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News Room

Mr Lee Yi Shyan at the Asia-Pacific Trade Forum 2014

**Keynote Speech by Mr Lee Yi Shyan Senior Minister of State, Trade and Industry and National Development at the Asia-Pacific Trade Forum 2014 at Fullerton Hotel on 24 November 2014, 1425Hrs**

**Professor Simon Tay, Chairman of the Singapore Institute of International Affairs,**

**Mr Kusaka, CEO of the Japan Economic Foundation,**

**Distinguished guests,**

**Good afternoon. I am pleased to welcome you to the Asia-Pacific Forum.**

#### **Practical necessities of Free Trade Agreements**

There are at least 585 FTAs in the world today, of which 379 are in force. More significantly, majority of these FTAs mushroomed in the last two decades, with the most notable example being the North American Free Trade Agreement (NAFTA) established in 1994. The free trade agreements came into being despite the progress made in world trade liberation since GATT (established after World War II) and WTO (established in 1995). It shows that countries all around the world continue to see the practical necessities for the co-existence of bilateral, multilateral and global regimes to facilitate and promote free trade.

In a way, NAFTA's success has accelerated the pursuit of regional FTAs. The reason is obvious. Since NAFTA came into force, Mexico experienced a significant manufacturing boom in the automotive sector. As a result, Mexico's exports more than doubled within the first eight years of NAFTA's existence. The boom lifted the wages of many auto industry workers.

#### **Singapore supports free trade**

Singapore has, since 1999, pursued the dual-track of negotiating multilateral trade agreements as well as bilateral Free Trade Agreements (FTAs). Singapore's key interest lies in establishing FTAs that are WTO-consistent, with WTO-plus commitments with our key trading partners, thus complementing the multilateral process of advancing global free trade.

Since the signing of our first FTA under the ASEAN Free Trade Area (AFTA) in 1993, Singapore's network of FTAs has since expanded to include 21 bilateral and regional FTAs in force with 32 trading partners. Singapore's FTAs have been instrumental in helping Singapore-based businesses strengthen cross-border trade by eliminating or reducing import tariff rates, providing preferential access to services sectors, easing investment rules, improving intellectual property regulations, and opening government procurement opportunities.

Singapore's nominal GDP more than tripled from 1993 to 2013. Our exports have also been growing at a steady rate of 6.3% per annum, and have nearly doubled over the past decade.

Singapore has FTAs with Australia, China, Costa Rica, the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates), India, Japan, Jordan, Korea, New Zealand,

Panama, Peru, the United States and the European Free Trade Association (Switzerland, Iceland, Liechtenstein and Norway). The EU-Singapore FTA was concluded in December 2012, and will be provisionally applied at a mutually agreed date after the European Parliament ratifies the agreement.

### **Regional Free Trade Agreements**

For this region, amongst the most talked about regional initiatives are the Regional Comprehensive Economic Partnership (RCEP) and Trans-Pacific Partnership (TPP).

#### **ASEAN and RCEP**

With the conception of the ASEAN Economic Community (AEC), the ASEAN economies have been working towards creating a single market and production base. AEC seeks to remove import barriers both at and behind the border. It wants to harmonise standards of protection for foreign investors and service suppliers, catering to the needs of modern services and e-commerce. AEC wants to enable ecosystems of banks and financial institutions to flourish to support trade flows and bolster investments. AEC believes that regional integration spurs economic growth which in turn helps to close development gaps.

ASEAN has also signed FTAs with six of its major regional economies: Australia, China, India, Japan, Korea and New Zealand. These FTAs between ASEAN and its major trading partners serve the broader interest of anchoring the presence of our major trading partners in Southeast Asia, and ensuring that they remain as stakeholders here. They sustain an open regional orientation and prevent the formation of inward-looking trading blocs. This web of interlocking economic and strategic interests will contribute to regional stability, prosperity and security.

The RCEP initiative was formally launched in November 2012 at the ASEAN Summit in Cambodia. RCEP includes more than 3 billion people, has a combined GDP of about \$17 trillion, and accounts for about 40 percent of world trade.

Singapore just hosted the 5th Round of RCEP negotiations in June this year, and we are about to enter the 6th Round in India come December. RCEP members are exerting their best efforts in striving to conclude negotiations by end-2015 as mandated by Leaders. Any negotiations involving 16 parties at different levels of development will be both complex and challenging. We have nevertheless been making progress. We will also need to explore creative approaches in addressing these challenges, while ensuring that the RCEP is a modern and business-relevant agreement.

#### **TPP – A vision for the Pacific**

The TPP (Trans-Pacific Strategic Economic Partnership) has transformed several times since its modest beginning as a “P4 – initiative” founded in 2006 by Singapore, Brunei, Chile and New Zealand. While modest in size, the P4 was the first plurilateral FTA initiative that linked economies from across the Pacific.

By 2010, five countries – namely Australia, Malaysia, Peru, the United States and Vietnam, had joined the original four to form the TPP. Mexico and Canada also joined the TPP negotiations in October 2012, followed by Japan in July 2013.

The 12 parties are now negotiating what has been termed a “21st century” agreement. We are now four years into the negotiations. Since negotiations began in March 2010, there have been 19 formal rounds of negotiations. On top of that, TPP Leaders, Ministers and chief negotiators have been holding frequent meetings, especially in the past year, to resolve the handful of remaining issues. Earlier this month, our leaders met in Beijing, China, and were in agreement that we are near

conclusion. I am confident that we can conclude negotiations by next year and that consumers will be able to reap the real benefits of the TPP sooner rather than later.

### **Building Blocks for still larger Free Trade Areas**

Both RCEP and the TPP will serve as building blocks towards greater regional economic integration and an eventual Free Trade Area of the Asia Pacific (FTAAP). Together, these two agreements already account for 56.5% of the world GDP, 55.6% of the world population and a third of world trade. According to a study jointly published by Washington Peterson Institute for International Economics and East-West Centre, the TPP is expected to generate income gains of USD 451 billion, and the RCEP USD 644 billion.

If we can bring the FTAAP vision to fruition, we are looking at projected income gains approximate USD 1.9 trillion. The FTAAP seeks to eliminate all inefficiencies and string together all the value chains in the region. I strongly believe that the FTAAP holds the key to making the Asia-Pacific region more attractive and competitive. In the longer run, we will need to find ways of bringing these pathways together. The APEC meetings chaired by China this year focused very much on this; and this is an effort we must continue.

The task of negotiating such large regional FTAs is mega – and complicated by the fact that Asia is diverse. Even within the current membership of RCEP and TPP, the Asian economies differ in their structure, priorities and levels of development. Can an FTA like the RCEP and TPP serve the interests of all these different economies? The answer is and must be “yes”.

### **Different but interdependent: our shared interest in regional integration**

It is no accident that the RCEP and TPP memberships include key economies like the US in the case of the TPP, and China and India in the case of RCEP. For Singapore, the US is our largest investor, and China and India are our largest and eleventh largest trading partners respectively. The importance of these three countries, especially the US and China, is no less for the other Asian countries in the region.

This is especially obvious when we are all linked by global value chains: where goods are produced in different countries of different geographies. Value chains are spread across the region to tap on the comparative advantages of the various economies. The free flow of intermediary goods will ensure that the final products from the region will be competitive.

But this reality means two things. One, we cannot maintain import barriers without impacting our own exports. Two, we are affected not just by the barriers to the direct destination of our exports, but also by barriers to the final destination of the products our exports are part of. Regional integration is crucial because it allows regional cumulation, so that our exports are not denied preferential treatment because its components come from various parts of the region.

Having a strong production network that capitalises on the strengths of each economy in the region in turn attracts investors to the region. However, for businesses to thrive, we must not allow non-tariff barriers and regulation to dull the efficiency of cross-border operations. The RCEP and TPP seek to address these areas, which in addition to the trade in goods, touch on the way we regulate foreign direct investment, various service sectors, financial institutions, e-commerce, competition and intellectual property rights. In this regard, the ASEAN economies will need to do more. It is telling that intra-AEC trade remains less than half of that in NAFTA and barely a third of that in the EU. Until we achieve the deep regional integration that these trading blocs have mastered, the AEC cannot tap into its full potential.

**Freer trade closes developmental gaps**

Trade may not be the answer to all of a country's development needs. But there is a strong link between trade and development. Trade expands markets, enhances the competitiveness of the economy, increases its productivity, and creates jobs. These in turn spur economic growth. Countries with freer trade have experienced faster growth. Trade also attracts investment. In the past two decades, foreign direct investment to developing countries has nearly quadrupled the amount of foreign development aid. FDI is one way through which a developing country can inject growth into its economy without increasing its foreign debt.

Bringing about deeper regional integration will require change from all countries involved. And indeed, some countries may have more to change than others. But we do not need to build Rome in a day. The RCEP, for instance, recognises that LDCs may need more time to eliminate tariffs, and technical assistance in order to shoulder some of the obligations in the treaty. What matters is that we are moving surely and steadily towards deeper regional integration, and that we seize opportunities such as the RCEP and TPP to catalyse reform.

It takes great effort to move a country towards a new world order, of course. One will need to persuade citizens, change practices, and make legislative reforms. However, developing countries also need to weigh the pain of all this not just against the benefits of freer trade, but also against the cost of not plugging into the economic network of the region.

**Conclusion**

"We are living off the liberalisation and reforms of the past. We need to update the rules and implement a new generation of trade reforms which would be essential for development", said WTO DG Roberto Azevedo at the launch of 2014 World Trade Report. While Mr Azevedo was commenting on the WTO progress, I believe it is true for regional free trade architecture too. There is an urgent need to update free trade regimes to support the fast changing nature of global businesses in order to uplift the standard of living of our people.

On this note, I wish you a fruitful forum ahead. Thank you.