisation holds so much promise for the future, it can also mean that those who do not have the right skill sets will be left behind. Lastly, there are also growing concerns about climate change, with many doubting whether our current economic and governance systems can alleviate the climate crisis.

Protectionism and exclusion

Anti-globalisation sentiment has been building up worldwide for some time, with voices questioning the benefits of free trade and whether it helps ordinary citizens. The US-China trade war was already underway prior to COVID-19, but the past year has seen escalation of tensions between the two powers. While the current Biden administration has taken a more diplomatic tone towards China than the Trump administration, the US continues to see China as a strategic competitor, and therefore tensions are unlikely to fully subside.

As a result of the US-China tensions, Singapore feels the pressure of being caught between the two powers. Supply chain shifts were already occurring due to the US-China trade war, and these shifts have been further intensified by the disruptions caused by the pandemic. Many US companies have relocated their supply chains to avoid manufacturing in China. Amidst the pandemic, more and more countries are also trying to move the production of essential goods closer to home for security reasons.

Amidst the economic uncertainty caused by the pandemic, countries have often resorted to protectionism to defend their domestic interests. Societies instinctively look inwards rather than outwards during times of crisis, following the logic of "us vs. them". Countries have cut off trade flows to keep essential goods such as food and medical supplies for themselves. This has put a strain on the free trade system that Singapore heavily relies on.

Pros and cons of free trade

The main benefit of free trade is efficiency. It allows countries to specialise in producing a smaller range of goods that they have a natural advantage in manufacturing, rather than producing a large range of goods that are of poorer quality. This way, countries can reap the benefits of becoming specialists in their own production niche while also enjoying high-quality goods that are manufactured by other nations. This is especially important for Singapore, a country that is limited by land size and its small population. Additionally, free trade has solved previous issues with supply chains. Before international trade, the available produce in markets was limited by seasonal changes. For instance, certain fruits and vegetables would only be available at specific times of the year. With free trade, Singapore can now get previously seasonal produce all year round by importing goods from different countries.

However, free trade is not without faults. These include environmental costs, labour rights and concerns over competitiveness and jobs.

The recurring transboundary haze is one of the few instances where the Singapore community directly feel the impacts of deforestation and poor environmental stewardship. The haze is caused by forest and land fires, associated with the expansion of commercial agriculture in our region to grow commodities such as palm oil. Using palm oil is not inherently problematic – it is simply another vegetable oil, and its cultivation need not necessarily do any harm to the environment. However, the palm oil sector continues to face problems with unsustainable practices used by bad actors. There is a need for market-based incentives so it is profitable to conserve and restore natural ecosystems rather than clearing and draining them. For instance, there is now growing interest in nature-based solutions, or the production of carbon credits from forest conservation projects.

Exploitation of workers is another issue in our region. In some labour-intensive industries, workers are forced to work in nearly slave-like conditions. What can be done about this? Activists and even some governments have called for boycotts of exploitative companies. Others have argued that consumers should take steps to buy from businesses that prioritise environmental, social and governance (ESG) concerns, thereby rewarding them. But these are not perfect solutions. That said, there is an emerging trend towards banks and financial institutions placing companies under tighter scrutiny, cutting investment flows to companies accused of unethical practices.

While Singapore largely benefits from free trade, there will still be winners and losers in a competitive and globally linked economy. Fear of jobs going to foreign talent is a real concern. This is not because foreigners are necessarily preferred, but because businesses in Singapore have the freedom to hire the best qualified candidate, who may not be a local.

Benefits of Openness: Global and Regional Engagement

As a small and trade dependent country, it is crucial for Singapore to remain open to the rest of the world. Singapore benefits from skills and technology transfer, as well as access to more products and services. It is important to remember that trade and investment only

works when both parties see the mutual benefit. By making Singapore more open and competitive, Multinational Corporations (MNCs) are also more likely to invest in Singapore's economy, creating more jobs and opportunities here. In addition, Singapore plays a unique role as home to both American and Chinese companies amidst the growing US-China trade and tech rivalry. This allows Singapore to serve as an important bridge between both sides, doing business with both the US and China.

Questions Answered

by Associate Professor Simon Tay

How do FTAs benefit Singapore and our trade partners? Who benefits the most from FTAs?

FTAs are very much a win-win for Singapore and its trading partners. However, the crux of the question is what Singapore can offer to our partners, given that we actually do not have much to bring to the table. Traditionally, countries with bigger markets have more bargaining power when negotiating trade deals. Given that Singapore has a small population with a small domestic market, countries do not seek trade deals to gain access to Singapore's consumer market. Instead, countries look to Singapore for a strong partner that it can collaborate with, for instance allowing their companies to set up operations in

Singapore, exporting goods from Singapore or making investments in the different economies that Singapore has FTAs with.

When a foreign-backed company conducts business from Singapore, this trade or investment is counted as Singaporean for the purposes of FTAs. This means that MNCs can leverage Singapore's FTAs for better market access. In this process, Singapore also benefits because these foreign firms help create jobs and economic activity in Singapore. The recently-concluded Pacific Alliance-Singapore Free Trade Agreement is a good example of this principle. The Pacific Alliance consists of Chile, Colombia, Mexico and Peru, and these Latin American countries aim to use Singapore as a hub to connect them to ASEAN and the rest of Asia.

Will the proposed global corporate tax rate affect Singapore significantly?

The global tax is an important initiative and it must be set at a good level. While Singapore does indeed have lower corporate taxes, it is not a tax haven like the Bahamas or the Virgin Islands. In that regard, Singapore will not be affected as much as some other economies. The details of the minimum global corporate tax rate have yet to be finalised, but it is probable that the proposed global tax may not differ much from what Singapore is already charging.

Will oil trade still remain relevant to Singapore, considering the push towards de-carbonisation and low carbon? How will sustainability factor in Singapore as a trading partner?

While demand for oil and gas might decrease, it does not necessarily mean that Singapore will immediately stop engaging in oil trade. As one of the more efficient oil trading hubs, so long as there is oil and gas to be processed, Singapore will remain in the sector. Any shift to renewable energy will not be immediate. That said, energy companies are indeed changing their approach and progressively adopting green and renewable energy. There is a corresponding need for Singapore's financial sector and engineering sector to shift in response to the emerging low-carbon future economy. In the last two to three years, Singapore has lead ASEAN in this aspect and has become one of the hubs in Asia for sustainable and green finance. For instance, Singapore's financial sector has shifted from funding coal fired plants to financing renewables such as solar power. Therefore, Singapore is becoming greener as a trade and investment partner.

Do FTAs promote regionalism rather than global integration? How do FTAs fit in broader regional structures?

As the pushback against globalisation and global free trade began in the 1990s, Singapore realised it needed to change its strategy from relying solely on the global World Trade Organisation system. Singaporean policymakers knew that bilateral and regional FTAs were needed. Singapore and its neighbours also created the ASEAN Economic Community to promote regional economic integration within Southeast Asia.

Regional integration and globalisation are not at odds. They can be understood as concentric circles, or Russian nesting dolls where one fits within another. By building consistent bilateral and regional rules to govern trade, Singapore and ASEAN can support the principles of free trade at the broader global level.