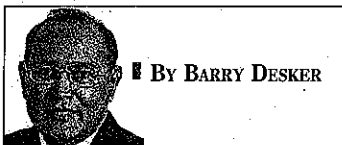


THINK-TANK

Time for relook at global trade pacts



By BARRY DESKER

IT HAS become fashionable to speak of the failure of the World Trade Organisation. Such a view has been fuelled primarily by the proliferation of free trade agreements (FTAs) since the late 1990s, particularly in East Asia. This in itself represents a dramatic shift in the policy preferences of East Asian governments.

Until 2000, East Asia was focused on strengthening multilateral institutions such as the WTO. While the current trend towards bilateralism and regionalism can be explained as a response to the WTO's recent difficulties, it does not explain the shift in policy preference. Indeed, given that East Asian economies are largely open, the fact they have been pushing for FTAs is counter-intuitive.

The open, export-oriented economies of East Asia should have an interest in maintaining and strengthening the multilateral trading system as embodied in the WTO. Furthermore, while the WTO facil-

itates trade creation – thereby stimulating investment, technology transfer and growth – FTAs are often criticised for causing trade diversion, undermining the uniformity of global rules and resulting in a net welfare loss. Professor Jagdish Bhagwati of Columbia University, a leading critic of FTAs, argues that they lead to a “spaghetti bowl” or ‘noodle bowl’ problem...characterised by a chaotic criss-crossing of preferences, with a plethora of different trade barriers applying to products depending on which countries they originate from”.

Those favouring FTAs argue that the name of the game is trade liberalisation, regardless of whether it takes place at the multilateral, regional or bilateral level. Trade liberalisation at whatever level would have extra-trade impacts such as technology transfer and domestic economic reforms.

Those opposed to FTAs, however, stress that they are basically a distortive mechanism – a “second-best” outcome compared to a WTO-led multilateral framework. FTAs would also create distortions such as rent-seeking behaviour and the misallocation of resources.

The key distinction between these two camps is the distinction between the “preferable” and the “possible”.

FTA negotiations have not been problem-free. But compared to multilateral trade talks, they are easier to manage and can be concluded relatively sooner. Furthermore, the WTO has been overloaded with issues, and tainted by perceptions that double-standards are practised by powerful members when it comes to compliance with WTO rules.

Strategic considerations have also underpinned agreements to launch FTA negotiations – such as the Singapore-United States FTA, which reflected Singapore's close strategic relationship with the US. Similarly, China's efforts to engage Asean culminated in a China-Asean FTA, with significant provisions for an early harvest in the agricultural sector by Asean. Sino-Japanese competition led Japan to follow in China's footsteps in seeking a Japan-Asean FTA.

Proponents of FTAs also argue they enable WTO-plus market access. For example, the India-Singapore Comprehensive Economic Cooperation Agreement (Ceca) permitted Singapore banks to set up 15 branches in India, while the annual total quota for new bank branches set by the Reserve Bank of India is 18. The FTA between Singapore and the US provided for a significant liberalisation in services with the adoption of a negative list ap-

proach. And the Japan-Singapore Economic Partnership Agreement provided Singapore with easier market access to Japan's services sector than any other country.

In the maritime sector, this included approval for Singapore-based shipping companies to call at Japanese ports, Japanese commitments on maritime freight forwarding and non-discriminatory access to inland transport services.

FTA negotiations also allowed states to move beyond the WTO agenda and to negotiate liberalisation in areas such as investment, competition policy, taxation and civil aviation. Ceca, for example, resulted in Singapore obtaining a Mauritius-type Double Taxation Avoidance Agreement and provisions enabling increased investment by SingTel in India. And the US-Singapore FTA committed Singapore to divest its stakes in government-linked companies.

However, it is time for a re-think. As power shifts from the Atlantic to the Pacific, policymakers in East Asia need to address the question of whether it is in their interest to promote their short-term interests or whether they should strengthen multilateral institutions such as the WTO and facilitate effective global governance.

There is a risk today that the emphasis on FTAs in East Asia is leading to a neglect of WTO negotiations. Moreover, agreements seem increasingly sought for their symbolic impact. Such FTAs have high compliance costs and minimal benefits because of the low volume of trade in goods and services.

As disparate parties are drawn into complex cross-regional negotiations, the question can be asked whether we would not do better to focus again on WTO negotiations.

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