

# The lasting impact of FTAs amid global trade shocks

Free trade agreements provide a sense of continuity in a volatile trade environment by establishing clear rules and standards that help to anchor economic ties.

BY JESSLENE LEE AND PAUL CHEUNG

AS THE US-Singapore Free Trade Agreement (USFSTA) marks its 20th year, the United States' imposition of a 10 per cent baseline tariff on Singapore casts a long shadow over two decades of strong economic partnership between the two countries.

Endorsed by the US Congress on the basis that it would "enhance and strengthen the strong US-Singapore trade relationship", the USFSTA was the US' first free trade agreement (FTA) with an Asia-Pacific country and remains its only FTA with an Asean country.

Today, sweeping tariffs imposed by the US constitute the most significant disruptions in the history of global trade. The ongoing trade war and US retreat from multilateralism seems to threaten not only US-Singapore bilateral relations but also the open, rules-based global trading system.

"The era of rules-based globalisation and free trade is over," remarked Prime Minister Lawrence Wong in a recent ministerial statement.

Unilateral measures such as tariffs, regardless of the good intentions, undermine the predictability that the existing global trading system was designed to uphold.

The shift towards one-on-one negotiations, as seen in recent US trade policy, allows countries to leverage their market power at the expense of smaller countries such as Singapore that often have weaker bargaining strength. The result is weakening trust and stability in global trade.

However, it is important to recognise all is not lost. Established through years of working together, institutionalised cooperation proves resilient. We believe FTAs have a lasting impact that will continue to anchor economic ties.

## Quiet resilience of established institutional frameworks

FTAs provide a sense of continuity in a volatile trade environment by establishing clear rules and standards. As commitments from these agreements spread across countries, the resulting regulatory harmonisation strengthens economic cooperation.

The far-reaching influence of FTAs is exemplified by the USFSTA. Many of its core provisions, such as those on competition policy, have been widely replicated in subsequent US bilateral agreements and mega-regional trade deals. Shared commitments on competition policy help create a more secure and predictable legal environment for investors.

Further, e-commerce facilitation provisions introduced in the USFSTA now reflect the baseline for digital trade regulation in FTAs. Newer agreements build on the digital trade rules included in the USFSTA, broadening the scope of commitments to cover nascent issues like cross-border data flows and cybersecurity.

Institutional frameworks facilitated by FTAs also remain intact, sustaining stable and open channels of cooperation. For example, notwithstanding current trade disruptions, government procurement provisions in the USFSTA which provide opportunities for firms of each nation to bid on government contracts are still in effect.

Singapore's Competition Act of 2004, enacted as part of its obligations under the USFSTA, further demonstrates how trade agreements can have a long-term impact on domestic legal and policy frameworks.

The implications of these longstanding institutional frameworks are profound: trade and investment ties run deep.

Research by Asia Competitiveness Institute finds that US exports of advanced manufacturing and professional services to Singapore have surged fivefold since the inception of the USFSTA. These exports have facilitated the creation of over half a million jobs in the US between 2000 and 2019.

A recent study by the institute also finds that the USFSTA facilitated US expansion of manufacturing activities in Singapore, particularly in chemicals, pharmaceuticals and electronics. Today, the US is



Talks for Asean's Digital Economy Framework Agreement, expected to be the world's first regional digital economy agreement, are slated to conclude by the end of the year.

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the top source of inward foreign direct investment for Singapore, accounting for more than half of the greenfield investments in high value-added and research-intensive sectors.

Existing institutional frameworks thus stand the test of time, providing a stable foundation for robust economic relations.

## Enduring attraction of trade pacts

FTAs continue to hold strong appeal as tools of economic integration. Many agreements are being upgraded to address emerging trade priorities, such as tackling non-tariff barriers and enhancing supply chain resilience.

The Asean-Australia-New Zealand Free Trade Area Upgrade entered into force in April this year and the Asean-China Free Trade Area Upgrade is slated to be formalised by October. The FTA between Singapore and the Pacific Alliance – a Latin American bloc comprising Chile, Colombia, Mexico, and Peru, and collectively representing the world's ninth-largest economy – has entered into force for three of the five signatories.

New forms of institutional arrangements are also emerging to complement traditional FTAs. Digital Economy Agreements (DEAs), designed to set high-standard rules for digital trade, are increasingly becoming key instruments of economic integration.

The world's first DEA, the Digital Economy Partnership Agreement (DEPA) signed in 2020, continues to attract interest from a wide range of economies. As at July 2025, seven countries – China, Canada, Costa Rica, Peru, the United Arab Emirates, El Salvador, and Ukraine – have applied to join the DEPA.

Singapore and the European Free Trade Association (EFTA) also concluded negotiations on a DEA earlier this month. Talks for Asean's Digital Economy Framework Agreement, expected to be the world's first regional digital economy agreement, are slated to conclude by the end of the year.

These efforts to upgrade existing FTAs and forge DEAs reflect the growing demand for forward-looking frameworks suited to evolving economic realities. In particular, countries are seeking institutional mechanisms to govern the burgeoning digital economy.

A coherent digital trade governance regime enables countries to better leverage new avenues of growth in digital trade, where more than two-thirds of new value created over the next decade are expected to be driven by digitally enabled platforms.

## Institutionalised cooperation: a stabilising force for the future

Evidently, far from abandoning institutionalised frameworks, countries are deepening and modernising them. Next-generation arrangements continue to embed legal commitments, cultivating stronger cooperation and reinforcing a rules-based system for global trade.

Further, countries have continued to deepen cooperation on trade despite the current absence of US involvement. Following US withdrawal from the Trans-Pacific Partnership (TPP), the remaining member countries chose not to abandon the pact. In-

stead, they pushed forward with the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP is now one of the world's largest trade blocs, second only to the Regional Comprehensive Economic Partnership (RCEP) of which the US is also not a member.

As Senior Minister Lee Hsien Loong notes, "even though the US is abandoning the rules (...) the rest of the world is still there, and if we can work together, I think we have a fair shot at keeping the system up".

The dangers of a changing global trade landscape are profound and real, but continued commitment to institutionalised forms of cooperation remains a critical stabilising force that keeps the global trading system alive.

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