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USSFTA: The Year in Review

Singapore's chief negotiator TOMMY KOH looks at what the US-Singapore Free Trade Agreement has achieved in its first year

WITH the US-Singapore Free Trade Agreement (USSFTA) in force since Jan 1, 2004, and the joint ministerial committee meeting on Feb 2 to review the agreement, it is a propitious moment to have an overview of the progress of the FTA in its first year of life.

Tariff and tax savings

The first benefit of the agreement for Singapore is tariff and tax savings. According to US statistics, exports from Singapore, worth US\$499 million, gained tariff-free access to the US market in 2004. Singapore's exporters also saved \$25 million as a result of the waiver of the merchandise processing fee. One of Singapore's companies, SembCorp Marine, has stated that it would benefit from the waiver of the 50 per cent vessel repair duty, saving \$30 million a year. The company hopes to double its business of repairing US ships.

Increase in bilateral trade

In 2003, the year before the USSFTA came into force, bilateral trade between the US and Singapore increased by 2.2 per cent. In the first 11 months of 2004, trade expanded by 11.9 per cent, amounting to \$66.3 billion. Singapore's exports to the US grew by 12.2 per cent and US exports to Singapore grew by 11.6 per cent during the same period. It is hard to prove a causal link between the FTA and the increase in trade but it is not unreasonable to suggest that the increase was caused, in part, by the FTA.

Increase in foreign direct investment

The USSFTA has made Singapore a more attractive destination for US investment. In 2003, FDI from the US to Singapore amounted to US\$5,699 million. The number for the whole of 2004 is not yet available. However, according to US statistics, the FDI in the first three quarters totalled US\$5,432 million. We can confidently say that when the number for the fourth quarter is added to those of the first three, the total FDI for 2004 will exceed that for 2003. We cannot be precise about the size of the increase or be dogmatic about the causal link. However, just as in the case of the increase in trade, it would not be unreasonable to suggest that one of the reasons for the increase was the FTA.

Benefits to US companies in Singapore

There are over 1,500 US companies operating in Singapore and the coming into force of the FTA has brought benefits to many of them. As a result, several have announced plans to increase their investment and activities in Singapore. Let me cite four examples:

- Seagate, the world's largest manufacturer of hard disk drives, is investing \$200 million in a new plant which will reinforce Singapore's position as the world's storage capital.
- Tate and Lyle's has announced its commitment to build a new sucralose plant, for \$290 million, to be completed in 2007.
- Hamilton Sundstrand, Singapore's largest aerospace manufacturing investor, will make a new investment of \$55 million to manufacture high-precision aircraft components and systems.
- Carrier Transicold, the world's largest manufacturer of refrigeration containers, will invest \$20 million to expand its plant in Singapore, to focus on high value-added end processes, leveraging on Singapore's skilled workforce.

Benefits to Singapore companies in the US

The US, being the world's largest economy, offers myriad opportunities to Singapore's companies. The USSFTA has made it easier for Singapore companies to do business in the US. It has also opened new sectors of the US economy, such as government procurement, to Singapore's companies. Several Singapore companies, big and small, such as Singapore Airlines, NOL/APL, ST Electronics, Keppel, SembCorp, Creative, Asia Pacific Breweries, Osim, Eu Yan Sang and Tee Yih Jia, have a growing presence in the US.

During 2004, several Singapore companies announced new achievements in the US. ST Engineering won a contract worth US\$200 million to supply rugged laptop computers to the US Army. Koda, a furniture manufacturer, won a contract to supply Pottery Barn with \$22 million worth of furniture. Aztech Systems, a manufacturer of multimedia products and computer peripherals, clinched orders worth US\$20 million for its ADSL products.

WinEdge & Wireless won a contract to supply communication chips for a new product by US toy manufacturer, Hasbro. Creative Technology won another prestigious award at the Consumer Electronics Show in Las Vegas for its new Zen micro mini photo.

Outreach by IE S'pore

IE Singapore has been proactive in raising the awareness of the benefits of the USSFTA by both Singapore and US companies. It has organised or supported more than a dozen outreach seminars and industry-specific workshops, reaching out to more than 1,300 companies, both in Singapore and the US.

Let me mention a few of the most important initiatives by IE Singapore. It led a yarn and fabric sourcing mission to the US in order to help our apparel industry take advantage of the FTA's provision that textiles and apparel made from yarn and fabrics originating from the US or Singapore, will enter the US market duty-free.

IE Singapore also led a medical technology mission to the US and organised a seminar to make Singapore's companies aware of opportunities in US government procurement which is worth US\$200 billion annually. IE also hosted a visit by 12 representatives of the US Commercial Service of the US Commerce Department and other business associations. Finally, it collaborated with a leading law firm, Rajah and Tann, to publish a guide book to the USSFTA for the business community titled The Nuts and Bolts of the US-Singapore Free Trade Agreement.

Benefits of the intellectual property rights regime

The chapter of the agreement on intellectual property rights, when fully implemented, will give Singapore the best IPR regime in Asia. This will make Singapore attractive to companies in the creative industries as well as in knowledge-intensive industries such as the pharmaceutical industry.

A pharmaceutical company, Pfizer, and a biotechnology company, Isis Pharmaceuticals, have announced plans to expand their manufacturing and research facilities in Singapore. Lucasfilm Animation will establish its only facility outside the US in Singapore to produce digital animated content, including film, TV and games. An Indian film company, DLM Digital Studios, has also announced its intention to set up its regional headquarters in Singapore.

Customs procedures

The streamlining of customs procedures has benefited both US and Singapore companies. This is important to all businesses, but especially to business such as express delivery, as more and more companies have embraced the just-in-time concept.

Benefits to Singaporeans

The coming into force of the agreement has facilitated travel to the US by Singapore business people because of the advantages afforded by the E1 and E2 visas. In addition, the US has reserved 5,400 H1B1 visas specifically for Singaporean professionals. This will make it easier for Singaporeans to work in the US as they will not have to compete with professionals from other countries for this quota.

For Singapore, the USSFTA was always more than a trade agreement. Both the US and Singapore wanted the agreement for strategic reasons. The

agreement has strengthened Singapore as a hub for manufacturing and services. We are gratified that the US and Thailand are negotiating a free trade agreement which we see as another step towards an eventual Asean-US agreement. Bilaterally, US-Singapore relations are multi-faceted and excellent.

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