

SECTION ONE

OVERVIEW

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GROWING TREND TOWARDS REGIONAL ECONOMIC INTEGRATION

1. Regional economic integration has become a dominant feature of the world economic environment, particularly during the last decade. In recent times, it has also become more encompassing, with its coverage broadening from border measures to include domestic regulations and internal measures. Agreements for such integration are today fairly diverse in nature, and include free trade agreements (FTA), customs unions, common markets and economic unions. More than 200 such agreements have been notified to the General Agreement on Tariffs and Trade (GATT) or the WTO.¹ Of these, over 130 are currently in force.² Most WTO members are party to at least one such agreement.

2. The growing trend towards regional FTAs in Europe and the Americas is particularly striking. The European Union (EU) has been steadily expanding its FTA network with Central and Eastern Europe, the Caribbean and Africa, and is also forging trans-Atlantic FTAs with Latin American countries such as Mexico, Chile, and the MERCOSUR.³ Across the Atlantic, members of the North American Free Trade Agreement (NAFTA) are working with Latin America to achieve agreement on a 34-member Free Trade Area of the Americas by 2005. Meanwhile, the Latin American economies are themselves forming many FTAs. Similar trends are evident in Central and Eastern Europe, the Middle East, and Africa.

3. As a result of this growing trend towards regional economic integration, preferential trade has increased from 40% of total world trade in the period 1988-1992 to 42% in the period 1993-1997.⁴ In the latter period, while the 15 EU members accounted for the highest proportion of preferential trade, it was Western Hemisphere trade agreements, such as NAFTA and MERCOSUR, which showed more significant growth in the share of preferential trade, from 19% in the period 1988-1992 to 27% in the period 1993-1997.

4. There are different motivations for the pursuit of regional economic integration. Some countries see such agreements as strategic alliances, while others leverage on them to obtain more secure and favourable access to important markets. In some cases, they have also helped to promote policy reforms.

¹ Source: WTO, July 2000.

² *Ibid.*

³ Argentina, Brazil, Paraguay and Uruguay.

⁴ Source: "Preferential and Non-preferential Trade Flows in the World", September 1998, staff paper WTO..

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FTA: COMPLEMENTING MULTILATERAL LIBERALISATION

5. Japan and Singapore place primary emphasis on the multilateral trading system. The rules-based WTO is a key institution that can provide a fair and predictable global trading environment for all economies. Japan and Singapore are playing active roles in on-going efforts to resolve the issues that led to the deadlock at the Seattle WTO Ministerial Conference in December 1999, and to pave the way for a New Round.

6. At the same time, however, there is a need to examine alternative tracks that complement the efforts of the multilateral trading system towards global trade liberalisation. In the past, FTAs were regarded as precursors to economic blocs, and therefore stumbling blocks to the GATT/WTO. These attitudes are now changing. No FTA can afford to be inward looking, because globalisation has made markets much more inter-linked and inter-dependent. It is also increasingly recognised that FTAs which are WTO-consistent can have a positive ratcheting effect on global trade liberalisation. FTAs are now seen as an essential tool of international trade policy, complementing the multilateral trading system. In particular:

- a. because they are easier to conclude than multilateral agreements, FTAs can serve as building blocks towards multilateralism, helping to sustain the momentum of global trade liberalisation. FTAs allow those countries willing to move ahead of their WTO commitments to do so, thus creating a strong incentive for the WTO to 'catch-up';
- b. FTAs can be a testbed for new and innovative models of rules governing economic activity. These can subsequently be adapted for global use. FTAs can therefore provide positive complementary pressure for the evolution of WTO agreements; and
- c. since FTAs are formed between a small number of partners and at a pace that is comfortable to all parties, they are an effective means of preparing societies for greater transborder exposure at the multilateral level. They provide an important demonstrative effect of the benefits of trade liberalisation without attracting a severe backlash against liberalisation.

In short, FTAs that are WTO-consistent, covering substantially all trade in goods and with a substantial sectoral coverage of services would lead to competitive liberalisation, as opposed to protectionism.

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TOWARDS A “NEW-AGE” FTA

7. Besides the growing trend towards regional economic integration, two other key forces are redefining the global political, economic and social landscapes – globalisation and technological progress.

8. Globalisation. We live in a world that is increasingly integrated through trade, investment, capital, people and information flows.

- a. Growth in world trade has outstripped growth in world output. While world GDP grew by more than 6 times in real terms between 1950 and 2000, international trade multiplied by about 20 times. In 1999, international trade represented 18% of the world GDP (US\$31 trillion), compared to 9% in 1965.⁵
- b. The volume of capital flows has also surged. Global movement of finance capital (trading of stocks, bonds, currencies and exotic instruments) has accelerated. Since 1985, growth of the global flow of foreign direct investment has outstripped that of domestic gross fixed capital formation. The daily turnover of the foreign exchange market has risen sharply from US\$590 billion in April 1988 to US\$1,500 billion in April 1999.⁶
- c. Total scheduled passenger traffic on the world’s airlines grew at an annual average rate of 4.4% from 1988 to 1998. In 1998, over 2,600 billion passenger-kilometres were registered.⁷
- d. The growth of the Internet has been staggering. In 1996, the number of people accessing the Internet was about 45 million. By June 2000, this figure had reached an estimated 332 million.⁸

9. Technological progress. Rapid advances in technology, especially information and communications technology (ICT), are accelerating the pace of change in production and consumption patterns. ICT, and the Internet in particular, is today a key business enabler, and has contributed significantly towards a borderless global economy by removing physical distance as an obstacle to trade. Access to

⁵ Source: GATT, WTO and International Monetary Fund (IMF)

⁶ Source: Bank for International Settlements.

⁷ Source: International Civil Aviation Organization, press release, 22 June 2000.

⁸ Source: NUA Internet Surveys (<http://www.nua.ie>).

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information, and the mobility of capital and talent have also been significantly enhanced by technological progress.

10. A “New Age” FTA. These key driving forces put increasing pressure on societies to re-invent and refine their economic systems to stay competitive and attractive to capital and talent. The tremendous changes sweeping the world will compel governments to push forward with continuous regulatory reforms. Societies must be prepared to embrace change and need to acquire rapidly a mindset of creativity, innovation and risk-taking. Companies, too, have to be increasingly outward-oriented and internationally (as opposed to domestically) competitive.

11. These trends of globalisation and technological progress provide a variety of reasons for deeper economic partnerships between economies. Significant synergy and opportunities can be derived from mutual enhancement of market access. This will create a larger and seamless market for our companies. The competitive pressures brought about by liberalisation will also force our societies into a more rapid pace of change, and enable us to develop faster the capabilities and competencies required to thrive in a challenging future.

12. To maximise the benefits from economic integration, efforts in this “New Age” must address the new challenges that globalisation and technological progress have brought about. In addition to promoting trade in goods and services, we should work towards the smooth transborder flow of people, capital and information. We also have to take active measures to encourage innovation and competition in the integrated market. A “New Age” FTA should also incorporate a process of creative experimentation and continuous review and improvement.

13. It is against this backdrop that the Joint Study Group conducted its meetings to explore the possible scope of and benefits for such an economic partnership between Japan and Singapore. Noting that the proposed bilateral agreement transcends the focus of traditional FTAs, the Joint Study Group termed it the Japan-Singapore Economic Agreement for a New Age Partnership (hereinafter referred to as Japan-Singapore Economic Partnership Agreement or “JSEPA”). The Joint Study Group hoped that the JSEPA would provide a model framework for regional economic integration in the New Age.

14. The following sections elaborate on the findings of the Joint Study Group.
