Order Code RS20755
Updated July 22, 2002

Singapore-U.S. Free Trade Agreement

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Summary

The United States and Singapore are negotiating a free-trade agreement that would, over some period of time, eliminate tariffs on all goods traded between them, cover trade in services, and protect intellectual property rights. The agreement may include provisions on labor and the environment. Congressional approval would be required for implementation. This report will be updated as circumstances warrant.

In November 2000, the United States and Singapore announced the launch of negotiations for a U.S.-Singapore Free Trade Agreement (FTA).[1] The FTA would be the fifth such agreement the United States has signed and the first with an Asian country. As initiated by the Clinton Administration, it was to be modeled after the U.S.-Jordan FTA and would eliminate tariffs on all goods over time, cover substantially all services sectors, help to develop electronic commerce, protect intellectual property rights, include safeguards and dispute settlement mechanisms, and could include provisions on labor and the environment. Negotiations over the FTA began in December 2000 with an initial goal of completion before year end. Under the Bush Administration, a target completion date of June 2002 (as Singapore had hoped for) has been dropped.

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 trade liberalization and globalization; (3) it may contain controversial environmental and/or labor conditions; 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. Trade Representative has indicated that negotiation of a comprehensive U.S.-Singapore FTA would complement both U.S. regional and multilateral work by serving as a significant step toward realization of the Asia Pacific Economic Cooperation (APEC) forum's "Bogor Vision,"under which the United States and APEC's other 21

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

members are working toward "free and open trade in the Pacific" and by underscoring the benefits of further trade liberalization.[2]

In July 2002, U.S. trade officials reportedly told business representatives that the negotiations with Singapore on the FTA may continue until 2003 if Congress does not conclude work on bills providing trade promotion authority (TPA) to the President by the August recess. TPA was deemed necessary to give negotiators guidance on how to handle labor and environmental issues.[3]

In June 2002, the United States and Singapore conducted the ninth round of negotiations on the FTA with a focus on financial and professional services. The tenth round is scheduled for July. On April 15 and 22, the seventh and eighth rounds were conducted. Except for labor and the environment, most subjects were discussed.

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.

On February 1, 2002, the United States and Singapore completed their sixth round of negotiations on the FTA. During the round, significant progress was reported to have been made on rules of origin, trade in goods and general services, financial and telecommunication services, e-commerce, government procurement, investment, and intellectual property rights. The fifth round was competed on October 26, 2001, during which the two countries indicated that they had made progress on a variety of fronts. The fourth round of talks on July 20, 2001, were based on a consolidated draft text that did not include investment, labor, and environmental guidelines, and electronic commerce. The third round of negotiations (the first under the Bush Administration) was held on May 25.

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.

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[2] U.S. Trade Representative. *2001 Trade Policy Agenda and 2000 Annual Report of the President of the United States on the Trade Agreements Program*. March 2001. On Internet at [http://www.ustr.gov/reports/2001.html].

[3] U.S. Negotiators Link Singapore FTA Conclusion to Fast Track, *Inside US Trade*, July 19, 2002 .

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

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).

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. Singapore also is negotiating such arrangements with Australia, Mexico, and Canada, and is seeking one with the European Union. In addition, Singapore is a member of the Association of Southeast Asian Nations (ASEAN) which has been phasing in a Free Trade Area (AFTA) for its members, although AFTA's goal is currently to lower tariffs overall by 2003 and eliminate them only on certain items imported from other member countries. 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 or is implementing free trade agreements with Canada, Mexico, Israel, and Jordan, is considering free trade with Chile, Latin America, 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.

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

Issues

Since Singapore's merchandise trade already is virtually free, U.S. negotiators are focusing on removing Singaporean restrictions on a wide range of services. These include high-technology sectors such as engineering, medical, information technology, environmental, legal, financial, education, and distribution.[6]

The sticking points in the negotiations include textile trade (including rules of origin, customs, and transshipments), banking, and investment issues. Investment was not included in the U.S.-Jordan FTA that initially was being used as a model.[7] One investment issue is 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.[8] Access by U.S. banks to Singapore's retail banking sector and limits on the operations of professionals (lawyers, architects, etc.) also are being negotiated.

In June 2002, the U.S. Ambassador to Singapore stated that the two sides had moved very far along on rules issues, such as intellectual property protections, investor-to-state rules, export controls, and the container security initiative that had become more important after the September 11 terrorist attacks.

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,[9] and a booming entrepot trade. Singaporean businesses have invested extensively in manufacturing facilities in neighboring Indonesia, Malaysia, and other lower-wage countries. For example, Batam in Indonesia (located about 40 minutes from Singapore by boat) has 13 industrial parks with about 400,000 migrant factory workers – many of them employed by companies from Singapore.[10] China also is close to Singapore.

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 keep quotas in place until 2005 and maintain high U.S. tariffs on the "vast majority of

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[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] *Washington Trade Daily*, December 14, 2000. P. 2.

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

[9] 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.

[10] Choudry, Aziz. Human Reality Hidden in New Free Trade Deal. *New Zealand Herald*, September 6, 2000. Internet edition.

textile and apparel products from Singapore for 10 years after the agreement enters into force."[11] As for rules of origin, the U.S. side reportedly is pushing for the same rules that are in the North American Free Trade Agreement (NAFTA) and which are generally favored by the American Textile Manufacturers Institute. A point of contention is the NAFTA-like "yarn forward" rule of origin which would require that yarn production and subsequent stages of production be conducted in the United States or Singapore in order for apparel or textiles to qualify for duty free treatment. This is being opposed by the NRF and the U.S. Association of Importers of Textiles and Apparel who prefer rules of origin similar to those in the 1985 U.S.-Israel FTA or those in the WTO referred to as the Breaux-Cardin rules of origin. Under Breaux-Cardin, origin is determined by the country where a textile or apparel product is assembled, not cut, or where the base fabric is made, not printed or dyed. The U.S.-Israel FTA required 35% of the value added be in Israel.[12]

With respect to intellectual property rights, Singapore has been on the Special 301 Watch List since 1995.[13] This stems from U.S. concerns regarding the consistency of Singapore's intellectual property rights (IPR) regime with provisions of the 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.[14]

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 (and in proposals to grant the President fast-track trade negotiating authority) have become a source of considerable dispute between Democrats and Republicans, business and labor, and among other interest groups in the United States. Some have suggested that the language in the U.S.-Jordan FTA provides a possible model for a middle ground. The Jordan-U.S. agreement attempts to address both labor rights and environmental 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 that states that, if the dispute cannot be resolved, the "affected party shall be entitled to take any appropriate and commensurate measures." 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

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[11] 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.

[12] Nafta Rules Called 'Inappropriate' for U.S.-Singapore Free Trade Agreement. *International Trade Reporter*, April 4, 2002. P. 607.

[13] 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.

[14] 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.

and other procedures, particularly alternative mechanisms, that will help to secure compliance without recourse to traditional trade sanctions."[15]

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.

[15] Side Letter on Labor and Environment. U.S. Trade Representative Zoellick to the Ambassador of Jordan. July 23, 2001. On Internet at: [http://www.tcc.mac.doc.gov/cgi-bin/doit.cgi?204:67:108047905:313]