

A STUDY ON SINGAPORE'S EXPERIENCE IN REGIONAL COOPERATION

REPORT

Submitted to the Central Policy Unit of
the Government of the Hong Kong Special Administrative Region

By the East Asian Institute of
the National University of Singapore

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CONTENTS

EXECUTIVE SUMMARY	i
INTRODUCTION.....	1
Overview	1
Research Objectives and Scope	2
Structure of the Study	3
Methodology	5
Literature Review.....	5
 PART I: EVOLUTION OF SINGAPORE'S REGIONAL ECONOMIC LINKAGES AND INTEGRATION POLICIES.....	 7
Changing Profiles of Singapore's Trade and Investment Pattern with the Region	7
Major policy initiatives to promote Singapore's integration with the region.....	33
Singapore's Role and Contribution to Regional Integration: As a Conduit for the Region to the Global Economy and Complementing the Comparative Advantages of the Region	47
 PART II: DYNAMICS OF SINGAPORE'S CHANGING ROLE IN REGIONAL INTEGRATION.....	 50
 PART III: RELEVANCE OF SINGAPORE'S EXPERIENCE FOR HONG KONG	 58
Comparing Singapore's and Hong Kong's Economic Development	58
Singapore's Regional and Sub-Regional Policies vis-a-vis ASEAN	60
Recommendations for Hong Kong to Increase Cooperation with ASEAN.....	64
 APPENDIX.....	 75
GLOSSARY.....	80
REFERENCES.....	83

EXECUTIVE SUMMARY

1. Singapore and Hong Kong share many similarities in their growth experiences and challenges. Both were traditionally entrepot economies and service hubs for their hinterlands – China for Hong Kong, and the Association of Southeast Asian Nations (ASEAN), in general but Malaysia and Indonesia in particular, in the case of Singapore.
2. The two economies have gone through major structural changes over the years in response to changes in the global economy and in their relationships with their respective hinterlands. The changing relationships with their hinterlands play a crucial role in driving their external economic policies.
3. In Hong Kong's case, China dominates the economic landscape. Increased economic integration with China over the years has led to a sharp de-industrialisation of Hong Kong, with the services sector now accounting for 92% of the Gross Domestic Product (GDP). As Hong Kong remains largely a laissez faire economy, much of the restructuring in the economy is driven by the private sector.
4. The Chinese government and the Hong Kong Special Administrative Region (HKSAR) government have however facilitated the integration process by easing the rules on the movement of goods and services as well as capital and labour. The Closer Economic Partnership Agreement (CEPA) between mainland China and Hong Kong has helped deepen the economic integration considerably.
5. Unlike Hong Kong, Singapore has a complex relationship with its hinterland, the ASEAN countries. Vast differences in historical, cultural and political backgrounds make occasional misunderstanding unavoidable. Different economic structures and policy priorities and agenda further complicate such a relationship. Managing this complex relationship represents an important part of Singapore's economic cooperation policy with ASEAN.

6. Furthermore, the Singapore government adopts a highly interventionist stance in the economy. The economic cooperation policy with ASEAN and hence the management of the relationship with ASEAN change with the changing structure of the domestic economy. The private sector plays a relatively passive role in this process.
7. In general, Singapore has adopted a two-pronged approach in its external economic cooperation policy. It plays an active role in fostering closer ASEAN economic ties while continuing to maintain close trade and investment relations with other economies. The balance between the emphases shifted over time as the importance of ASEAN as a source of economic growth for Singapore changes.
8. In the earlier phases of ASEAN's existence, when the grouping was focusing more on political cooperation than economic cooperation, Singapore took a "global" rather than "regional" stance in its external economic strategy. After the 1997 Asian financial crisis, Singapore became much more pro-active in its economic integration with ASEAN. This came partly as a realisation of the importance of concerted region-wide responses to external shocks and partly as countermeasures to the new challenges posed by the rise of the Chinese and Indian economies.
9. The experience of Singapore's external economic strategy demonstrates the need for economies to constantly review their external strategy to support their overall economic development objectives. Singapore's linkages with advanced countries in the West provide the market for its export-oriented policy, while its engagement with countries in the region facilitates the building of its "external wing" for economic growth.
10. Hong Kong also has "two doors" for its economic growth: the China hinterland and the international/regional markets. Closer economic relations with ASEAN would help open another "door" for Hong Kong and provide a new source of economic growth that is independent of the Chinese hinterland.

11. ASEAN could provide an important export market for goods and services from Hong Kong. It could also be the destination for the relocation of Hong Kong-owned production facilities in China. With a well thought out strategy, ASEAN could allow Hong Kong to move away from its heavy reliance on the Chinese economy.
12. Hong Kong has not been an active economic partner of ASEAN thus far. Nonetheless, ASEAN countries are ready for a bigger and more active Hong Kong presence in the region. Singapore's experience in engaging the ASEAN economies could be instructive for Hong Kong.
13. As a neutral economic partner without any historical or political baggage, Hong Kong may enjoy certain advantages over Singapore which could help considerably ease the task of relationship management. There is strong motivation on the part of the ASEAN Secretariat to deepen ASEAN's relationship with not just China as a whole, but also individual provinces such as Guangdong and the HKSAR.
14. It is important for Hong Kong to understand the diverse nature and structure of the ASEAN economies and the dynamics of the relationship between them. They do not represent a single monolithic entity. Managing the relationship with each ASEAN economy requires a slightly different approach.
15. Hong Kong could engage ASEAN through various means. It could start an active dialogue with the ASEAN Secretariat or explore how it could work with Beijing to take advantage of existing linkages between China and ASEAN such as the China-ASEAN Free Trade Agreement (CAFTA) framework.
16. As Hong Kong is already a member of Asia Pacific Economic Cooperation Forum (APEC) and Pacific Economic Cooperation Council (PECC), to which most ASEAN countries belong too, Hong Kong could use these channels to advocate or support initiatives that facilitate economic interactions between these organisations and ASEAN. The Hong Kong government can also enhance the activities of its own trade-related departments such as the Hong

Kong Economic and Trade Office (HKETO) and the Hong Kong Trade Development Council (HKTDC) to increase trade and investment cooperation with ASEAN.

17. Close collaboration between the government and large corporations (especially the Government-linked-Companies (GLCs)), often with the involvement of International Enterprise (IE) Singapore – a statutory board within the Ministry of Trade and Industry (MTI) charged with promoting Singapore’s overseas trade and investment activities – has been effective in opening new markets within and beyond ASEAN for Singapore businesses.
18. While there is no reason for Hong Kong government to deviate from the *laissez faire* philosophy that has worked so well for its economy, it might want to look more closely at the mode of collaboration between the government and private sector in Singapore, working through HKETO, HKTDC and other relevant entities.
19. Non-government trade and business associations in Hong Kong such as the Hong Kong General Chamber of Commerce could also be encouraged to play a more active role in fostering ties with their counterparts in ASEAN by organising more visits to and trade exhibitions in ASEAN. Channels should also be established so that these associations could seek ways to work with government bodies such as HKTDC to help facilitate the exchanges.
20. Just like how Singapore has been serving as a bridge between ASEAN and non-ASEAN economies for “supra-regional” ASEAN activities such as the “ASEAN plus” framework (e.g. ASEAN+3, ASEAN+6, etc.), Hong Kong can also raised its level of participation in ASEAN by being the “dragon-head” of China’s own sub-regional arrangements such as the “Pan-Pearl River Delta Economic Cooperation” (9 + 2) and the “Beibu Gulf Rim Economic Circle” for ASEAN. It could also serve as a bridge for China to expand their ventures (*zou-chu-qu*) to Southeast Asia.

21. Hong Kong could also take an active role in sub-regional economic initiatives within ASEAN, such as the Greater Mekong Sub-region (GMS), as Singapore has done. Likewise, it could expand its bilateral engagement with other ASEAN states through city-to-city (C2C) cooperation. Hong Kong possesses rich experiences in city governance and in providing solutions to urban challenges.
22. As part of its efforts to increase understanding between the people of Hong Kong and ASEAN, which is crucial for maintaining strong economic ties in the long run, Hong Kong could consider spending more resources on promoting its cultural, educational and social linkages with ASEAN. It could start with placing a greater emphasis on ASEAN studies at tertiary institutions and to promote tourism between Hong Kong and ASEAN.
23. There are huge business opportunities within ASEAN for Hong Kong to explore. There should be more active interaction between the two sides, both at the official level and in the private sector. Given the many similarities between Hong Kong and Singapore, a better understanding of Singapore's experience in managing its economic relationship with ASEAN could potentially be very helpful in helping Hong Kong to increase the level of engagement with ASEAN.

INTRODUCTION

Overview

1.1. On 16 December 2008, the East Asian Institute (EAI) of the National University of Singapore and the Central Policy Unit of the Government of the HKSAR signed a consultancy agreement for the former to carry out a study on Singapore's experience in regional cooperation. This report is the findings of the study.

1.2. The report contains an introduction and three parts. The introduction lists out the research objectives, scope, structure, and methodology of this study. A description of the sources of literature reviewed or consulted is also included in the introduction.

1.3. Part I of this report discusses the evolution of Singapore's regional economic linkages and integration policies. The analysis for this part is formed by first reviewing the trade and investment pattern of Singapore in the ASEAN region from 1965 to 2007. This is followed by a study on the various policies introduced by the Singapore government during the same period. Findings in this part will show the role of the government in formulating Singapore's strategy on integration with the regional economy. Part I ends with a discussion on how Singapore serves as a conduit for the ASEAN region to the global economy.

1.4. Part II of the study explains the dynamics of Singapore's changing role in regional integration. It shows how Singapore formulates its regional integration policies and ASEAN's perception of Singapore in facilitating integration within ASEAN. The findings in this part are based on the Institute's interviews with government officials and scholars from Indonesia, Malaysia, Singapore, Thailand and China's Yunnan province.

1.5. Part III of this report synthesises the findings of Part I and Part II by examining Singapore's experience in regional integration and studying how the

approaches may be relevant to Hong Kong. It provides a set of recommendations on how Hong Kong can enhance its own regional linkages.

Research Objectives and Scope

Research Objectives

1.6. The study on Singapore's experience in regional cooperation is undertaken with the following objectives:

- (a) To carry out a review on the policies and practices of Singapore in regional cooperation including economic and trade cooperation with an insider's comparative perspective and
- (b) To assess the applicability of relevant policies and practices on regional cooperation for Hong Kong.

Scope of the Study

1.7. The scope of the study will cover the following:

- (a) The role and importance of regional cooperation in the overall development strategy of Singapore;
- (b) The rationale behind the strategies and specific measures taken by Singapore in regional cooperation;
- (c) Singapore's strategies in negotiating regional trade agreements and bilateral trade agreements including the criteria for choosing partners and the scope of negotiations;
- (d) The strategies and policy measures for Hong Kong to consider in launching its own regional cooperation endeavour with reference to the Singaporean experience/model; and
- (e) Recommendations to Hong Kong's participation in regional cooperation through China or through its sub-regional cooperation schemes such as the Beibu Gulf Rim Economic Circle.

Structure of the Study

1.8. The study includes:

Part I: Evolution of Singapore's regional economic linkages and integration policies

1. Changing profiles of Singapore's trade and investment pattern with the region:
 - (a) Early economic development policy including Singapore's entrepot position in Southeast Asia and reliance on Malaysia/Indonesia as hinterland.
 - (b) Establishment and evolution of ASEAN: from political initiative to economic cooperation through ASEAN Free Trade Agreement (AFTA).
 - (c) Singapore's expanded regional economic linkages beyond ASEAN (e.g. ASEAN+3, ASEAN+6 and other sub-regional cooperation schemes such as the GMS Economic Cooperation Programme and the Beibu Gulf Rim Economic Circle).
2. Major policy initiatives to promote Singapore's integration with the region:
 - (a) Political dimension of Singapore's regionalisation moves (ASEAN and beyond, especially increased emphasis on China and India).
 - (b) Strategies to expand regional linkages.
 - (c) Private sector initiatives.
3. Singapore's role and contribution to regional integration: How Singapore serves as a conduit for the region to the global economy and complementing the comparative advantages of the region.

Part II: Dynamics of Singapore's changing role in regional integration

1.9. This section will provide insights on:

- (a) How Singapore formulates its regional integration policies and the major considerations and constraints it faces; why and how it changes its policy emphasis over time;
- (b) How the other countries in the region, especially ASEAN countries, view the role and contribution of Singapore to regional economic integration; and how Singapore in turn works with the diverse expectations of these other countries.

1.10. This section will be built on interviews conducted with key policy makers and private sector players, both within Singapore and in other key countries in the region, who have been intimately involved in Singapore's regional integration initiatives. These interviews will provide new insights that secondary writings and official statistics will not be able to reflect.

Part III: Relevance of Singapore's experience for Hong Kong

1.11. This section examines how Singapore's experience in regional integration and its policy approaches may be relevant to Hong Kong, as the latter seeks to enhance its own regional linkages. Specifically, it will:

- (a) Focus on issues that are common to both Singapore and Hong Kong, including their reliance on the neighbouring economies as the economic hinterland (ASEAN for Singapore and the Mainland China for Hong Kong), and their distinctive status as "small city-economies".
- (b) Address the relevance of Singapore's broad policy as well as specific sub-regional initiatives such as the Beibu Gulf Rim Economic Circle.

Methodology

1.12. This is a comprehensive policy-oriented study. The analysis will be drawn from an extensive review of academic literature and existing policies. Economic and statistical data will be used to present the technical information in the report. It will also incorporate views of top government officials in the region as well as people from the private sector.

Literature Review

1.13. The team had consulted both primary and secondary sources of data in the conduct of this study. It had collected Singapore's trade data such as total exports/imports with major trading partners or regions between 1960 and 1982 from *Economic and Social Statistics of Singapore*. For trade data after 1982, data is obtained solely from various issues of *Singapore Yearbook of Statistics*. In some parts of the report, especially those that require international trade data such as total global trade in a particular year, the team consulted various issues of International Monetary Fund's (IMF's) *Direction of Trade*. It also visited online databases such as UN Comtrade and the World Trade Organisation (WTO) Trade Statistics Database.

1.14. Acquiring Singapore's investment data proves to be a challenging task. As Singapore only started focusing on overseas investments after the 1990s, it is quite difficult to find investment data covering the period prior to 1990. Nonetheless, the 1990s issues of *Singapore Investment Aboard*, prepared by Singapore Department of Statistics, offer some basic data such as total value of overseas investment. For more comprehensive coverage of Singapore's investment data such as the country or region, *Singapore Yearbook of Statistics* has been consulted.

1.15. There are many secondary literatures covering Singapore's economic development from 1959 through the years leading to the Asian financial crisis in 1997. They comprise books, edited volumes and journal articles. Some of the widely cited ones include *Competitiveness of the Singapore Economy: A Strategic Perspective* (1998), *The Political Economy of a City-State: Government-made Singapore* (1998) and *Singapore: A Developmental City State* (1997). More are listed in the reference

section of this report. These sources provide a good overview of Singapore's economic development and the rationale behind the regionalisation of Singapore's economy.

1.16. As development of Singapore's economic strategy after 1997 is still relatively new, secondary literature proves to be insufficient for the team to gain a good understanding of the topic. Nonetheless, it was able to find a number of good sources such as *The Political Economy of a City-State Revisited* (2006), *Japanese Firms in Contemporary Singapore* (2008) and *Singapore Foreign Policy: The Search for Regional Order* (2008). More are listed in the reference page.

1.17. In order to fill the gap, the team consulted primary sources. Indeed, a good sense of where Singapore is heading and the economic policies that the government adopted such as signing of FTAs and maintaining the economy's connection with the global economy can be obtained from speeches made by political leaders or reports prepared by government institutions such as IE Singapore and ministries such as the MTI.

1.18. Trade data of ASEAN is compiled by using international trade statistics, while investment data is from sources such as IMF's *Direction of Trade* and *Asian Development Bank Outlook*. As for ASEAN's investment data, it is obtained from the statistics database in the ASEAN Secretariat website and the *ASEAN Statistical Yearbook*.

1.19. To understand the evolution of ASEAN's development from a political entity to one that emphasises economic cooperation, the team consulted books, edited volumes and journal articles such as *The ASEAN Reader* (1993), *The 2nd ASEAN Reader* (2003), *ASEAN Co-Operation and Intra-ASEAN Trade* (1985), *ASEAN: Rises to the Challenge* (1999), *The Economies of Southeast Asia: Before and After the Crisis* (2002) and *ASEAN Economic Development and Co-Operation* (1996). Together with those listed in the reference page, the team studied various initiatives undertaken by ASEAN over the years for greater economic integration. Primary sources such as treaties, agreements and ratifications in *ASEAN Document Series* also prove to be very useful in facilitating detail studies of some of ASEAN's initiatives for greater economic integration such as ASEAN 2020 or the AFTA.

PART I: EVOLUTION OF SINGAPORE'S REGIONAL ECONOMIC LINKAGES AND INTEGRATION POLICIES

1. Changing Profiles of Singapore's Trade and Investment Pattern with the Region

(a) Early Economic Development Policy Including Singapore's Entrepot Position in Southeast Asia and Reliance on Malaysia/Indonesia as Hinterland

2.1. Under the British colonial government, Singapore served as a free entrepot for the region.¹ It imported commodities including rubber, tin, timber and spices from neighbouring countries (mostly Malaya and Indonesia), and re-exported them to markets in Europe and America. Consumer goods produced in the Western markets (especially the United Kingdom (UK)) were re-exported to other countries in the region via Singapore. Trade was mostly financed by commercial and financial houses in Singapore owned by British and overseas Chinese.² A significant part of the trade between Singapore and Indonesia was made up of smuggling activities and was not reflected in official trade statistics. In fact, for many years, Singapore did not publish its trade statistics with Indonesia.

2.2. The Singapore economy under the British colonial system thrived thanks to its regional trading hub status, which allows it to capitalise on its strategic geographic position at the heart of Southeast Asia. It also served as a service hub for the region in a number of areas including finance, logistics, shipping, etc. The British did not actively develop the manufacturing industry in part to avoid creating competition for its own products from its colonies. There were nevertheless a number of indigenous manufacturing firms set up by the Chinese or Indian migrant business communities.³ However, these were mostly light industries related to food and beverages and raw

¹ T. E. Silcock, "Singapore in Malaya", *Far Eastern Survey*, Vol. 29, No. 3 (Mar., 1960), pp.36-37. Kevin Grice and David Drakakis-Smith, "The Role of the State in Shaping Development: Two Decades of Growth in Singapore", *Transactions of the Institute of British Geographers*, Vol. 10, No. 3 (1985), p.348.

² Grice and Drakakis-Smith, p.350-351.

³ *Ibid*, p.351.

material processing businesses.⁴ The raw materials were sourced from neighbouring countries, mostly in the Malaya Peninsula.⁵ In fact, most of the plantations or mines in British Malaya were owned by families that operated food and beverages and rubber processing businesses in Singapore.

2.3. From 1959 to 1965, Singapore went through a series of major political changes. It was granted self-autonomy (except in the areas of defence and foreign policy) by the British government in 1959 after the People's Action Party (PAP) led by Mr Lee Kuan Yew won the legislative elections. In 1963, Singapore decided to join the Malayan Peninsula, Sabah and Sarawak to form the Federation of Malaysia, which marked complete independence from Britain. Two years later, in 1965, Singapore was expelled from the Federation as differences between the central government in Kuala Lumpur and the PAP-led local government became irreconcilable.

2.4. Singapore's production structure and trade pattern began to change after 1959, when the PAP government decided to shift the economy away from its heavy dependence on the entrepot trade. It was obvious by then that trading activities alone could not provide enough employment for the workforce, nor could it offer a base for sustainable economic growth. The pressure on the economy rose further as neighbouring countries, after gaining independence, tried to by-pass Singapore and to develop direct trade routes with their trading partners.⁶

2.5. Following the recommendation of a team of World Bank advisors led by Dr Winsemius, the PAP government in 1959 embarked on an industrialisation programme that strived to attract multinational corporations (MNCs) to set up their manufacturing base in Singapore. Labour laws and industrial relations laws were changed fundamentally to make the city-state's industrial environment friendly to the MNCs. Key statutory boards such as the Economic Development Board were set up

⁴ Hiroshi Shimizu, *Japanese Firms in Contemporary Singapore* (Singapore: NUS Press, c2008), p.29.

⁵ Christine Genzberger, *Singapore Business: The Portable Encyclopaedia for Doing Business with Singapore* (San Rafael, Calif.: World Trade Press, c1994), p.69.

⁶ *Ibid*, p.22-27.

to spearhead efforts to attract MNCs into Singapore. The Jurong Township Corporation, another statutory board, was formed to build and manage industrial estates in Jurong, the western part of the island where the bulk of industrialisation took place.⁷

2.6. Initially, the industrialisation programme was carried out along an import-substitution line, with Malaya being seen as providing the “domestic market” for the industrial products. This strategy was given a much greater emphasis during the two years when Singapore was part of the Malaysia Federation. However, the strategy became untenable when Singapore was forced out of the Federation in 1965.⁸ The Singapore government decided then to shift the industrialisation strategy from import-substitution to export-orientation. The MNCs played a vital role in this transition. Many of them already had a global distribution network and it was not difficult to sell what they produced in Singapore in the international markets. Meanwhile, another statutory board, the Trade Development Board (later renamed as IE Singapore, in the late 1990s) was formed to work with the MNCs and other Singapore-based companies to open up new export markets.

TABLE 1 VALUE OF DIRECT INVESTMENT BY COUNTRIES OF ORIGIN IN SINGAPORE’S MANUFACTURING SECTOR, 1965 TO 1978 (GROSS FIXED ASSETS AS AT THE END OF EACH YEAR IN US\$ MILLION)

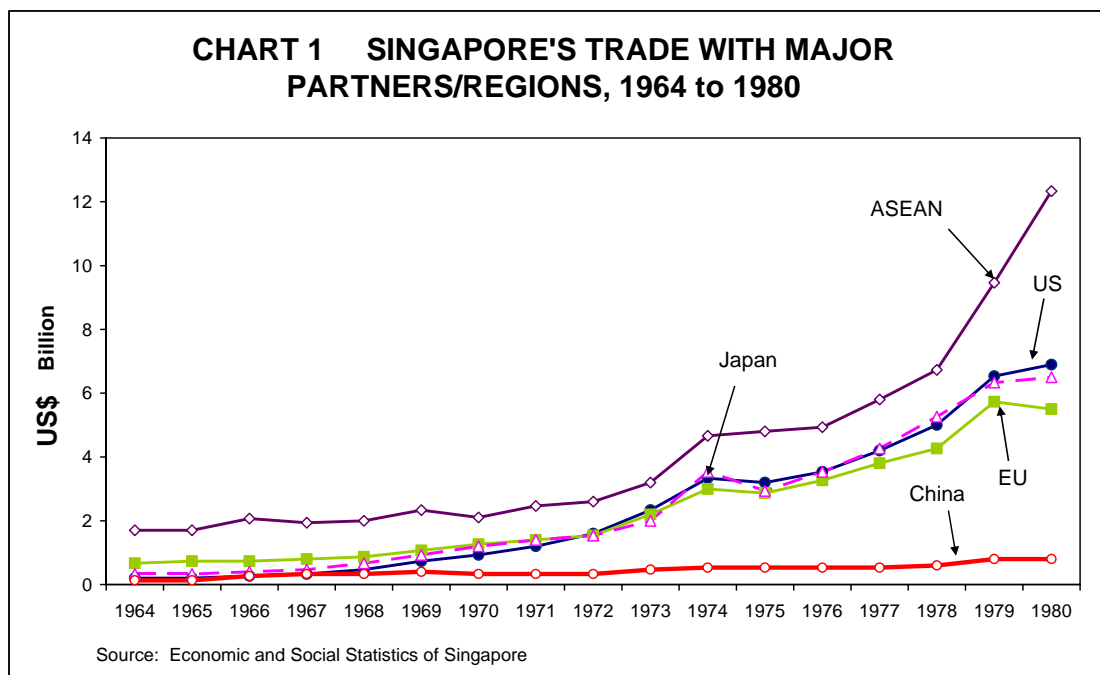
Country	1965		1970		1975		1976		1977		1978	
	Total Value	% of total	Total Value	% of total	Total Value	% of total	Total Value	% of total	Total Value	% of total	Total Value	% of total
US	23	14.6	343	34.5	1,118	33.1	1,233	33.0	1,366	33.0	1,600	30.5
UK	45	28.7	199	20.0	481	14.2	555	14.8	566	13.7	791	15.1
Holland	40	25.5	183	18.4	473	14.0	525	14.0	571	13.8	904	17.2
Japan	27	17.2	68	6.8	454	13.4	525	14.0	633	15.3	801	15.3
Others	22	14.0	202	20.3	854	25.3	901	24.1	1,009	24.3	1,146	21.9
Total	157	100	995	100	3,380	100	3,739	100	4,145	100	5,242	100

Source: Singapore Department of Statistics

⁷ Linda Low, *The Political Economy of a City State: Government-Made Singapore* (Singapore: Oxford University Press, 1998), pp.36-40.

⁸ See Albert Lau, *A Moment of Anguish: Singapore in Malaysia and the Politics of Disengagement* (Singapore: Times Academic Press, 1998) for more details on Singapore’s separation from the Federation of Malaysia.

2.7. From 1965 to 1980, foreign direct investment (FDI) into Singapore from the United States (US), Western Europe (especially the UK and the Netherlands) and Japan rose rapidly (Table 1). Singapore's trade pattern also became increasingly globalised. While many of Singapore's industrial products were naturally sold back to countries that provided the FDIs, the MNCs also helped stimulate the growth of Singapore's export substantially. As seen in Chart 1 and Table 2, Singapore's trade volume rose rapidly during this period.



**TABLE 2 SINGAPORE'S TRADE AND TRADE INTENSITY WITH
MAJOR COUNTRIES/REGIONS, 1965 TO 1980**

Year	US		European Union (EU 15)		Japan		China		ASEAN	
	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity
1965	4.4	0.7	16.2	0.1	7.4	0.8	2.9	2.7	-	-
1970	11.4	0.8	15.4	0.2	14.6	1.0	4.1	0.9	25.6	18.9
1975	15.0	1.3	13.4	0.3	13.8	1.4	2.5	1.2	22.5	16.5
1980	15.8	1.2	12.6	0.3	14.8	1.4	1.8	0.9	28.2	14.4

Source: Computed from data in IMF, Direction of Trade Statistics and Economic and Social Statistics of Singapore

Notes:

1. Trade intensity index is defined as: $T_{ij} = [x_{ij} / X_{it}] / [x_{wj} / X_{wt}]$ where x_{ij} and x_{wj} are the values of i's exports and world exports to j, X_{it} is i's total exports and X_{wt} is total world exports. As such, the index reflects the ratio of the share of country i's exports going to country j, relative to the share of world trade destined for country j. An index value above one indicates that the trade relationship between the two countries is more important than trade with the rest of the world.
2. When the index exceeds "1", it means Singapore is trading with the country above the "normal" level.

2.8. By 1980, Singapore's total trade volume with the US, Japan and Western Europe amounted to over 40 % of the city-state's total global trade. In contrast, Singapore's economic reliance on other ASEAN members decreased throughout the late 1960s and 1970s. This is mostly because Singapore's economy was entrepot trade dependent and specialised in handling primary commodities from Malaysia and Indonesia. Towards the 1980s however, as Singapore's economy industrialised and diversified into manufacturing exports, Singapore's trade with extra-ASEAN markets grew to, in relative terms, dwarf Singapore-ASEAN trade.

(b) Establishment and Evolution of ASEAN: from political initiative to economic cooperation through AFTA

2.9. The slowdown of the global economy and the rise of protectionist sentiments in industrialised countries against developing economies in the late 1970s and early 1980s prompted Singapore to step up its economic restructuring and industrial upgrading so as to diversify its export markets, which in turn led to the reorientation

of its economy towards greater regional focus.⁹ Such a shift in Singapore's strategy coincided with a fundamental shift in ASEAN's focus during the same period. From 1976, ASEAN began to shift its focus from political to economic cooperation, as member countries began to recognise that trade liberalisation and economic cooperation could provide a major driver for economic growth.

2.10. ASEAN was established in 1967 primarily as a political entity aimed at safeguarding regional security and maintaining peace among its member countries. There was a fear among the five founding member countries, namely Indonesia, Malaysia, Thailand, Singapore and the Philippines, that communism would spread from Indo-China to the rest of Southeast Asia. There were also concerns that territorial disputes among neighbouring countries would escalate to become region-wide conflicts. Singapore's former Prime Minister Lee Kuan Yew, for example, saw ASEAN's main achievement in the 1970s as "tearing down the psychological barriers or distrust among member nations" and helping to "lubricate relationships which could otherwise have generated friction."¹⁰

2.11. Although the ASEAN Declaration listed economic cooperation as one of its objectives, it was not in ASEAN's main agenda in the first 10 years following its formation.¹¹ Narrow nationalism during that period also prevented economic integration among member countries as such integration inevitably entails loss of economic sovereignty. The level of trade protection among ASEAN countries remained high during this period.

2.12. Changes in the international economic order and the increasing use of protectionist trade policies by Western industrialised countries in the late 1970s forced ASEAN to re-examine its strategy and to put more emphasis on economic

⁹ Amitav Acharya, *Singapore Foreign Policy: The Search for Regional Order* (Singapore: World Scientific, 2008), p.37-52. See also John Wong, "Singapore's Experiences of Industrial Restructuring: Lessons for the Other Asian NIEs" in Seiji Naya and Akira Takayama (eds), "Economic Development in East and Southeast Asia" (Honolulu, East-West Center, 1990).

¹⁰ Speech by the Prime Minister of Singapore at the Official Opening of the Fifth ASEAN Ministerial Meeting at the Shangri-la Hotel, Thursday, 13 April 1972.

¹¹ Shee, p.755-764.

cooperation. Warming political ties, increased trust and confidence among member countries helped facilitate such a transition.¹² Broadly speaking, ASEAN's economic integration process can be divided into three phases: early integration attempts (1976-1991); formalisation of FTAs (1992-1997) and post-Asian financial crisis integration (1998 to date).

First Phase: Early Integration Attempts (1976-1991)

2.13. During the first ASEAN Summit in Bali in February 1976, member states discussed ways to increase intra-regional trade for the first time.¹³ The result was the signing of the ASEAN Preferential Trading Agreement (PTA) in February 1977. The agreement stipulated a cut of 10 % in tariff rates on bilateral trade among all ASEAN countries.¹⁴ The group of products affected was to be selected by each member state through a product-by-product negotiation.

2.14. The PTA provided an important framework for trade promotion and economic integration among ASEAN countries. However, progress in trade liberalisation was very slow in the late 1970s and the 1980s despite two more rounds of tariff reduction in 1981 and 1987 respectively. Although political relationships among ASEAN countries had improved considerably by then, economic self-interest remained strong. The scope for economic cooperation was also limited by the difference in economic development strategies adopted by ASEAN countries and their stage of development during this period (e.g. global free trade in Singapore, export promotion in Thailand and Malaysia and import substitution in Indonesia and Philippines). To protect their own domestic industries, many member countries took advantage of the product-by-product approach in the PTA negotiation to exclude "sensitive items" (i.e. items that would disadvantage their own domestic industries) from the list of negotiations. Many of the items that were given low-tariff treatment were in fact irrelevant for

¹² Refer to Table 1 in Appendix for a list of Treaties/Agreements and Ratification for greater political collaboration in ASEAN.

¹³ Shee, p.762.

¹⁴ See Article 4 of the Agreement on ASEAN Preferential Trading Agreement, 24 February 1977. Available at <http://www.aseansec.org/1376.htm>.

ASEAN countries (e.g. snow remover etc). This product-by-product approach was replaced by an across-the-board tariff cut approach, which served to remove room for arbitrariness, only in 1987.¹⁵

Second Phase: Formalisation of FTAs (1992-1997)

2.15. The pace of economic integration quickened in the 1990s when most ASEAN economies began to adopt a more consistent economic development strategy built upon FDI-sponsored, export-oriented industrialisation. Effective economic integration was seen as an important part of the efforts to maintain ASEAN's attractiveness as an investment site for MNCs.¹⁶ The grouping reached a new economic milestone during the 4th ASEAN Summit in 1992 when it agreed to establish an AFTA, the first regional FTA in East Asia.¹⁷ The AFTA was formally launched in the following year with the Common Effective Preferential Tariffs (CEPT) as the core trade liberalisation programme.

2.16. The CEPT spelt out an ambitious timeline for the elimination of duties on all products in intra-ASEAN trade, except those listed as Sensitive and Highly Sensitive Unprocessed Agricultural Products. For ASEAN-6 (i.e. Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), they have to eliminate all tariffs by 2010. The deadline for tariff elimination for newer members (i.e. Cambodia, Laos, Myanmar and Vietnam (CLMV)), on the other hand, has been extended to 2015. Member countries also set up other mechanisms to liberalise trade in services and investment flow within the region. One of these examples is the adoption of the ASEAN Framework Agreement on Services in 1995. The agreement aims to completely liberalise trade of services among ASEAN members in sectors such as air

¹⁵ John Wong, "ASEAN's Experience in Regional Economic Cooperation", *Asian Development Review* (Manila, ADB, Vol.3, No. 1, 1985), p.88

¹⁶ Paul Bowles, "ASEAN, AFTA and the 'New Regionalism'", *Pacific Affairs* (Vol.7, No.2, Summer 1997), p.223.

¹⁷ See Article 2 of the Framework Agreement On Enhancing ASEAN Economic Cooperation, 28 January 1992. Available at <http://www.aseansec.org/1165.htm>.

transport, business services, construction, financial services, maritime transport, telecommunications and tourism.¹⁸

2.17. Notwithstanding the increasingly pro-integration stance and rhetoric taken by ASEAN countries during the 1990s, the reality remained quite different. The strong official pronouncements and the various agreements that were inked over the years were not matched by actual trade and economic integration. As a result of the common MNC-driven, export-oriented growth strategy adopted by almost all ASEAN countries, these countries became increasingly globalised in their trading patterns as they followed the distribution networks of the MNCs. They were doing so well in export growth that they saw no urgency in promoting intra-regional trade.

Third Phase: Post-Asian Financial Crisis Integration (1998 to date)

2.18. The situation took a more marked turn after the Asian financial crisis in 1997 in which the ASEAN was badly hit. The grouping's share in FDI in the developing world decreased from an annual average of 22.8 % in 1990-1995 to only 6.5 % in 2001. The difficulty ASEAN faced in the late 1990s was further worsened by the rising Chinese economy. Speaking at an AFTA Seminar in 2002, Singapore's Minister for Trade and Industry at that time George Yeo highlighted that the rapid economic development of China, which coincided with the Asian financial crisis, had created problems for the recovery of ASEAN economies. As China was less affected by the crisis, it was able to attract investment away from ASEAN. As Mr Yeo noted, "In 1990, China accounted for less than 20 % of total foreign investment in developing Asia while Southeast Asia took 60 %. Today, the numbers are reversed."¹⁹ Mr Yeo noted that ASEAN's recovery was further hampered by challenges from other emerging markets in India, Latin America and Eastern Europe as well as regional blocs such as the European Union (EU) and the North American Free Trade Area (NAFTA).

¹⁸ Chang Chiou Yi, "ASEAN-China Economic Relations: Moving Towards Services". In Saw Swee-Hock, *ASEAN-China Economic Relations* (Singapore: ISEAS, 2006), p.151.

¹⁹ Speech by BG (NS) George Yeo, Minister for Trade and Industry of Singapore at the AFTA Seminar, Grand Hyatt Hotel, 31 January 2002.

2.19. In the face of the crisis, the grouping decided to speed up economic integration. Generally, the integration process took place at three levels. First, to strengthen ASEAN's competitive position, the grouping agreed to ratify the "ASEAN Vision 2020" plan in 1998. The plan called for the creation of an ASEAN Economic Community (AEC) which allows free flow of goods, services and investments within the community. The vision was built on previous agreements including the aforementioned AFTA (1992) and the ASEAN Framework Agreement on Services (1995). To support the implementation of the "ASEAN Vision 2020", new agreements were signed in subsequent years, including the setting up of an ASEAN Investment Area (1998) to encourage freer flow of investment in the region, as well as the Hanoi Action Plan (1998) and the Vientiane Action Plan (2004), both of which provide roadmaps to how ASEAN should progress towards the creation of an economic community.

2.20. Recognising that the development gap between the more developed and the less developed ASEAN member countries (mainly CLMV) needed to be substantially narrowed to achieve effective regional economic integration, ASEAN introduced the Initiatives for ASEAN Integration (IAI) in 2001. The initiatives provide a platform for more developed ASEAN members to invest in the GMS countries either through various sub-regional development projects or on a bilateral basis. As of March 2008, there were 203 development projects in the IAI Work Plan, out of which 116 projects were completed in areas ranging from infrastructure development to human resource training (details are at Table 3).

**TABLE 3 STATUS OF IAI DEVELOPMENT PROJECTS
(AS OF END 2008)**

STATUS	NO. OF PROJECTS	% OF TOTAL PROJECTS
Projects that have secured full funding	158	77.8
○ Completed	116	
○ Under implementation	42	
Projects that have secured partial funding <i>(Donors have selected certain components of the project; other donors</i>	6	2.9

<i>will have to be found to fund the remaining components)</i>		
Matching Process Underway	15	7.4
No Funding Support Yet	24	11.9
Total	203	100

Source: ASEAN Secretariat

2.21. The second plank of ASEAN's response to the Asia crisis was its decision to strengthen the grouping's economic links with other economies. The decision came about as it became clear that the costs of an inward-looking economic strategy far outweighed the benefits it conferred on member economies. At the 1999 ASEAN Summit, for example, Singapore's former Prime Minister Goh urged ASEAN member countries to broaden and deepen its economic integration internally while at the same time, strengthen their links with major economies externally.²⁰

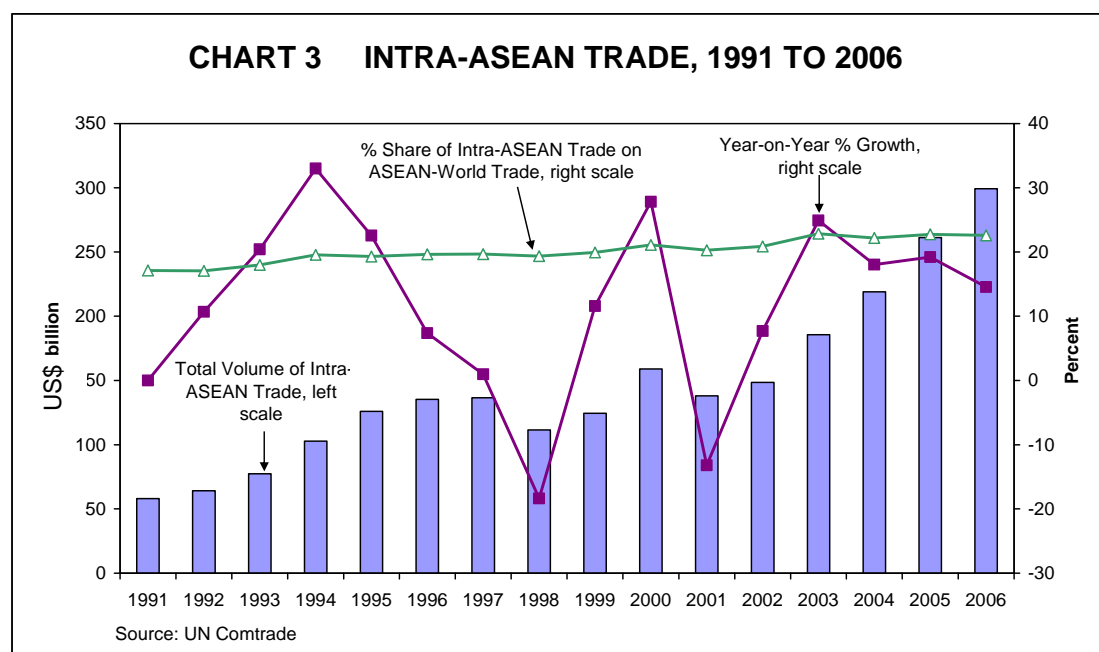
2.22. To this end, ASEAN set up an "ASEAN-plus" framework which brought regional powerhouses such as China, South Korea and Japan into ASEAN as official dialogue partners. This opened ASEAN up to more market and investment opportunities. Indeed, economic initiatives such as the agreement to formalise the CAFTA and the ASEAN-Japan Comprehensive Partnership Agreement proved to be effective in promoting growth in ASEAN's regional trade and intra-ASEAN trade. These efforts led to the emergence of another major, though informal, economic grouping: the "ASEAN+3" grouping which consists of the 10 ASEAN countries, as well as China, Japan and South Korea. Although "ASEAN+3" has economic importance and muscles that are far greater than what ASEAN can project at the global stage, ASEAN is still widely recognised as being the core that pulls all the 13 economies together.

2.23. As part of its efforts to go beyond member countries, ASEAN also tried to strengthen economic linkages on a global basis through the setting up of the East Asian Summit and the establishment of cooperation linkages with the EU and the US

²⁰ "ASEAN - Meeting the Challenges Ahead". Keynote address by Prime Minister Goh Chok Tong At The Opening Of The 32nd ASEAN Ministerial Meeting, Singapore, 23 July 1999.

including Asia Pacific Economic Cooperation Forum (APEC) and Asia-Europe Meeting (ASEM).

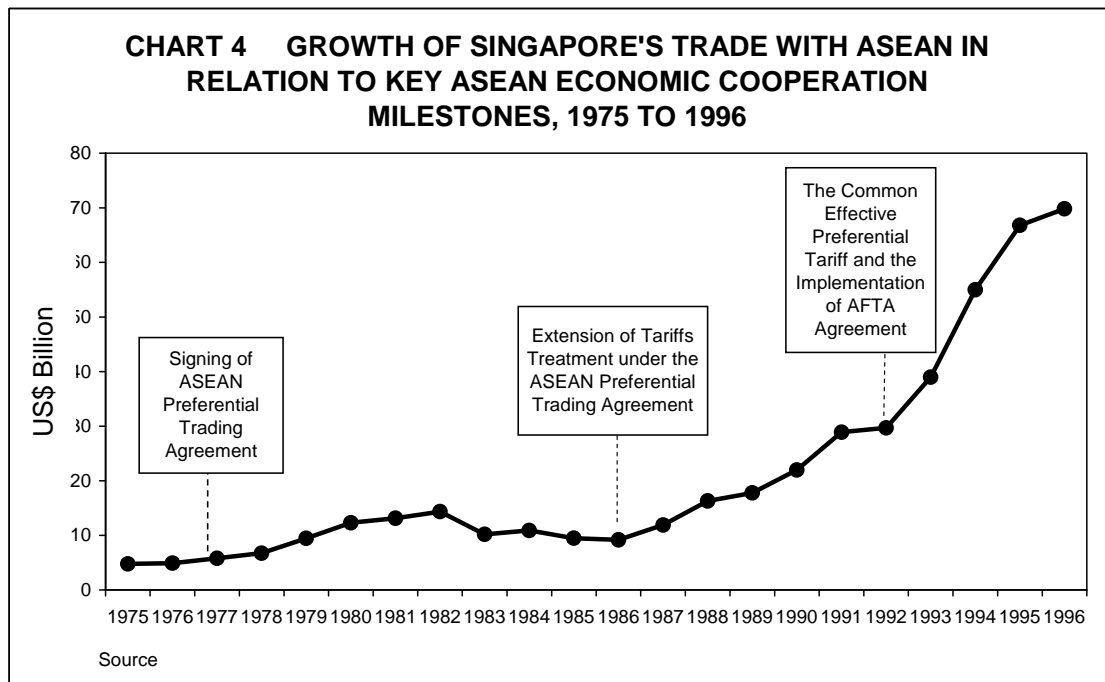
2.24. The third aspect of the ASEAN response to the Asian financial crisis was a concerted attempt by member countries to build the region's capability to handle future financial crisis through region-wide financial cooperation schemes. In this regard, they work very closely with the other three economies within the "ASEAN+3" framework. The Chiangmai Initiatives (CMI), which provide for a series of swap arrangements to boost each member country's ability to defend its currency during a crisis, as well as the various surveillance mechanisms and attempts at policy consultation and coordination among the 13 economies, are some of the visible results of ASEAN's post-crisis integration approach. As a result of the various integration efforts, intra-ASEAN trade increased considerably from about US\$58 billion in 1991 to reach nearly US\$300 billion by the end of 2006 (Chart 3).



Impact of ASEAN's Integration on Singapore's Trade Pattern in ASEAN

2.25. The three phases of ASEAN's economic integration as detailed earlier had some positive effect on Singapore's trade pattern in the region. However, significant growth was not witnessed in the first phase (1976-1991). From 1977 to 1985, Singapore's trade with ASEAN increased only from US\$5.8 billion to about US\$9.5

billion. The sluggish growth continued even after ASEAN raised the preferential level of the PTA from 10 % when it was implemented in 1977 to 50 % in 1988. Visible growth to Singapore's trade with ASEAN was seen in the second phase (1992-1997) when ASEAN adopted the AFTA and the CEPT scheme in 1993. During this period, Singapore-ASEAN trade increased from US\$22 billion in 1990 to nearly US\$70 billion by the end of 1996 (Chart 4).



2.26. The growth of Singapore-ASEAN trade in the 1990s made ASEAN a major market for Singapore's trade (Chart 5). The share of Singapore-ASEAN trade in Singapore's total global trade increased from about 20 % in 1985 to nearly 30 % in 1996 (Chart 6). However, this increase did not signify that Singapore's trade was more oriented towards the ASEAN region in the 1990s. As Table 4 shows, the trade intensity of Singapore's trade with ASEAN declined from 1990 to 1996 even though the share of Singapore-ASEAN trade in Singapore's total global trade increased during the same period.

CHART 5 SINGAPORE'S TRADE WITH MAJOR PARTNERS/REGIONS, 1980 to 1996

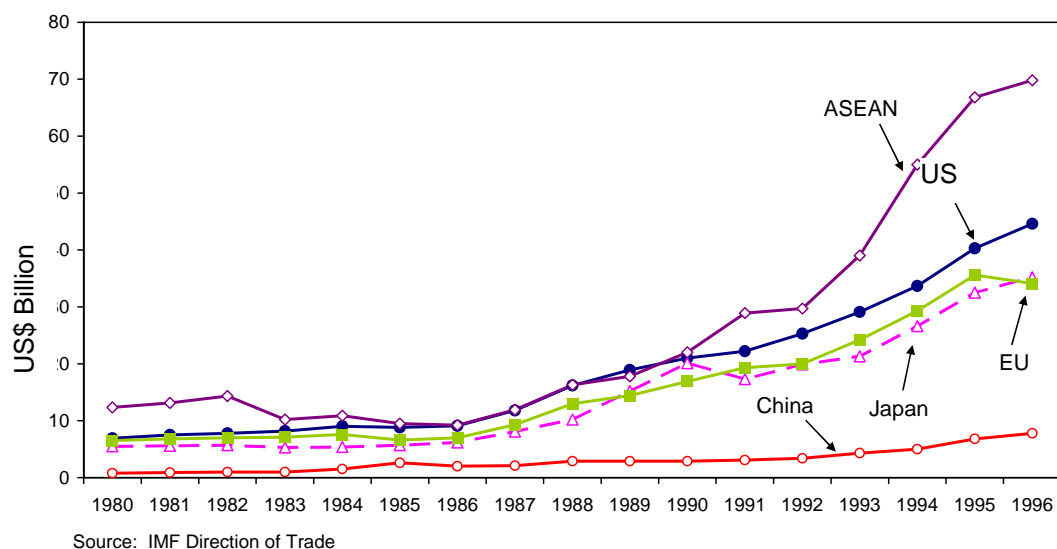
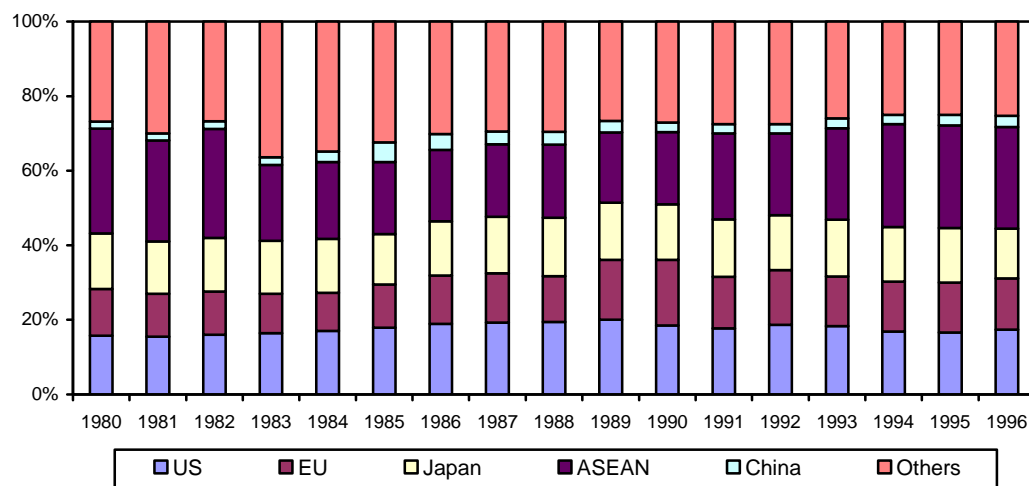


CHART 6 SHARE OF SINGAPORE'S TRADE WITH MAJOR TRADING PARTNERS/REGIONS IN SINGAPORE'S TOTAL GLOBAL TRADE, 1980 TO 1996



Source: IMF, Direction of Trade

**TABLE 4 SINGAPORE'S TRADE AND TRADE INTENSITY WITH
MAJOR COUNTRIES/REGIONS, 1980 TO 1996**

Year	US		European Union (EU 15)		Japan		China		ASEAN	
	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity
1980	15.8	1.2	12.6	0.3	14.8	1.4	1.8	0.9	28.2	14.4
1985	17.9	1.2	11.6	0.3	13.4	1.5	5.3	0.6	19.3	14.4
1990	18.5	1.4	17.7	0.3	14.9	1.4	2.6	1.0	19.3	10.5
1996	17.4	1.2	13.7	0.4	13.3	1.4	3.0	0.9	27.2	7.6

Source: Computed from data in IMF, Direction of Trade Statistics and Economic and Social Statistics of Singapore

Notes:

1. Trade intensity index is defined as $T_{ij} = [x_{ij} / X_{it}] / [x_{wj} / X_{wt}]$ where x_{ij} and x_{wj} are the values of i's exports and world exports to j, X_{it} is i's total exports and X_{wt} is total world exports. As such, the index reflects the ratio of the share of country i's exports going to country j, relative to the share of world trade destined for country j. An index value above one indicates that the trade relationship between the two countries is more important than trade with the rest of the world.
2. When the index exceeds "1", it means Singapore is trading with the country above the "normal" level.

2.27. Significant growth of Singapore's trade with ASEAN only occurred during the third phase (1998 to date). This was demonstrated in the 170 % increase of Singapore-ASEAN trade from US\$67 billion in 1997 to US\$182 billion by the end of 2007 (Chart 7). In terms of percentage share, Singapore-ASEAN trade was the largest in Singapore's total global trade in 2007, accounting for nearly 33 % of Singapore's total global trade (Chart 8). The trade intensity of Singapore-ASEAN trade also began to rise during this period (Table 5).

CHART 7 SINGAPORE'S TRADE WITH MAJOR TRADING PARTNERS/REGIONS, 1997 to 2007

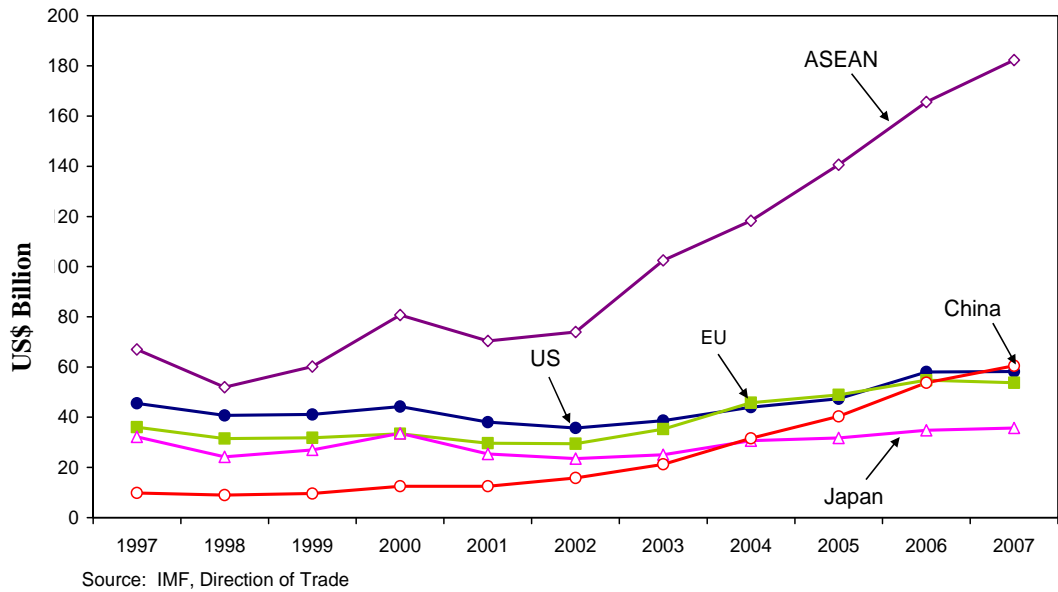
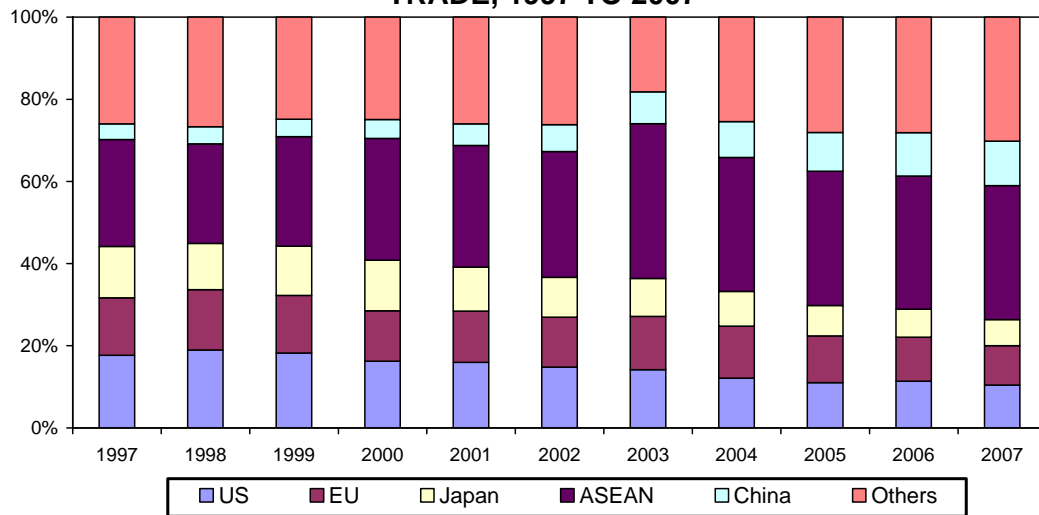


CHART 8 SHARE OF SINGAPORE'S TRADE WITH MAJOR PARTNERS/REGIONS IN SINGAPORE'S TOTAL GLOBAL TRADE, 1997 TO 2007



**TABLE 5 SINGAPORE'S TRADE AND TRADE INTENSITY WITH
MAJOR COUNTRIES/REGIONS, 1995 TO 2007**

Year	US		European Union (EU 15)		Japan		China		ASEAN	
	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity	% of Total Trade	Trade Intensity
1995	16.6	1.2	13.4	0.4	14.7	1.4	2.8	0.8	27.5	7.8
2000	16.2	0.9	12.3	0.5	12.3	1.4	4.6	1.2	29.6	8.1
2005	11.0	0.7	11.4	0.3	7.4	1.2	9.4	1.5	32.7	8.4
2007	10.4	0.7	9.6	0.3	6.4	1.3	10.8	1.7	32.6	8.6

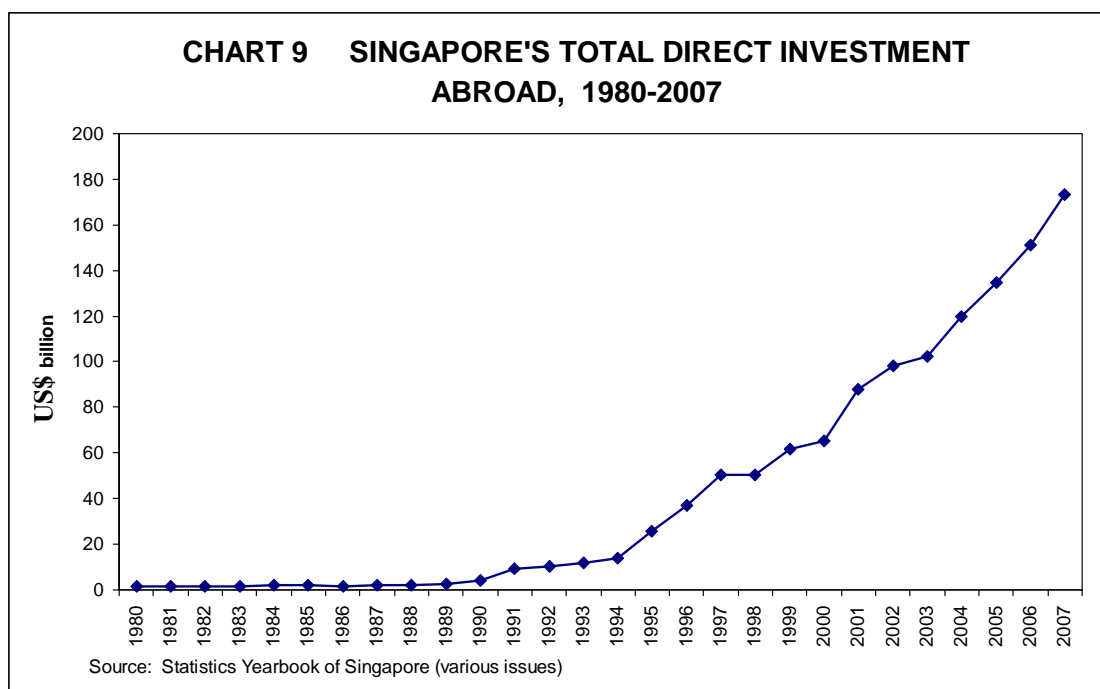
Source: Computed from data in IMF, Direction of Trade Statistics and Economic and Social Statistics of Singapore

Notes:

1. Trade intensity index is defined as $T_{ij} = [x_{ij} / X_{it}] / [x_{wj} / X_{wt}]$ where x_{ij} and x_{wj} are the values of i 's exports and world exports to j , X_{it} is i 's total exports and X_{wt} is total world exports. As such, the index reflects the ratio of the share of country i 's exports going to country j , relative to the share of world trade destined for country j . An index value above one indicates that the trade relationship between the two countries is more important than trade with the rest of the world.
2. When the index exceeds "1", it means Singapore is trading with the country above the "normal" level.

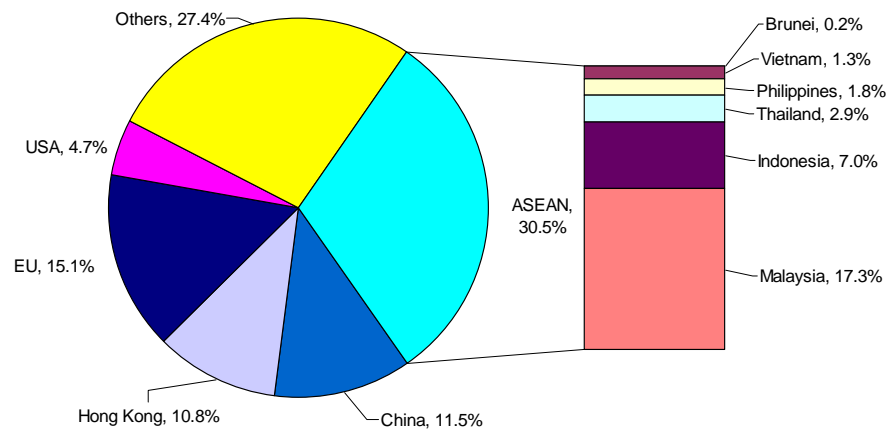
Impact of ASEAN Integration on Singapore's Investment Pattern in ASEAN

2.28. Besides trade, Singapore's overseas investment became more regionalised. The Asian financial crisis notwithstanding, Singapore's direct investment abroad had grown considerably since the 1990s. As Chart 9 shows, the growth of the total value of Singapore's investment abroad surged in the 1990s, reaching some US\$173 billion by the end of 2007.



2.29. A large amount of Singapore's investment had been allocated to the closer ASEAN and East Asian region. As shown in Charts 10A, 10B and 10C, ASEAN was the destination of nearly a quarter of Singapore's direct investment abroad in 1996, 2000 and 2007. Despite the increase in the absolute amount of Singapore's investment in ASEAN and the East Asian Region is increasing, the relevant percentage was decreasing.

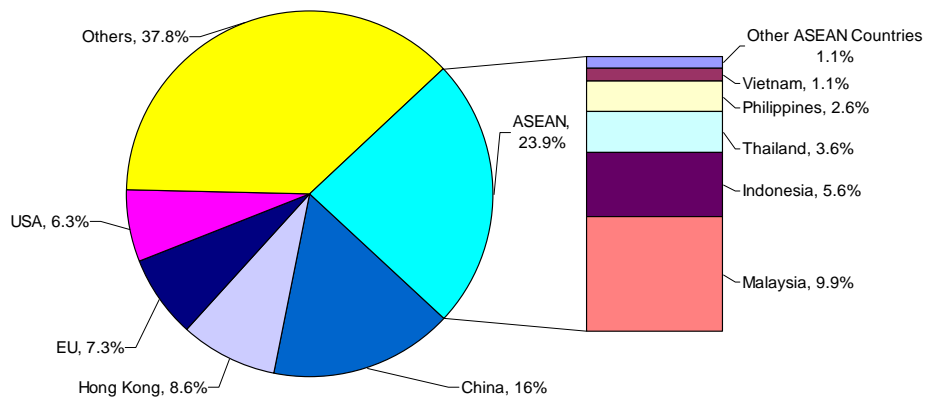
**CHART 10A SINGAPORE'S DIRECT INVESTMENT ABROAD
BY COUNTRY/REGION, 1996**



Singapore's Total Direct Investment Abroad for 1996 = SGD55.5 billion

Source: Yearbook Statistics of Singapore

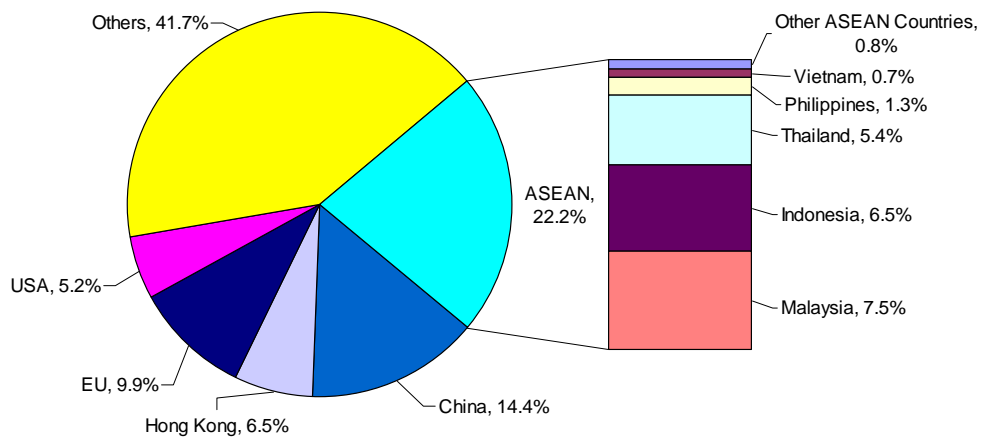
**CHART 10B SINGAPORE'S DIRECT INVESTMENT ABROAD
BY COUNTRY/REGION, 2000 (%)**



Singapore's Total Direct Investment Abroad for 2000 = SGD 98.3 billion

Source: Yearbook Statistics of Singapore

**CHART 10C SINGAPORE'S DIRECT INVESTMENT ABROAD
BY COUNTRY/REGION, 2007**



Singapore's Total Direct Investment Abroad for 2000 = SGD 259.7 billion

Source: Yearbook Statistics of Singapore

2.30. Singapore companies are also showing greater interest in investing in development projects in the GMS countries such as Vietnam. The city-state is a major participant in the IAI programme. Since the programme's inception in 2001, Singapore has been involved in 33 projects through the ASEAN framework and 56 projects on a bilateral basis (Table 6). Most of these projects involved improving the transport and energy infrastructure as well as in human resource development in the GMS countries.

**TABLE 6 SINGAPORE'S AND ASEAN-5'S CONTRIBUTION TO IAI
PROJECTS (AS AT THE END OF 2008)**

Country	Through ASEAN Framework			Bilateral Basis		
	No. of Projects	Funding (US\$ Million)	% of Total Funding	No. of Projects	Funding (US\$ Million)	% of Total Funding
Brunei	8	1.5	4.8	4	0.4	0.3
Indonesia	9	0.8	2.6	29	1.7	1.1
Malaysia	58	4.8	15.6	62	5.9	3.6
Philippines	9	0.6	1.8	31	0.3	0.2
Singapore	33	22.8	73.6	56	53.1	32.8
Thailand	13	0.5	1.6	97	100.4	62
TOTAL	130	31	100	221	161.8	100

Source: ASEAN Secretariat

Importance of ASEAN's Integration to Singapore

2.31. Singapore has long been playing a leading role in pushing for trade liberalisation within ASEAN. After the first ASEAN Summit in Bali in February 1976, Singapore took the lead in liberalising its intra-ASEAN trade ahead of the signing of the PTA by introducing a 10 % across-the-board tariff reduction on its bilateral trade with the Philippines and Thailand in January 1977.²¹ When Thailand called for an adjustment on the preference level set by the PTA in 1987, Singapore set the pace by being the first among ASEAN members to increase the agreement's preference level to 50 %, and implement an across-the-board tariff cuts on all trade items entering Singapore.²² Singapore is also the first ASEAN nation to comply with AFTA's timeline by completely removing tariffs for all goods in its ASEAN bilateral trade and imposing almost no restrictions on the flow of ASEAN investment into Singapore.

2.32. There are a number of reasons why Singapore has been very pro-active in promoting economic integration within ASEAN. Firstly, it is to help ensure Singapore's survival and security. As one of the smallest countries in the region in

²¹ Shee, p.762.

²² Arvind Panagariya, *Regionalism in Trade Policies* (World Scientific: Singapore, 1999) p.127-128.

terms of population and geographical size, and without any meaningful production hinterland or domestic market, Singapore is both economically and politically more vulnerable than many other ASEAN countries. Being a predominantly Chinese state surrounded by non-Chinese neighbours that have not been friendly to Chinese historically, Singapore's position is particularly precarious.²³ It therefore sees closer economic linkage with ASEAN countries as an effective way to fostering good political relationship with its neighbours, and that an economically prosperous ASEAN would help ensure political stability in the region. Efforts to establish some sub-regional economic groupings such as the Singapore-Johore-Riau (SIJORI) Growth Triangle were partly aimed at fostering political cooperation with Singapore's neighbouring states.

2.33. Secondly, Singapore hopes to leverage on ASEAN to build an external wing for its economy. Without any significant natural resources, hinterland and domestic market to speak of, Singapore's ability to attract MNCs and to grow its own corporations depends, to a large extent, on its ability to capitalise on and synergise with the various comparative advantages that its neighbouring countries offer. In fact, Singapore has always been viewed by some as the *de facto* capital city of ASEAN. Indeed, one important component of Singapore's economic strategy has always been to serve as a "business headquarter" for MNCs to maintain production operations in the region, a role Singapore performed during the 1950s and 1960s when the city-state was the region's entrepot city. In recent years, Singapore continues to play the same role, relying on its position as an efficient service provider in the region. Greater economic integration within ASEAN not only increases market opportunities but also eases investment flows in the region.²⁴

2.34. The need to leverage on ASEAN as an economic hinterland to attract foreign investments became even clearer with the emergence of new economic rivals like China, and the formation of free trade groups in other parts of the world like NAFTA. Individually, Singapore could not offer a sufficiently attractive base for MNCs. As part of a larger ASEAN economy with a combined population of about 500 million,

²³ Racial relationships have long been a source of tensions in Malaysia and Indonesia. There were various "anti-Chinese" riots in both countries in the past.

²⁴ Acharya, p.52.

however, Singapore's position as a base for MNCs is significantly strengthened. As Singapore's former Prime Minister Goh Chok Tong noted in 1992, "unless ASEAN can (use AFTA to) match the other regions in attractiveness both as a base for investments and as a market for their products, investments by multinational companies are likely to flow away from our part of the world to the Single European Market and NAFTA".

2.35. Today, Singapore continues to play a leading role in promoting the integration of ASEAN economies. Singapore Prime Minister Lee Hsien Loong stated in 2007 that "by presenting ourselves coherently, (ASEAN) will show (itself) to be capable of pursuing (its) interests and engaging the world".²⁵ Singapore also envisioned that greater integration in ASEAN can cement cooperation in various ASEAN-initiated fora, such as the East Asian Summit and Asia Regional Forum. In order to facilitate closer integration within ASEAN, Singapore is one of the first members to ratify the ASEAN Charter and the blueprint for the AEC. In 2007, when Singapore hosted the 13th ASEAN Summit, it chose "One ASEAN at the Heart of Dynamic Asia" as the theme to show its commitment to regional integration.

(c) Singapore's expanded regional economic linkages beyond ASEAN

2.36. It is important to note that Singapore's active role in ASEAN represents only a part of its two-pronged approach in its external economic policy. While emphasising the importance of ASEAN integration, it continues to maintain close trade relations with other economies. This is manifested in a number of ways.

2.37. First, Singapore actively pursues bilateral FTAs with countries outside ASEAN despite it being a member of AFTA. Compared to other ASEAN economies, Singapore has been the most active in concluding FTAs. Table 7 shows the FTAs and economic partnership agreement concluded by Singapore. Since 2000, Singapore has concluded nearly a dozen FTAs with major economies including Australia, China, Japan, Korea and the US, as well as smaller economies such as Jordan, Panama and the Gulf Cooperation Council (GCC) countries (i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates).

²⁵ Speech By Prime Minister Lee Hsien Loong, at the ASEAN Day Lecture, 7 August 2007.

**TABLE 7 SINGAPORE'S FTA AND ECONOMIC PARTNERSHIP
AGREEMENT PARTNERS**

PARTNERS / REGION	FTA SIGNED IN
New Zealand	August 2000
Japan	January 2002
European Free Trade Area (comprising Switzerland, Iceland, Liechtenstein and Norway)	June 2002
Australia	February 2003
US	May 2003
Jordan	April 2004
South Korea	August 2004
Trans-Pacific Area (comprising Brunei, Chile and New Zealand)	June 2005
India	June 2005
Panama	March 2006
Peru	May 2008
China	October 2008
GCC countries (i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates)	December 2008

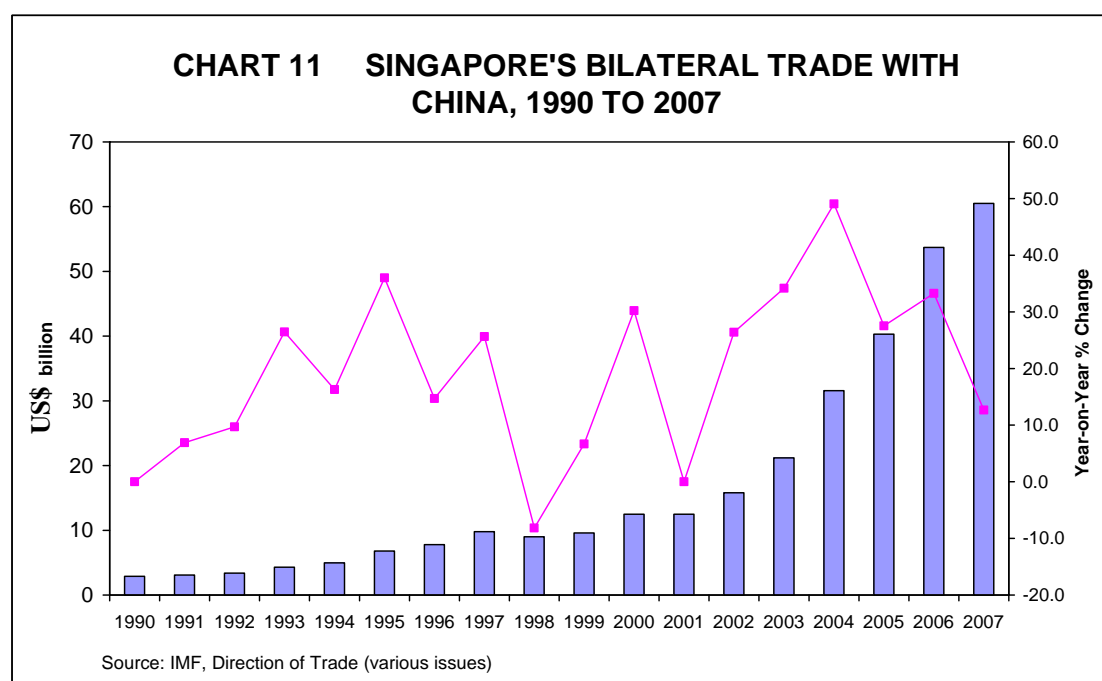
Source: IE Singapore

Notes:

1. Singapore's FTAs with Japan, New Zealand, Trans-Pacific Area and India are referred to as Economic Partnership Agreement, Closer Economic Partnership, Strategic Economic Partnership Agreement and Comprehensive Economic Cooperation Agreement respectively.
2. The table excludes Singapore's FTAs signed under the ASEAN framework, i.e. AFTA, CAFTA, Japan-ASEAN FTA and South Korea-ASEAN FTA.

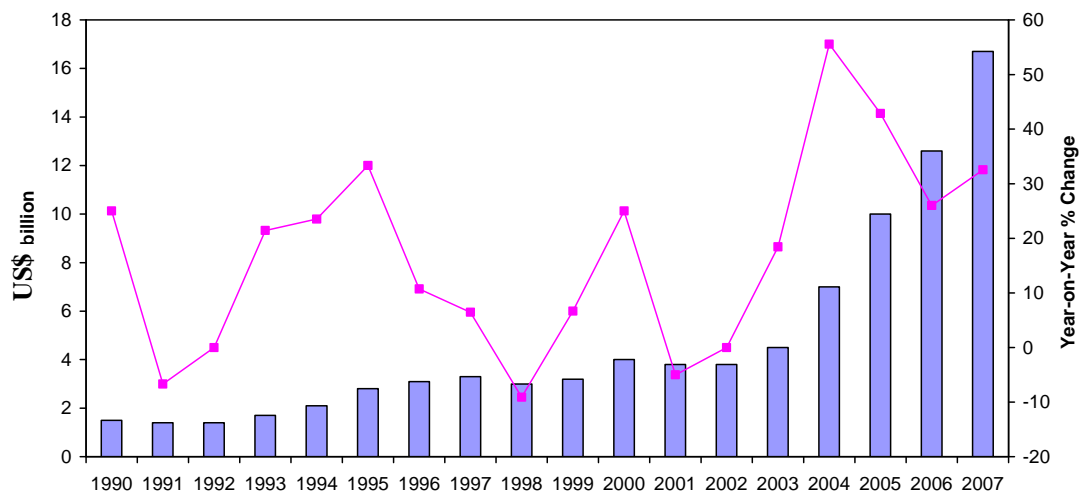
2.38. Second, on top of being an ASEAN member, Singapore is also an active member in other regional and multilateral groupings. Currently, Singapore is a member of the APEC and the WTO. Singapore also initiated many platforms with other regions such as the ASEM, Forum for East Asia-Latin America Cooperation and the Asia-Middle East Dialogue to establish dialogue and strengthen cooperation between Singapore, Asia and the respective regions.

2.39. Third, Singapore is deepening its bilateral relations with emerging economies, particularly China and India. Since Singapore established official diplomatic relations with China in 1990, there has been a marked change in the pattern of trade and investment between the two countries. For instance, Singapore's trade volume with China increased quite significantly from about US\$2.9 billion in 1990 to US\$7.8 billion by the end of 1996. From 1997 to the end of 2007, Singapore's trade with China grew over 500 %, from US\$9.8 billion to US\$60.5 billion (Chart 11). Singapore's direct investment in China also registered a considerable growth as the city-state's relations with Beijing deepen. It ballooned from just US\$220 million in 1991 to over US\$37.5 billion by the end of 2007.



2.40. Singapore's trade and investment relationship with India has also deepened in recent years. Unlike those with China, Singapore-India relations only started to develop in recent years, particularly after the two countries began negotiations to establish a Comprehensive Economic Cooperation Agreement in 2003. As shown in Chart 12, Singapore's total trade volume with India has registered a significant growth of nearly 300%, from US\$4.5 billion in 2003 to US\$16.7 billion in 2007. At the same time, Singapore's total direct investment in India also rose from about US\$600 million in 2003 to over US\$3 billion in 2007.

CHART 12 SINGAPORE'S TOTAL BILATERAL TRADE WITH INDIA, 1990 TO 2007



Source: IMF, Direction of Trade

2. Major policy initiatives to promote Singapore's integration with the region

(a) Political dimension of Singapore's regionalisation moves

2.41. Singapore's external economic policy is an important part of its overall economic strategy to achieve sustainable growth and development for the city-state. The effectiveness and relevance of Singapore's external economic policy, including its regional economic integration policy, has to be assessed in terms of its usefulness in helping the government to accomplish its overall economic objectives.

2.42. The Singapore government plays a critical part in transforming the city-state's economic landscape over the years. It believes strongly in adopting a proactive approach to help shape the structure of the economy. In addition to exerting a strong direct influence on the economy through its policies, it also indirectly steers the direction of the city-state's economic development through the various GLCs set up over the years. While the GLCs are largely run like private sector companies with similar commercial objectives, they are also deployed from time to time to help achieve some national economic objectives. These objectives include, amongst others, building an external economic wing for the city-state through strategic investments and trade in foreign countries.

2.43. Broadly speaking, the Singapore economy has gone through four phases of development. In the 1960s and the 1970s, the government's objective was to develop labour-intensive industries such as textile and food and beverage industries, to provide jobs for the large pool of unemployed people in the city-state. In the 1980s, as competitive pressure from other low-cost, low-wage developing countries in the region became more intense, the policy emphasis shifted to the development of capital-intensive industries and the upgrading of technical skills of the workforce. Electronics, ship-building and petrochemical industries became the mainstay of the economy. By the 1990s, the policy focus moved to technology-intensive industries, as the government channelled its resources towards attracting and developing high-tech companies such as those in the wafer fabrication industry and other high-end electronic products. Efforts had also been made during this period to boost the

service sector, in particular the financial sector and tourism industry, through improved efficiency.

2.44. Since the beginning of the 21st century, the government has been trying to build up Singapore's comparative advantage in knowledge-based, innovation and creativity-driven industries by strongly encouraging research and development (R&D) and innovation. Life science, creative industry, wealth management service, education service and entertainment industry are some of the new areas where policy makers believe that Singapore should develop on the basis of its new comparative advantage.²⁶

2.45. As the policy initiatives and with it the structure of the economy changed over time, two constants nevertheless remained: the commitment to a free trade policy and the reliance on MNCs as a key driver of growth. Whether it is labour-intensive, capital-intensive, technology-intensive or innovation-driven industries that the Singapore government is trying to promote, they have to be export-oriented because Singapore lacks a sizeable domestic market to sustain the industries on its own. Export-orientation and global competition are also widely accepted as the only way to ensure that companies in Singapore maintain their competitive edge in the global market. This basic philosophy compels the government to commit to a free trade policy with as many countries as possible.

2.46. The MNCs have long been playing a major role in the development of Singapore's economy. They have been a source of not only investment capital, but more importantly, technologies, management skills and also distribution networks in the global markets. As the structure of the Singapore economy changes, the types of MNC that it tries to attract change as well. Nevertheless, the basic policy approach remains the same: policy makers make strategic choices about the kind of industry Singapore should promote, and then use a wide range of instruments and policy incentives to attract the relevant MNCs into Singapore. In the meantime, local companies are strongly encouraged to learn from the MNCs and to develop the local

²⁶ See Tan, KS and SY Phang, 2005, "Economic Growth and Strategic Investment in Infrastructure: Perspective from Singapore", in *The Economic Prospects of Singapore*, edited by W. Koh and R Mariano, Pearson, Addison Wesley, 2005.

production capability. Typically, many local companies started out as sub-contractors to the MNCs. Over time, they grew to become more “full-fledged” companies. Some of them eventually grew to be strong competitors of the MNCs.

2.47. Over the years, the government has set up a great number of GLCs to ensure that there is indeed a sufficient amount of local companies to build up the production capability in Singapore. These GLCs remain majority-owned (or significantly owned) by the government even after they have gone public. They are given the mandate to run their businesses like commercially driven private sector companies.

2.48. In the early years, where Singapore’s economic policy emphasis was on labour-intensive and capital-intensive industries, the incentives provided by the Singapore government were generally of a fiscal and financial nature, e.g. the extension of tax holidays, subsidies on infrastructure development, training of skilled workforce, etc. As the city-state’s industrial structure became more sophisticated, the incentive structure changed as well. While moving towards technology-based and innovation-driven industries, the Singapore government is increasingly engaged in “strategic” competition with what it sees as rival countries, with the intent of securing a “first mover advantage”. The incentive package offered to MNCs becomes more specific to the needs of the industries and firms.

2.49. The pharmaceutical sector is a good example that illustrates the Singapore government’s pro-activeness in promoting the development of an industry. To attract investment in this sector, the government offers such incentives as low corporation tax and easy entry for foreign employees with open immigration policies. On the research front, it has embarked on a programme to encourage working relationships between state-funded institutes and local universities, as well as a US\$500 million project to build the “Biopolis”, a purpose-built biomedical research hub which will accommodate researchers from both the public and private sectors. The MTI also set up the Agency of Science, Technology and Research as a lead agency for scientific R&D in Singapore.

2.50. The export-oriented nature of the economy and the heavy reliance on the MNCs necessitates a liberal external economic policy in Singapore, not just with

regard to trade in goods and services but also capital and importation of labour. By the early 1970s, the unemployment problem that used to plague Singapore had been replaced by one of labour-shortage. To satisfy the production needs of the MNCs and local companies, the government started aggressively to source for low-wage, low-skilled foreign workers from the region, especially from Malaysia, Indonesia and Thailand. Many of the labour laws with regard to foreign workers were relaxed to facilitate their inflow into Singapore. It should also be noted that MNCs have a strong influence on the formulation of Singapore's external economic policy. On many occasions, government policies have to take into consideration the needs of MNCs to reach out to certain markets.

2.51. Starting from the early 1990s, Singapore has also embarked on an aggressive effort to develop an external economic wing. Drawing from the examples of small European countries like the Netherlands and Norway which derive a large part of their Gross National Product (GNP) from their investment income from abroad, the Singapore government actively encouraged local companies to invest overseas, especially in East Asian and ASEAN economies, so as to allow these companies to leverage on and synergise their own comparative advantage with that of the city-state's neighbouring countries. Singapore companies were seen to be able to provide capital, technology and management expertise to the countries of their investment while leveraging on the low cost of these countries' land and labour. Leading the charge were the large GLCs which began to invest actively in a large number of ASEAN countries. Sizeable GLCs such as Sembawang Corp, Keppel Corp and Singapore Technology, for example, have built a number of industrial parks in countries like Indonesia and Vietnam.

2.52. It was in this same period that Singapore companies began to make substantial investment in China as well, as part of its external wing building policy but more importantly, to integrate its economy with that of China so as to benefit from China's strong potential for growth. Some private companies in Singapore, such as the United Overseas Bank (UOB), started operating in China, especially in coastal provinces

such as Guangdong and Fujian, as early as the 1980s.²⁷ After the normalisation of China-Singapore relations in October 1990, GLCs began to move into China in droves. From 1990 to June 1994, Singapore invested in over 3,900 projects in China, amounting to a total contract volume of US\$6.8 billion. By the end of 1997, Singapore's actual investment in China reached US\$8.8 billion.²⁸

2.53. Singapore companies, led by the GLCs, were involved in a number of large infrastructure projects in China, such as the Wuxi Industrial Park and the Dalian Container Terminal. However, the most high profile project was the Suzhou Industrial Park (SIP), one of Singapore's most ambitious investment projects in China. Launched in 1994, the SIP was a joint development project between the Singapore government and the Suzhou municipal government. It aimed to build an industrial park with public housing and recreational facilities similar to those built in Singapore. SIP was also to be managed using Singapore's "software" and systems. The social security system offered to the workers within the SIP, for example, was based on Singapore's Central Provident Fund scheme.

2.54. Individual development projects within the SIP were joint ventures by Singapore and Chinese companies. From Singapore's side, the efforts were led largely by GLCs, not the private sector. For instance, the first phase of SIP's development was a joint venture undertaken by the Singapore-Suzhou Township Development, which is a Singapore consortium of twenty-four companies led by the Keppel group (also see page 41 on Keppel Corp) and the Suzhou Industrial Park Corporation, its Chinese counterpart.

2.55. Besides China, Singapore also started to actively engage India, both in trade and in investment, from the late 1990s. In recent years, much effort was spent on fostering Singapore's economic links with the Middle East. Again, in both cases, the GLCs led the way with some private sector companies following suit a few years later.

²⁷ See John Wong, "Southeast Asia Ethnic Chinese Investment in China", EAI Working Paper No.15 (Singapore: East Asia Institute, National University of Singapore, 1998), p.16.

²⁸ See John Wong, "Sino-Singapore Relations: Looking Back and Looking Forward," in *Singapore China: 1990-2000, Commemorative Souvenir in Celebration of the 10th Anniversary of the Establishment of Diplomatic Relations Between the Republic of Singapore and The People's Republic of China*, (Singapore: World Scientific Publishing Co. Pte. Ltd., 2000).

2.56. The Singapore government also took steps to re-define Singapore's economic strategy to help retain the city-state's international competitiveness and attractiveness to foreign MNCs. As a result of the sharp realignment of regional currency and the appreciation of the Singapore dollar, as well as the emergence of China, Singapore's competitiveness was greatly eroded. To help the city-state regain its competitive edge, the government introduced the "Industry 21" initiative in 1999 as the blueprint to restructure Singapore's industrial sector. The goal under this initiative is for Singapore to be a leading centre of knowledge-driven activities and to consolidate its position as a regional headquarter (RHQ) for MNCs by 2010. While retaining the electronics, petrochemical, engineering and logistics industries as sources of growth, the initiative identified healthcare, biomedical sciences, education, and communication and media as new economic pillars.²⁹

2.57. After the Asian financial crisis, Singapore's external wing is still largely confined to East Asia, due to the region's geographical proximity to the city-state and Singapore's overall development strategy to establish itself as a RHQ. An increasingly protectionist global economic environment brought about by the formation of regional blocs in different parts of the world also made it more pragmatic for Singapore to focus on the region.

(b) Strategies to expand regional linkages

2.58. Two broad policy approaches characterise Singapore's strategies to expand its external economic linkages:

- 1) a two-pronged approach to free trade; and
- 2) a comprehensive coverage of its free trade policy.

2.59. These policy approaches are driven by two key considerations: to address the constraints Singapore faces as a small city state with no hinterland or a sizeable

²⁹ Augustine Tan, "Official Efforts to Attract FDI: The Case of Singapore's Economic Development Board (EDB)," Lee-Jay Cho, Yoon Hyung Kim, and Chung H. Kee. (eds.), *Industrial Globalization in the Twenty-first Century: Impact and Consequences for East Asia and Korea* (Seoul, Korea: Korea Development Institute; Honolulu, Hawaii: Distributed by University of Hawaii Press, c2002), p.109-133.

domestic market, and to ensure that the external linkages are aligned with its domestic policy agenda at different stages of its development.

2.60. As a small city-state economy, it is in Singapore's interest to develop trade and investment links with as many economies as possible. Politically, Singapore has to be sensitive to the views of other ASEAN countries. Economically, however, it cannot count on ASEAN as its only or even main export market. The slow progress ASEAN made on regional economic integration from the 1970s to the late 1990s further reinforced Singapore's view that, while it would benefit a great deal from an economically integrated ASEAN, it would have to continue to diversify its export markets outside the grouping until ASEAN's economic integration had progressed to a certain stage. This explains Singapore's two-pronged approach in its external economic integration policy: to pursue greater economic integration within ASEAN and help develop ASEAN's economic ties with other regions, while at the same time strengthen its own economic linkages with countries outside the grouping. The latter efforts took the form of a series of bilateral FTAs with countries both within and outside East Asia. These bilateral FTAs are mostly concluded after the Asian financial crisis.

2.61. On the issue of policy alignment, the focus of Singapore's external economic policy has shifted in accordance with the different stages of the city-state's economic development as detailed earlier in this Part. Singapore moved quickly from advocating free trade in goods into advocating free trade in services as well as freer movement of capital and labour. Given the differences between the structure of Singapore's economy and those of other ASEAN countries, and the developmental gap between them, Singapore's interest and policy focus have always been very different from and much more comprehensive than its neighbouring countries.

2.62. Unlike most ASEAN economies which have a large agricultural sector and a mostly labour-intensive manufacturing sector, Singapore, with its origin as an entrepot and a trade hub, has a large tradable services sector. The Singapore government is fully aware of the need for the city-state's economy to stay ahead of other ASEAN economies in order to preserve its export competitiveness. Thus, as the other ASEAN economies began to develop their labour-intensive industries such as

garment and low-end electronic products manufacturing, Singapore was already moving into other directions aggressively, firstly into capital-intensive and later technology-intensive and then innovation- and knowledge-based industries. Such transition has been made possible to a large extent with the help of a very liberal external economic policy, which allows Singapore-based companies, especially the MNCs, to import raw materials and equipment without trade barriers, and have easy access to capital and labour (both unskilled and skilled) regionally and globally, making it possible for Singapore to successfully attract the type of companies it needs to help restructure the economy at different stages of its development.

2.63. Singapore's external economic policy has put it in a position of potential conflict with other ASEAN countries. For example, since 1998, Singapore has concluded a number of bilateral FTAs with economies outside ASEAN (see Table 7 in Part 1c) when, as part of the AFTA, it should formalise FTAs under the ASEAN framework. The city-state's comprehensive and accelerated approach towards free trade also adds pressure to its relationships with other ASEAN economies, which are taking a more gradual approach to achieving trade liberalisation. Its trade liberalisation in such areas as agriculture and the service sector, and its liberal policy towards capital and labour movements arguably places it in a position that is closer to the developed west than its ASEAN counterparts. Such differences could pose challenges to the city-state's economic integration with the region.

2.64. While the city-state preferred a much faster pace of regional economic integration, it also recognised the difficulty of achieving this goal, as well as the negative repercussion it could face if it were to push the issue through too aggressively. Indeed, from 1976 to 1998, ASEAN achieved relatively little in terms of actual economic integration, despite all the positive rhetoric and the signing of the AFTA in 1993 as mentioned in paragraph 2.15 above.

2.65. Notwithstanding the slow progress of ASEAN economic integration, Singapore was able to enjoy the economic benefits of a fast growing ASEAN, thanks to the majority of the city-state's trade with its major trading partners, including ASEAN member states, being conducted bilaterally, rather than through the ASEAN framework. Still, Singapore continued to contribute to the process of ASEAN

integration and support further economic cooperation within ASEAN by being one of the most vocal proponents of the need for ASEAN to focus single-mindedly on economic development, an idea which, by the 1980s, had become a consensus among ASEAN countries.

2.66. The emphasis on economic growth and development forced ASEAN countries to put a high premium on political stability. While the US' heavy military presence in the region had helped in this regard, there was increasing recognition that such security effort needed to be supplemented, especially in the light of the invasion of Cambodia by Vietnam in 1979, which heightened the fears of the spread of communism and military intervention in the region among ASEAN countries. Working with the US, the grouping launched a series of UN-sponsored initiatives to force Vietnam to withdraw from the occupied territory. The resultant peace and stability in the region (outside Indo-China) provided the basis needed for sustained economic growth.

2.67. Singapore also made some efforts in a bid to reduce potential tensions with other ASEAN countries. Firstly, Singapore made it clear that it would follow the principle of "WTO-consistent open regionalism" in its regional integration strategy. Singapore has always been active in ensuring that the agenda of the ASEAN free trade negotiations are as consistent with that of the General Agreement of Tariffs and Trade and later WTO as possible. Following the establishment of the WTO in January 1995 (the inaugural meeting was hosted by Singapore), the agenda of global free trade negotiations was broadened to include General Agreement on Trade in Services, Trade-Related Measures on Foreign Direct Investment and Trade-Related Aspects of Intellectual Property. Singapore has since been playing an active role in bringing these agenda into the ASEAN free trade negotiations, which helped narrow the policy gap between ASEAN and the WTO and in turn, that between ASEAN and Singapore. Meanwhile, the consensus-based decision-making process within the grouping suggests that while Singapore's position might represent that of the most developed member country, the concerns of the less developed member countries were not neglected.

2.68. Secondly, Singapore has been pro-active in helping to close the development gap between the more developed ASEAN economies and the less developed ones, an effort which has gained greater importance after CLMV joined the grouping in the 1990s. Various technical assistance and training programmes were provided to help raise the standards of trade and investment practices and rules in the less-developed member countries.

2.69. While Singapore strives to cultivate closer relationships with its neighbours, it was also aggressively pursuing trade and investment opportunities outside the region, often working through the global distribution network of the Singapore-based MNCs. Given the slow progress of ASEAN integration, Singapore had no choice but to try to expand its economic space outside the region. As a result, its trade and investment with the US, Europe and Japan rose sharply. Singapore's attempt in positioning itself as a global business service hub during this period also complements this effort.³⁰

2.70. In summary, one could argue that before 1997, Singapore was pursuing a two-pronged strategy to establish external economic linkages, but with heavy concentration on non-ASEAN markets. Within ASEAN, its approach was one of "moving along", trying to keep the free trade momentum alive without being able to fore the pace.

2.71. After the 1997 Asian financial crisis, Singapore stepped up efforts in economic integration within ASEAN. While the two-pronged strategy remained, there was a clear shift in Singapore's position vis-à-vis ASEAN, which came about as ASEAN countries found themselves facing a new reality: the rise of China and India. The rise of these two economic giants presented the grouping with three scenarios: (1) as they grow, they exert gravitational pull and tear ASEAN apart; (2) as they grow, they take up all the political and economic space and leave little for ASEAN; and (3) the region accelerates its own integration, strengthens its own position collectively and then finds a way to synergise with these two economies to leverage on their strong growth. The decision was obvious. For Singapore, the impact of this change in regional economic landscape is felt particularly strongly given its heavy reliance on

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See the next section for more details on Singapore's hub strategy.

MNCs and foreign investment. Without the “market size” and the production hinterland provided by other ASEAN countries, Singapore’s attractiveness to MNCs will be severely diminished.

2.72. Another reason for Singapore’s decision to become more aggressive in pushing for ASEAN integration after the Asian financial crisis was the realisation of the central role that ASEAN could play in a wider East Asia economic grouping. ASEAN, as an economic grouping, was too small to respond effectively to any region-wide financial or economic crisis, and to be effective in the global economic forum. To strengthen its position, ASEAN decided to expand itself by including three of its “dialogue partners”, namely China, Japan and South Korea, to form the “ASEAN+3” grouping. The expansion was particularly important in the area of financial cooperation. Without their participation, the CMI and the Asia Bond Market Initiatives (ABMI), the two main components of the post-Asia crisis regional financial architecture, would have been meaningless.

2.73. ASEAN was widely perceived to be playing a pivotal role in the formation of a wider East Asia grouping, largely because it was seen as a neutral party. The larger grouping allowed the three economies to avoid the tensions that could arise in a bilateral free trade negotiation. The leaders of ASEAN countries recognised this and seized the opportunity to build the ASEAN+3 framework.³¹ Given Singapore’s close economic relations with the three Northeast Asian economies, especially China and Japan, and given the wider economic linkages Singapore enjoyed compared with other ASEAN countries, the city-state was well-positioned to push this initiative forward.

2.74. Singapore took a leading role on two fronts: to force a more rapid and more comprehensive economic integration within ASEAN, and to initiate FTAs between ASEAN and other economies. The AEC project, conceived in 2003 and scheduled to be launched in 2015, is a major step ahead for ASEAN. It aims to take ASEAN economic integration way beyond the AFTA, and to achieve free trade not only in

³¹ See Tan Kim Song and Khor Hoe Ee, “China’s Changing Economic Structure and Implications for Regional patterns of Trade, Production and Integration”, in *China and World Economy*, Vol 14, No.6, Nov-Dec 2006. Blackwell Publishing.

goods and services but also in capital and labour. If successful, the initiative will create one of the largest single markets in the world and greatly enhance ASEAN's economic competitiveness. Singapore, together with Indonesia, has been the main driving force behind this initiative.

2.75. Given its experience in negotiating with other developed economies, it is not surprising that Singapore is leading the efforts to increase and extend intra-ASEAN trade in services and to facilitate freer movements of capital and labour, within the ASEAN Framework Agreement. By tightening the internal agreements, ASEAN will be in a stronger position when negotiating with other dialogue partners over FTAs.

2.76. Singapore is also striving to narrow the developmental gaps among ASEAN countries through, amongst others, its involvement in sub-regions within ASEAN. For example, Singapore is one of the largest contributors to the IAI fund introduced by ASEAN to close the development gap between the more developed ASEAN members and the CLMV members (See Table 6 in section 1b). Singapore has been one of the largest investors and a significant provider of technical assistance to the CLMV countries, under the GMS initiative. As the bulk of Singapore's investment in GMS has gone to Vietnam, IE Singapore, the city-state's agency dealing with private sector commercial activities in the region, has set up an office in the country. Some of Singapore's investments in the GMS countries take place through indirect channels such as the tendering system of the Asian Development Bank (ADB). This is especially so in Cambodia, Laos and Myanmar.

2.77. Singapore has played a leading role in starting the free trade negotiations between ASEAN and other countries, including China, Japan, India, Australia and New Zealand, etc. In fact, Singapore's bilateral FTAs concluded with the five said countries in recent years acted as impetus for ASEAN members to overcome their disagreements in forging multilateral FTAs with these partners. For instance, ASEAN's FTA with Japan, which came into effect in 2008, was concluded after Singapore signed its FTA with Japan in 2002. The ASEAN-Australia-New Zealand FTA was concluded in 2009 after Singapore established its FTA with Australia and New Zealand in 2003 and 2000 respectively. As for ASEAN's FTA with China, although it was implemented in 2005, ahead of Singapore's FTA with China in 2008,

the Singapore-China FTA pushed ASEAN members to expand the coverage of its FTA with China by including liberalising services and investment.

2.78. Singapore is also at the centre of the various ASEAN+3 cooperation schemes. Given the city-state's close trade and investment relationships with China and Japan, a greater integration brought about by ASEAN+3 will benefit Singapore directly. Singapore has worked closely with the three northeast Asian economies in conceptualising the CMI, the ABMI and the design of the region-wide surveillance and risk management mechanisms.

(c) Private sector initiatives

2.79. The Singapore economy and the business community today are dominated by two major players: the MNCs and the large GLCs. However, this was not always the case. In the 1960s and 1970s, there was a thriving private sector in Singapore, dominated by ethnic Chinese. The sector included major conglomerates as well as small and medium enterprises (SMEs). Their business activities span across both the manufacturing and the service industries. Many of them had cross-border businesses with operations spreading across different ASEAN countries. The three major banks in Singapore during that period, the Overseas Chinese Bank, UOB and Overseas Union Bank, for example, had strong presence in Malaysia and other ASEAN countries.

2.80. Over the years, as the government carried out its industrialisation programme and its various strategic economic initiatives, the commercial space was gradually ceded to the MNCs and the GLCs. The GLCs are supposed to work on the principle of "public ownership and private operation". They are profit-driven and the management is rewarded according to their commercial performance. Together with the MNCs, they are the vehicles through which the government restructures the economy. The private sector companies that remained are largely SMEs, especially in the service sector.

2.81. Given the dominance of the MNCs and the GLCs, it is not surprising that the private sector's role in Singapore's regional economic integration drive was limited. Nevertheless, their input is still sought by the Singapore government to facilitate the formulation of the regional integration strategies. For instance, the government set up the Singapore Business Federation in 2002 to provide a platform for Singapore's private sector to voice their opinions regarding domestic needs and their overseas business interests.

2.82. IE Singapore is the official agency dealing with private sector companies' regional activities. It has two main functions: to help Singapore companies start and develop their business overseas, and to promote trade between Singapore and its partners. It achieves the former functions mainly through conducting assessments on market opportunities available in various countries, and providing a platform for Singapore businessmen to establish contacts with the relevant players, such as business partners or key politicians in the selected industry, through their offices set up in those countries. In addition, the agency is responsible for the promotion of Singapore as a hub for offshore trading and re-exports activities, with emphasis on the city-state's strength in logistics facilities (e.g. airport and seaport) and other facilities and services relevant to offshore trading (e.g. offshore banks, free port, etc).

3. Singapore's Role and Contribution to Regional Integration: As a Conduit for the Region to the Global Economy and Complementing the Comparative Advantages of the Region

2.83. Singapore's ability to serve as a conduit for the ASEAN region to the global economy is largely underpinned by its strategy to establish itself as a regional hub. This strategy was devised in 1985 when the government set up an Economic Committee in the MTI to work out a new development and globalisation strategy that would induce sustainable growth by continuing the restructuring process in the manufacturing sector and synergising it with the service sector. Headed by then Minister of Trade and Industry Lee Hsien Loong, the committee proposed transforming Singapore into a total business centre where foreign MNCs were able to set up their production base and carry out their operations before production (e.g. R&D and production engineering) and operations after production (e.g. marketing and regional management). In other words, Singapore is to become a RHQ for MNCs.

2.84. To attract MNCs to Singapore, the government set up a RHQs incentive system in 1986 to provide qualified MNCs with incentives such as lower corporate tax. Local service providers from areas such as banking and financial services, communication and transportation and other business and professional consultancy services were encouraged to upgrade and expand their operations and to position themselves as strategic partners for the MNCs. This gave the Singapore's service sector a complete turnaround as the new services replaced traditional entrepot services as the main drivers of growth of the service sector.

2.85. Government assistance was provided for the establishment of the new services. The benefits given in the Economic Expansion Incentive Act of 1967 which provides significant tax reliefs for companies willing to venture into value-added industries was extended to the service sector, particularly in consultancy, engineering and other business-related services. The government also took measures to step up manpower development by emphasising on better training and education in fields such as accounting, banking, finance and law. Furthermore, it relaxed immigration policies to attract foreign talents from those fields.

2.86. The government also introduced plans to build up and improve the efficiency of Singapore's infrastructure, so as to maintain Singapore's status as a major transportation and communication hub. These included improving the city-state's air and sea transportation infrastructure and expanding its telecommunications and information functions. Land reclamation projects were also carried out to expand industrial areas to provide space for the manufacturing and petroleum and petrochemical industries.

2.87. In addition, the government began formulating strategies to develop the private sector by introducing the SME Master Plan in 1988. As Singapore's domestic market was relatively small, the government encouraged local SMEs to adopt a global perspective and expand their operations to countries that offer better comparative advantages. This was to enhance Singapore's hub strategy as private companies could establish themselves as strategic business partners with MNCs. To provide the platform for SMEs to expand overseas, the government initiated a number of economic cooperation initiatives with its immediate neighbours. One example was the formation the Growth Triangle linking Singapore, Johor and Batam. This was later followed by economic and investment cooperation initiatives in emerging economies such as China, India and Vietnam through the establishment of industrial parks in the early 1990s. The government also invested heavily in public funds and expanded government assistance to provide local SMEs with the financial capabilities to invest overseas.

2.88. Apart from providing world-class hardware and software, the government complemented its hub strategy with the improving and deepening of Singapore's regional linkages. This process requires Singapore to maintain a comprehensive coverage of its free trade policy³², the purpose of which is to address the constraints Singapore faces as a small city-state with no hinterland or a sizeable domestic market, and to ensure that Singapore has global economic linkages, an essential feature to convince MNCs to locate their headquarters in Singapore to manage their production network in the region.

³² See Section 1(c) of Part I of the report for details on Singapore's FTAs and economic cooperation beyond the ASEAN region.

2.89. The hub strategy also calls for building good relations with regional countries. Through political and economic cooperation, Singapore and its partners are able to combine competitive strengths to attract international investors. Singapore's good relations with its neighbours are fostered through various channels such as multilateral and bilateral frameworks, outward investment and joint ventures.

2.90. All in all, the hub strategy is to establish Singapore as a major regional hub. Complementary policies aiming to allow Singapore's economy to remain globalised, pro-business and liberalised were introduced at both domestic and external levels to facilitate this process. These policies also seek to provide MNCs with a platform for splitting production processes and distributing different activities to locations in the ASEAN region according to the competitive advantage of each. In a way, the success of Singapore's hub strategy is also dependent on the integration of ASEAN as well as the stability and competitiveness of its member states.

PART II: DYNAMICS OF SINGAPORE'S CHANGING ROLE IN REGIONAL INTEGRATION

- (a) How Singapore formulates its regional integration policies and the major considerations and constraints it faces; why and how it changes its policy emphasis over time

Formulating Singapore's Economic and Business Interests in ASEAN

3.1. Singapore's overseas investment is decided by IE Singapore, a statutory board within the MTI. IE Singapore has two main functions. First, it helps Singapore companies start and develop their business overseas, which is part of Singapore's economic strategy to internationalise Singapore companies so that they can grow in an increasingly global market. To do so, IE Singapore will assess the market opportunity in the selected country by examining such factors as the strategic economic and trade linkages it has with Singapore, the sectors with the biggest growth potential, and the potential challenges it faces (e.g. competitors and size of market). Offices are also set up in the targeted country to provide Singapore businessmen with a platform to establish contacts with relevant players such as business partners or key officials in the selected industry, and to foster their awareness and understanding of the business opportunities in the country.

3.2. Second, IE Singapore promotes trade between Singapore and its partners through the promotion of Singapore as a hub for offshore trading and re-exports activities. IE Singapore emphasises on the efficiency of the city-state's logistics facilities (e.g. airport and seaport) and the facilities and services that Singapore can provide as an offshore trading hub (e.g. offshore banks, free port, etc.).

Singapore's Economic and Business Interests in ASEAN

3.3. As noted in Part 2.33 and 2.34 of this report, Singapore's economic and business interests in ASEAN is to expand its own limited economic space by leveraging on the diverse comparative advantages that individual ASEAN countries offer. This has helped Singapore, over time, to attract MNCs to set up production

bases in the city state, and to create an “external wing” for Singapore’s own companies.

3.4. Singapore has been actively promoting the concept of a “second wing” for the economy by encouraging its companies to invest overseas, including ASEAN countries. The establishment of the SIJORI Growth Triangle in the 1990s linking Singapore with the Riau Islands of Indonesia and the State of Johor in Malaysia, for example, provides a platform for Singapore’s labour-intensive industries such as the textile, furniture and electronic industries to relocate to the other two participating countries where they can enjoy the better comparative advantages.

3.5. Today, manufacturing industries continue to be the preferred form of overseas investment by Singapore enterprises, although they also venture into other industries with higher technological content and added value. Geographically, Singapore’s overseas investment has expanded beyond ASEAN to countries such as China, the Middle East and Latin America.

3.6. IE Singapore is also encouraging Singapore companies investing overseas to exploit the comparative advantage that Singapore possesses as a city-state economy. For example, Singapore companies with relevant expertise can provide urban solutions (e.g. infrastructure projects, utility supplies, real-estate development and airports and seaports) to emerging economies such as China and Vietnam as well as mega-cities such as Jakarta. IE Singapore also helps Singapore companies from the food and beverages sector to acquire resources for their businesses, such as getting land in Vietnam and China for the establishment of pig-farms or plantations.

Singapore’s Economic and Business Interests in the GMS

3.7. Singapore’s investment interest in the GMS is concentrated mainly in Vietnam. Besides the high growth performance of the Indo-Chinese country, Singapore’s interest in Vietnam is also spurred by the latter’s large domestic market and its perceived political stability. Vietnam’s open economy as well as its deep trade linkages with Singapore makes an additional advantage. In order to facilitate Singapore enterprises to invest in Vietnam, IE Singapore has set up offices in the

country. Singapore's Ministry of Foreign Affairs also took extra effort to maintain good relations with the Vietnamese government.

3.8. Apart from Vietnam, Singapore investment is also found in Cambodia and Laos, due to the low costs and high growth potential they offer. Some Singapore companies also participate in projects funded by the ADB and the World Bank. IE Singapore maintains an office in the ADB, and its representative serves as a bridge for Singapore companies, in addition to contributing to ADB development projects through the provision of expert advices drawing from Singapore's own experience, amongst others.

3.9. As for the Beibu Gulf Rim Economic Circle Cooperation, there are still no strategic projects available for Singapore overseas investment in the cooperation framework yet. There are also concerns about the business opportunities available under the cooperation, judging from the limited range of products exhibited in Nanning trade expo.

Singapore's FTA Strategy

3.10. Singapore concludes FTAs with major partners because it wants to gain a head-start in accessing the economic opportunities that come with the FTAs. The FTA negotiation is overseen by the MTI, while the implementation is carried out by IE Singapore, which plays a major role in informing Singapore businesses about how they can benefit from the FTAs. Singapore would only start negotiating for an FTA with a country after it has acquired enough knowledge of the business environment in that country. The city-state places great importance on the policy consistency of the countries it signs FTAs with, including having an open economy and a stable government.

Considerations and Constraints

3.11. Singapore's role in ASEAN has evolved considerably. Singapore's role in ASEAN was restricted in the past by its unique demography. Unlike other ASEAN members, Singapore is a Chinese dominated city with over 80% of its population

being ethnically Chinese. Singapore's rapid economic development and its being the most developed economy in Southeast Asia further accentuated its awkward position. As such, Singapore has always been sensitive in dealing with its ASEAN partners and was for a long time reluctant to adopt an overt leadership role. From its initial attempt to shy away from leadership, Singapore has risen to become a prominent proponent of ASEAN economic integration. In its interaction with ASEAN, Singapore pursues a parallel strategy where it engages ASEAN actively but does not allow itself to be constrained by the limits of ASEAN.

3.12. Another unique ASEAN arrangement that works towards Singapore's advantage is that it works by consensus rather than by simple vote of majority. This means that every single member has to understand and agree on every action that ASEAN is taking. Not only does this help avoid a situation where member states are subject to the tyranny of the majority, but also provide more active members such as Singapore with the opportunity to spearhead projects legitimately.

3.13. Singapore's role in the region changes along with the evolution of ASEAN. Inertia by other ASEAN countries made it difficult for Singapore to push forward aggressive trade liberalisation measures in ASEAN during the early years of its history. Singapore's trade and investment links with ASEAN in that period came largely from Malaysia and Indonesia, its two immediate neighbours and natural economic hinterland.

3.14. With the rise of China and India in the late 1990s, ASEAN saw the need for greater economic integration in a bid to maintain the grouping's competitiveness in the midst of the changing economic landscape in the region. FTAs were concluded between ASEAN and other dialogue partners such as China, Australia and New Zealand and various platforms were also established within the ASEAN framework to promote specific industry cooperation, such as the ASEAN Tourism Forum (ATF).

3.15. While intra-ASEAN tourism is competitive in nature, the ASEAN leaders realised that there is room for cooperation if they market the region together to long haul tourists from other regions such as Europe or America. ATF has six taskforces headed by various ASEAN members based on their strengths. Singapore currently

heads the Cruise and Crisis Communications taskforces, but is also very active in other taskforces such as Manpower and Standards. Through these platforms, Singapore is able to integrate better with its fellow ASEAN members through the sharing of capabilities.

3.16. At times, the principle of consensus may hinder the progress of ASEAN integration. The ATF for example, had been consistently starved of funds, yet the members are unable to increase the amount of funding because the less developed members are reluctant and, at times, unable to contribute more than the current US\$80,000 annually. Similarly, ASEAN's progress in signing FTAs with its dialogue partners has often been slowed by the economic gaps among its members. Cambodia, Laos and Myanmar in particular are cautious about the effects of opening up their economies to developed countries such as Australia and New Zealand, and question the benefits they are able to reap.

3.17. To avoid the delay of its own economic progress, Singapore adopts a parallel strategy in forging its relationship with other countries. While Singapore is a committed member of ASEAN, it does not feel that it needs to act only as a member of ASEAN, hence its decision to sign bilateral FTAs with non-ASEAN countries in recent years.

3.18. This parallel strategy has benefited Singaporean businesses and given them head-starts against their ASEAN competitors. Singapore's private sector, however, prefers to operate in well established markets rather than venture into uncharted grounds. Hence, in order to fully leverage on FTAs and emerging economies such as Vietnam and Cambodia, the Singapore government has to play an active role through the help of the GLCs.

- (b) How other countries in the region, especially ASEAN countries, view the role and contribution of Singapore to regional economic integration and how Singapore in turn works with the diverse expectations of these countries.

3.19. ASEAN today is an organisation with a strong economic emphasis. The regional stability brought about by the organisation has helped create an environment

for economic development. Singapore is seen by some as the unofficial “Capital City” of ASEAN.

3.20. Indonesia, on the other hand, is seen as the “Big Brother” of ASEAN, playing a leading role in both political and economic realms for a large part of ASEAN’s history. Indonesia sees Singapore as an active player which has effectively utilised the ASEAN platform to acquire more political and economic space. Yet some felt that Singapore had too much political consideration and could have achieved more for both Singapore and ASEAN if it were willing to adopt a stronger leadership role. For example, due to Singapore’s political prudence, it had offered the leadership role of the AEC, which was originally the city-state’s brainchild, to Indonesia. If Singapore had retained the leadership role, the AEC progress would have greatly benefited from Singapore’s economic strength and efficiency.

3.21. Among the ASEAN nations, Malaysia has the most unique relationship with Singapore. Being once a united country, the relationship carries with it a certain amount of historical baggage. Yet, Malaysia is also Singapore’s largest trading partner and both nations have cooperated economically at various levels. Malaysia often criticises Singapore for being “overly pragmatic” and not giving sufficient consideration to the interest of ASEAN as a group. Nevertheless, Malaysia appreciates Singapore’s effort in ensuring that ASEAN remains a platform that is largely fair to all its members.

3.22. Thailand sees Singapore’s role in ASEAN generally in positive terms. Being heavily involved in the GMS, Thailand has witnessed, at first hand, Singapore’s effort in capability building and sharing with the less developed countries such as Cambodia, Laos and Myanmar. Singapore’s involvement in the region has even caused Thailand to potentially view it as a competitor for the leadership role in the sub-region.

3.23. The Philippines has not been as active a member as some other ASEAN countries in economic cooperation. It sees Singapore’s role in ASEAN largely in neutral terms although it is often critical of Singapore’s less than “liberal” approach in handling ASEAN matters, especially in non-economic issues.

3.24. Vietnam sees Singapore as a sophisticated player in ASEAN, and is impressed by how Singapore raises and pushes issues in ASEAN despite its size. Vietnam is traditionally the informal leader in the Indo-China region, but it does not resent Singapore's effort in modernising the region with its technology transfer programme, nor is it concerned about Singapore's influence in the sub-region. In official meetings, Vietnam has consistently been supportive of Singapore's position.

3.25. Both Laos and Cambodia view Singapore in a very positive light. Not only are they beneficiaries of Singapore's capability sharing programme, they have also witnessed how Singapore achieves its prosperity despite being a small state. Myanmar is somewhat detached from the ASEAN agenda and activities but it still has a positive view on Singapore's role. Singapore is able to exert a certain degree of influence over Myanmar on ASEAN issues.

3.26. Brunei adopts a very low profile within ASEAN. It has a special and close relationship with Singapore, having enjoyed almost a monetary union with Singapore for many years.

3.27. In summary, most ASEAN members view Singapore in a very positive light mainly due to three reasons. Firstly, Singapore's achievement has become an inspiration to many of these nations, making Singapore a certain role-model which these nations look up to. Secondly, Singapore's political prudence, small size, adherence to ASEAN's principle of consensus and other similar policies have assured these nations that Singapore is not fighting for economic or political leadership in the region. Thirdly, Singapore has also been bringing benefits to these nations through investments and capability sharing.

3.28. As ASEAN grows in sophistication, Singapore sees a greater need to increase its participation in the organisation and to harness the ASEAN platform for economic gains. While other ASEAN countries may not agree completely with Singapore's pragmatic approach, they nevertheless appreciate Singapore's participation in assisting other member nations. Singapore is well aware of the fact that while its economic achievement does give it some informal authority, it could also be seen as over-profiting from ASEAN. As such, it continues to adopt a prudent approach in its

participation in the grouping, an approach which has generally paid off in a way that allows Singapore enjoy a good relationship with its fellow ASEAN members.

PART III: RELEVANCE OF SINGAPORE'S EXPERIENCE FOR HONG KONG

1. Comparing Singapore's and Hong Kong's Economic Development

4.1. Singapore and Hong Kong share many similarities in their growth experiences and the challenges they face. Both were former British colonies and as such inherited a similar legal and public service system. Both started off primarily as entrepot economies with a strong dependence on their respective hinterlands – China for Hong Kong and ASEAN in general, and Malaysia and Indonesia, in particular, for Singapore. Both economies moved on to adopt an export-oriented industrialisation strategy in the 1970s to capitalise on the cost advantages they enjoyed. Since then, both have tried to move up the value-added chain to provide higher value-added production and also to broaden their production bases. The economic restructuring that took place in both economies over the years was a response not only to the changing global economic environment, but also to the changing political and economic relationships between them and their respective hinterlands.

4.2. Today, Singapore and Hong Kong are at approximately the same level of economic development, and enjoy about the same level of per capita GDP US\$32,470 for Singapore and US\$31,610 Hong Kong in 2008. Both are among the most open economies in the world with total export value of 231% and 207% of GDP in Singapore and Hong Kong respectively. Structurally, Singapore's economy is more broad-based, with manufacturing and services industries accounting for 32% and 68% of its GDP respectively in 2008. Hong Kong, on the other hand, is primarily a service-oriented economy. In 2008, 92% of its GDP was contributed by its services sector. Manufacturing accounted for only 8% of GDP.³³

4.3. The external economic relations and policy of Hong Kong and Singapore are intimately linked to the changes in their domestic economic structures. Here the two economies differ. In Hong Kong's case, China dominates the whole economic restructuring process. Manufacturing industries moved en masse into Guangdong after China's economic reform and opening up in the 1980s and 1990s, leaving Hong Kong

³³ From Economists Intelligence Unit Country View database.

with mainly the services sector as the key contributor to GDP. Hong Kong's external trade pattern is to a large extent a reflection of China's external trade pattern. The restructuring has resulted in a deeper integration with its hinterland and led to a sharp de-industrialisation in Hong Kong. On the other hand, this has also strengthened Hong Kong's position as an entrepot and service-oriented economy. As Hong Kong has remained largely a laissez faire economy, much of the restructuring has worked through the private sector. Companies moved across the border to leverage on the different comparative advantages of China and Hong Kong.

4.4. Beijing has also helped facilitate the process by easing the movement of goods, services, capital and people. One such measure is the introduction of the CEPA which was signed in June 2003 and came into effect on 1 January 2004. CEPA allows qualified Hong Kong-based companies and professionals to gain greater access to the Mainland market ahead of China's WTO timetable, thus brings the economic integration between Hong Kong and China to a higher level.

4.5. In Singapore, the government has always played a leading role in the restructuring of the economy, mostly through adapting the trade and foreign investment policies to the economic needs of the city-state. The relationship between Singapore and its traditional hinterland of ASEAN countries (especially Malaysia and Indonesia) has undergone a number of changes over the years. As Singapore industrialised and moved up the technological production chain in the first three decades of its history (1965 till late 1990s), it was compelled to take a "global" rather than "regional" approach in its quest for export markets and to reduce its reliance on its traditional hinterland. The failure of ASEAN to make significant progress in trade liberalisation during this period further reinforced Singapore's belief that it had to move beyond the region and focus on the global market that could provide a source of robust economic growth for the city-state.

4.6. As explained in the previous Part, the experience of the 1997 Asian financial crisis, which demonstrated the need for effective regional economic cooperation measures, together with the emergence of China and India as two new economic powers in Asia, forced the Singapore government to re-assess its external economic strategies. It recognised the importance of having an economically integrated

ASEAN as its hinterland to respond effectively to the challenges posed by China and India, especially in attracting foreign investment. In the past decade, Singapore has become much more pro-active in helping to strengthen ASEAN and to accelerate the economic integration process, not just in trade and investment but also in financial and other areas of economic cooperation. Unlike the case of Hong Kong, Singapore's efforts in ASEAN integration are driven by the Singapore government and in the form of diplomacy. The private sector has played only a passive role in this process.

2. Singapore's Regional and Sub-Regional Policies vis-a-vis ASEAN

4.7. The relationship Singapore has with ASEAN, its traditional hinterland, is very complex. All ASEAN countries are independent sovereign states. The economic pact between them, the AFTA, is still a loose structure, with limited legal enforceability. It is the vast differences among ASEAN countries in political, cultural and economic structures that complicate the relationships among them and hinder the grouping's economic integration. Further complicating the matter is the requirement that all major ASEAN policies should be made only on a consensus basis.

4.8. Historically and culturally, ASEAN countries are very different from each other, ranging from the Hindu-Buddhist countries of Thailand, Cambodia and Myanmar, to the Muslim countries of Malaysia, Indonesia and Brunei, the Catholic countries like the Philippines and the socialist countries like Vietnam and Laos. Such differences in cultures and religions had given rise to a lot of political tensions and territorial disputes among the neighbouring countries. Seen in that context, it is understandable why ASEAN focused more on resolving political differences than promoting economic integration in its early phase.

4.9. Singapore stands out as the only Chinese-majority state within ASEAN. While the population has a multi-racial composition, it is made up predominantly of ethnic Chinese (80% of the population). In terms of social development, Singapore shares a lot more similarities with Northeast Asian societies such as Hong Kong, China and Taiwan than its Southeast Asian neighbours. As an English speaking city-state, Singapore is also considerably more cosmopolitan than its ASEAN counterparts. Such political and cultural differences help explain why Singapore does not always

see eye to eye with its ASEAN neighbours in the conduct of foreign and economic policies.

4.10. The stages of economic development and economic structures of countries in the ASEAN region also vary. The per capita GDP in 2008 in Southeast Asia ranged from US\$32,470 in Singapore to US\$334 in Myanmar. Most of the ASEAN member countries have a large agricultural sector which continues to employ a considerable part, if not the majority, of their workforces. The degree of industrialisation varies widely across the region too, with Malaysia, Thailand and Singapore having a significantly larger manufacturing sector than the rest. While almost all ASEAN countries adopt an open, outward-looking economic policy, their dependence on exports and their degree of economic openness differ greatly. Countries like Indonesia, Thailand, Malaysia and Vietnam have large domestic markets which allow them considerable flexibility in economic policy making and help reduce their dependence on ASEAN as an economic hinterland.

4.11. Despite the ASEAN's limited progress in economic integration in the first 30 years of its formation, the grouping did succeed in forging political consensus and resolving political differences among member countries during this period. Under the ASEAN framework, a number of member countries were able to reach an amicable agreement with regard to their border disputes, such as those between Malaysia and the Philippines, Malaysia and Thailand etc. While such political progress has not led to accelerated economic integration in the region, it nevertheless allowed individual member countries to concentrate on their economic growth and development. This has helped the less developed ASEAN countries to catch up with their more developed counterparts at a much faster speed than otherwise possible. Such convergence in turn helped align their economic priorities and objectives and laid the foundation for more effective economic integration in future.

4.12. As a small country, Singapore is keenly aware of the need to maintain a peaceful and interdependent political environment in the region, both as an end itself and as an important base for promoting economic growth. It also understands very well the imperative of maintaining a free trade policy both regionally and globally. As such, it has always been a strong supporter of economic integration initiatives

within ASEAN despite the lacklustre efforts of other member countries, even during the early days of ASEAN's history.

4.13. However, Singapore's efforts were often hindered by the lack of common understanding from other ASEAN countries. Being one of the smallest, yet economically most advanced countries in ASEAN and a city-state with hardly any natural resources, it has very different comparative advantages from those of its neighbours, and in turn a very different set of economic priorities, objectives and structure from the rest of ASEAN member countries. And as what some described as the "capital city of ASEAN", Singapore depends on and will benefit a lot more from an economically integrated ASEAN than other member countries. It is therefore not surprising that Singapore "stands out" among ASEAN countries and often finds itself out of line with the rest of ASEAN members over many regional issues. Some ASEAN member countries, for example, were suspicious about Singapore's motives when it vigorously pushed for accelerating the pace and broadening the scope of economic integration. Discordance between Singapore and its ASEAN counterparts crops up from time to time, particularly over the distribution of costs and benefits of regional economic integration.

4.14. Managing the different perceptions and expectations among ASEAN members about Singapore's role and contribution within the grouping has long been a major challenge for the Singapore government. The issue has also hindered Singapore's efforts in integrating its own economy with those of other ASEAN countries. In this regard, Singapore's experience was very different from the dynamics of the integration process between Hong Kong and China.

4.15. Since the 1997 Asian financial crisis, the gap in perception between Singapore and the other ASEAN countries has narrowed considerably. A common sense of urgency in dealing with the crisis and the challenges posed by the rise of China and India forced the 10-member countries to put some of their differences aside in order to work towards a common agenda. The unveiling of the AEC concept was the fruit of such changed circumstances. There was also strong impetus from the three major Northeast Asian countries, namely China, Japan and South Korea, to see ASEAN play a central role in building a wider East Asian community in the form of the ASEAN+3

grouping. The three countries' willingness to start negotiating for an FTA with ASEAN as a single entity helps inject a greater group momentum into ASEAN.

4.16. Singapore was able to seize the opportunity to help change the dynamics within the grouping in a number of ways. Its decision to negotiate bilateral FTAs with non-ASEAN countries demonstrated its determination to pursue free trade policy on its own, if ASEAN was not able to make further progress. Within the short span of a few years, Singapore concluded a large number of FTAs with various countries (see Table 7 in Part 1c). In making this move, Singapore appeared to have the implicit support of Thailand which was initiating its own bilateral FTAs. Anxious about not losing out, some other ASEAN member countries like Malaysia also followed suit. These moves raised concerns about the risk of ASEAN disintegration if the group failed to move forward in a concerted and cohesive way while individual member countries attempted separately to strengthen their own trade ties with non-ASEAN countries. Such a concern helped push member countries to make a stronger commitment towards strengthening the grouping.

4.17. The Asian financial crisis also opened up other avenues for more concrete ASEAN-wide cooperation, especially in the areas of monetary, financial and exchange rate cooperation. The launch of the CMI and the signing of the various swap agreements paved the way for closer ASEAN coordination and integration on such matters. Singapore, the financial hub of the region with strong knowledge base on such matters, was able to play a major role in providing the architecture for such mechanisms.

4.18. In addition, Singapore has played a key role in securing and strengthening ASEAN's central position in the wider "ASEAN plus" framework, first ASEAN+3 and then, ASEAN+6 (i.e, inclusion of India, Australia and New Zealand). The wider economic grouping is consistent with Singapore's long-standing embrace of "open regionalism", and would serve to reduce frictions among individual ASEAN members and render ASEAN less vulnerable to damages caused by internal conflict. The city-state's first preference is for a global free trade system. In the absence of such a system (and in the light of the failure of WTO to make progress in this regard), Singapore prefers as broad an economic grouping as possible. Given its strong

economic ties with the developed economies in the Pacific Rim, Singapore is keen to include many of them (Japan, the US, Australia etc) in formal economic groupings. The long and deep relationships Singapore enjoys with non-ASEAN economies allow it to articulate a clear strategy in connecting them with ASEAN. To achieve a viable “ASEAN plus” arrangement, however, a stronger and more cohesive ASEAN is needed. As part of its effort to strengthen ASEAN, Singapore has been a strong supporter of sub-regional economic integration programmes. It is a major participant in the IAI programme launched by ASEAN to close the developmental gaps between member countries. As noted in Part I of this study, since the programme started in 2001, Singapore has been involved in 33 out of 130 IAI projects through the ASEAN framework, and 56 projects on a bilateral basis.

3. Recommendations for Hong Kong to Increase Cooperation with ASEAN

4.20. The underlying rationale for this study is the argument that it would be in Hong Kong’s interest to engage ASEAN more actively on many fronts. This argument is based on the fast changing global and regional economic conditions on one hand, and political and economic changes surrounding Hong Kong and China on the other.

4.21. The current global economic crisis has brought to the foreground the many problems of excessive globalisation. Countries are increasingly looking towards regional and sub-regional arrangements to help alleviate their domestic economic woes. Rising protectionism in developed countries coupled with the failure of the Doha Round of the WTO trade negotiations has further reinforced the general quest for a regional or sub-regional solution to the global economic crisis. Going forward, East Asian economies are likely to resort to more bilateral trade arrangements and to step up cooperation among themselves through various regional schemes, and ASEAN is at the core of the many of these schemes. Intra-regional trade in East Asia has already exceeded 50% of the region’s total trade, and the proportion is set to rise further. Regional demand as an engine of economic growth will become increasingly more important for all East Asian economies.

4.22. At the same time, it is clear that China will emerge from the current economic crisis a much more important player in the global economy. China's total GDP at the end of 2008 already stood at US\$4.4 trillion (in nominal terms), compared to US\$4.9 trillion for Japan. According to a projection based on IMF data, by 2010, China (GDP at US\$ 5.3 trillion) will overtake Japan (US\$4.7 trillion) as the world's second largest economy after the US.³⁴

4.23. Few major economies in the world today are in a better position to get back on their feet than China. With its sound fiscal position and massive foreign reserves it has built up over the years, China is widely expected to provide a large part of the growth momentum for and play a leading role in the recovery of the global economy. This will certainly alter the geo-political and geo-economic make-up of the East Asian region significantly.

4.24. China's businesses are already "going out" to Southeast Asia through various regional schemes. Hong Kong should capture the new opportunities arising from there, and position itself as part, if not the "dragon-head", of this southward drive through various institutional mechanisms under China's auspices, on some kind of a "half representation" status.

4.25. It will be politically, economically and socially desirable for Hong Kong to engage more with ASEAN. Singapore's overall experience in engaging the ASEAN countries should serve as a useful reference for Hong Kong.

(a) Hong Kong and ASEAN

4.26. There is a general impression within ASEAN that despite the many opportunities available in Southeast Asia, Hong Kong businesses have not been active in exploring them. Neither the Hong Kong government nor the business associations in Hong Kong appear to have made conspicuous efforts to invest in or to gain inroads into the ASEAN markets. There is also a common view that a greater presence by the Hong Kong businesses will be much welcomed by ASEAN countries. A greater flow

³⁴ [http://en.wikipedia.org/wiki/List_of_countries_by_future_GDP_estimates_\(nominal\)](http://en.wikipedia.org/wiki/List_of_countries_by_future_GDP_estimates_(nominal))

of goods and services, as well as capital and labour between Hong Kong and ASEAN, will benefit both sides, and help enhance economic linkages between ASEAN and China with Hong Kong serving as the conduit.

4.27. From Hong Kong's perspective, ASEAN provides a destination for its trade and investment activities that would help to diversify its markets. Competition for provision of services in China, particularly banking and financial services is rising rapidly. Beijing's recent announcement of making Shanghai China's international financial centre by 2020 adds to the reasons for Hong Kong to look for new markets outside China for the goods and services it provides. In respect of production, the cost of operating labour-intensive manufacturing activities in China's coastal region is rising fast, pushing many manufacturing plants to relocate, mostly to the interior provinces of China. Some companies, however, are moving their operations to the less developed ASEAN countries like Vietnam, Cambodia and Laos.

4.28. With the expected completion of the CAFTA in 2010, trade and investment ties between China and ASEAN countries are set to grow more rapidly than before. More Chinese businesses can be expected to venture out to Southeast Asia. Taking advantage of its strong comparative advantage in service activities, Hong Kong can be an important part of this movement, as well as the "dragon-head" of China's own sub-regional arrangements such as the "9 + 2" and the "Beibu Gulf Rim Economic Circle". These will provide another channel to raise the level of Hong Kong's participation in ASEAN economies.

(b) Singapore's Experiences in Economic Integration with ASEAN

4.29. As a SAR within China, Hong Kong does not enjoy the same freedom that Singapore has as a sovereign state, in formulating external economic policies. Neither does it appear likely that Hong Kong would be able to formalise economic linkages with ASEAN on its own (like signing a formal ASEAN-Hong Kong FTA) anytime soon. However, this should not prevent Hong Kong from seeking closer economic relations with ASEAN. Despite the obvious differences between Hong Kong and Singapore in terms of their sovereign status and economic structures, there are aspects of Singapore's experience in economic cooperation with ASEAN that may be useful

reference for Hong Kong. Below are some of the lessons that may be extracted for Hong Kong from Singapore's experience.

(i) Importance of fostering closer relations with ASEAN

4.30. Economic integration works best between countries whose relationships are characterised by understanding, goodwill and trust. While Hong Kong may not be able to conclude any formal economic integration programme with ASEAN, its economic links with ASEAN can benefit from a stronger overall relation between the two sides, both formally and informally. Hong Kong currently participates with ASEAN countries in organisations like APEC, but the interaction between the two sides remains limited. Efforts should be made to cultivate better understanding with ASEAN countries through the establishment of more trade offices in large ASEAN states. On their part, ASEAN countries appear ready for such a move. Singapore's experience shows that understanding the diverse needs and aspirations of the 10 ASEAN countries and managing the relationships with them can be a challenging task. However, as a neutral economic partner without any historical or political baggage, Hong Kong could enjoy certain advantages that Singapore does not have, making it easier for the SAR to build good trade relations with ASEAN countries.

(ii) Role of the Hong Kong government and the private sector

4.31. The Singapore experience shows that, as a small city state economy, the government can play an effective role in strengthening its economic ties with the rest of the region. Despite its small size, Singapore is able to articulate a clear position on its external economic strategy, to spell out a strong vision for ASEAN, and to play a leading role in shaping the agenda for the grouping. The Singapore government also spearheads efforts to explore new markets or new forms of economic linkages for the country. Its efforts are often backed by a large number of GLCs which are willing to take into consideration the objectives of the national strategy when they venture abroad. The close collaboration between the government and the business sector (though not necessarily the real private sector) has been effective in helping Singapore establish and expand its economic presence within ASEAN and beyond.

4.32. The Hong Kong economy is managed on a very different philosophy from that of Singapore. Contrary to the interventionist approach of the Singapore government, the success of the Hong Kong economy could be attributed mainly to the laissez faire philosophy, with the market relying on the work of the invisible hand and the initiative of the private sector. While there is no reason for Hong Kong to deviate from this philosophy that has worked well, it might want to look more closely at the mode of collaboration between the government and large corporations in Singapore in exploring external economic linkages.

4.33. The GLCs are a unique feature of Singapore, more akin to the State-owned enterprises in China than the large corporations in Hong Kong. They have often played the role of a vanguard in establishing Singapore's presence in new markets deemed important by the government. Given the good relationship that the Hong Kong government enjoys with the SAR's private sector, certain collaboration in accessing the ASEAN markets might be possible. In Singapore, some important infrastructure and utilities corporations like the Port of the Singapore Authority and the Changi Airport have set up joint business ventures in China and other countries. Some Hong Kong companies may also be encouraged to venture into ASEAN with the support and facilitation of the Hong Kong government. In any case, having the government play a major role in this process helps align the activities of the business sector with that of national objectives.

4.34. IE Singapore, a statutory board within the MTI, plays an active role in exploring new markets for Singapore companies. The scope of IE Singapore's activities has evolved and been broadened considerably over the years, to enhance its effectiveness. Whether this is relevant for its counterpart in Hong Kong, the HKTDC, may be looked into.

(iii) Diversifying Hong Kong's overdependence on China by cultivating new sources of growth.

4.35. Globalisation and regionalism have brought challenges to economies around the world. Singapore has demonstrated time and again through its engagement with the regional and global economy that it has to constantly adjust its external strategy to

sustain and diversify the city-state's economic development. Indeed, Singapore's linkages with advanced countries in the West have contributed the country's economic advancement through the value-added chain of production, and its economic engagement with other countries in the region facilitated the building of its "external wings" for economic growth. Hong Kong also has "two doors" for its economic growth: the China hinterland and the international/regional markets. Closer economic relations with ASEAN would help open another "door" for Hong Kong and activate a new source of economic growth that is independent of the Chinese hinterland.

(iv) Leveraging Hong Kong's comparative advantage vis-à-vis ASEAN

4.36. ASEAN is a dynamic economic region and the comparative advantages of its member countries continue to evolve. Singapore has, over the years, continued to redefine its comparative advantage vis-à-vis the other ASEAN countries to ensure that it remains relevant to the region, and to make use of new opportunities emerging from there. While Hong Kong may share many similarities with Singapore in terms of its economic strengths, it is a different economy with a different structure. Singapore looks to ASEAN as part of its hinterland. Hong Kong does not necessarily view ASEAN the same way. Hong Kong's strengths in the services sector and its role as a conduit to China provide the city with certain advantages that Singapore may not enjoy. It is therefore advisable for Hong Kong to formulate its own ASEAN strategy.

4.37. There may be opportunities in the areas of tourism, financial services and logistics services. In tourism, Hong Kong can present itself as a launching pad for Mainland visitors of Southern China to ASEAN. It can also work with ASEAN countries to promote the East Asian and Southeast Asian region as a destination for long-haul visitors. In financial services, Hong Kong can provide funding for sub-regional development projects organised by both ASEAN and China in less developed areas of ASEAN, i.e. the GMS. In logistics services, Hong Kong's world-class hardware and software infrastructure places the city in a good position to be a conduit for trade and investment between China and ASEAN.

4.38. With the broadening of the grouping over the years and the establishment by ASEAN of formal economic linkages with “supra-regional” partners such as China, Japan and South Korea, Hong Kong is well positioned to engage the economic partners from both Northeast Asia and Southeast Asia and to serve as the bridge between them.

(v) Various modes for Hong Kong to engage ASEAN

4.39. The activities to strengthen Hong Kong’s formal and informal linkages with ASEAN can be arranged through existing official channels or new establishments. Naturally, Hong Kong has to take into consideration that these activities must be undertaken with respect to its political status as a part of China.

4.40. Hong Kong is already a member of APEC and (Pan-Economic Cooperation Council) PECC, to which most ASEAN countries belong too. These two forums can be used more frequently and effectively to forge closer linkages with ASEAN. Hong Kong could use these channels to advocate or support initiatives and facilities to increase the economic interactions between these organisations and ASEAN.

4.41. The Hong Kong government can also enhance the activities of its own trade-related departments such as the HKETO and the HKTDC. Hong Kong already has an economic and trade office in Singapore, and HKTDC has offices in Singapore, Bangkok, Ho Chi Minh City and Kuala Lumpur. The HKETO office in Singapore currently functions, in collaboration with the HKTDC and the Hong Kong Tourism Board (HKTb), as a representative office of the Hong Kong government in ASEAN to promote Hong Kong as a business location and tourist destination in Asia.³⁵ It can be used to forge closer bilateral trade and economic relationships with individual ASEAN states or ASEAN as a whole, and to facilitate investment activities of the Hong Kong business community in ASEAN. On the latter, the Hong Kong government could look into the possibility of setting up more HKTDC offices within ASEAN (say in Indonesia and the Philippines) while expanding and upgrading the existing one. The HKETO office could also consider working together with IE

³⁵ Hong Kong Economic and Trade Office in Singapore website, “Functions of HKETO”, July 2008. Accessed at <http://www.hketosin.gov.hk/aboutHKETO/mission.htm>.

Singapore to jointly explore trade and investment opportunities for the business communities in both countries.

4.42. Hong Kong could also start to have an active dialogue with the ASEAN Secretariat. Under the leadership of the current Secretary General, there is strong motivation on the part of the Secretariat to deepen ASEAN's relationship with not just China as a whole, but also individual provinces in China including Guangdong. This could provide an opportunity for Hong Kong to start the process of active engagement with ASEAN. As other countries/regions such as the US, the EU and China have done, Hong Kong could consider an ASEAN Business Council as an early first step to engage with ASEAN. Led by the private sector, and working on a non-official, non-ministerial level basis, this is also consistent with the non-sovereign status of the HKSAR. Over the years, Singapore has relied heavily and effectively on such non-official setups to help engage the private sector in various ASEAN markets.

4.43. Non-government trade and business associations in Hong Kong such as the Hong Kong General Chamber of Commerce could also be encouraged to play a more active role in fostering ties with their counterparts in ASEAN. As some provinces in China have been doing over the years, Hong Kong's various business groups could consider organising more visits and even trade exhibitions to ASEAN to promote closer links on the regional level. In this regard, these associations could seek ways to work with government bodies such as HKTDC to help facilitate the exchanges. The HKTDC could be given more resources to help organise more regular trade delegations, led by senior government officials, to visit individual ASEAN countries. Such delegations which allow government officials and business people to work together in dealing with their foreign counterparts have been actively and effectively used by Singapore (under IE Singapore) and various Chinese provincial governments to strengthen bilateral business ties over the years.

4.44. Besides Hong Kong's own individual efforts, it could also expand its linkages with ASEAN through existing mechanisms. The framework under the CAFTA is one important example as it provides a broad framework for more active economic cooperation between ASEAN and China as well as individual provinces and cities in China. Hong Kong could explore with both Beijing and ASEAN how it could play a

separate and active role within that framework. It could consider broadening the CAFTA to synergise with opportunities made available by CEPA. A broadening of the FTA arrangements in future by including more service activities would be deemed consistent with ASEAN's open regionalism approach and the same time beneficial to Hong Kong. In any case, Singapore's experience in broadening ASEAN's economic cooperation framework to non-ASEAN countries can provide useful insights here.

4.45. To make more effective use of other existing cooperation mechanisms between China and ASEAN such as the "ASEAN-plus" frameworks, the Hong Kong government could also consider joining the Chinese delegation as an observer or a member. This could help provide a different perspective on as well as access to various trade and economic related opportunities in ASEAN.

4.46. Hong Kong should also consider playing an active role in some of the sub-regional economic groupings like the ADB-backed GMS Initiatives and the Beibu Gulf Rim Cooperation Framework. The GMS Initiatives (which covers the South-western provinces of China), in particular, have a well defined set of business and investment activities that Hong Kong may find relevant. As Singapore's experience has shown, Hong Kong could engage in such activities on a bilateral basis, which could entail less bureaucratic hurdles.

4.47. Besides the GMS, Hong Kong could also expand its bilateral engagement with other ASEAN states through C2C cooperation. This type of cooperation, which is sometimes refer to as "sister cities" arrangement or "city twinning" cooperation, covers all possible forms of relationships between cities in two or more countries.³⁶ The areas of cooperation could range from economic, social and environmental policy and governance issues, to tourism and cultural exchanges. The C2C arrangement also permits decentralised cooperation, allowing non-government players to be involved in activities between cities. As a well-established city, Hong Kong possesses rich experiences in governance, as well as sustaining economic and social development. It could consider starting such an arrangement with Singapore. Both cities face similar challenges in many areas and a broad cooperation scheme like this could lead to an

³⁶ United Nations Human Settlements Programme, "City-to-City Cooperation", *UN-Habitat* (Vol.8, No.2, September 2002), pp.1-3.

active exchange of ideas between the official as well as non-government participants in various sectors. The C2C arrangement could also provide an effective channel for Hong Kong to share its experience in building a sustainable city with those in the less-developed ASEAN states.

(vi) Other Opportunities

4.48. Given the general view that people from Hong Kong and ASEAN do not have sufficient knowledge and awareness about one another, it may warrant a more concerted effort by both sides to broaden exchanges outside the economic and business fields. Cultural, educational, sports and social exchanges could play a big role in promoting understanding between the two peoples, which could contribute to the conduct of business. An understanding of the huge cultural diversity among ASEAN countries and the need to approach business in each member country differently will go a long way in easing the challenges of building economic ties between the two.

4.49. More specifically, there is also clear social rationale for Hong Kong to “go out to ASEAN”. Maintaining a more distinctive identity for the Hong Kong people should be socially desirable, as China itself is a great family with wide social and cultural diversities. While many young Hong Kong people are increasingly “going north” for education, employment and other opportunities in the Mainland, it may also be an added advantage for Hong Kong’s youths to “go south” to visit ASEAN countries, most of which are multi-racial and multi-cultural as well as English speaking, for a different cultural and social experience.

4.50. To deepen its people’s understanding of the region, Hong Kong could, for instance, also consider offering courses of Southeast Asian or ASEAN studies at educational institutions of various levels. Hong Kong universities could also be encouraged to undertake more joint research and exchange programmes with universities in ASEAN countries.

4.51. Tourism provides an effective way to deepen understanding between two people, besides bringing about economic benefits. The HKTb could be given more

resources to help promote tourism between Hong Kong and ASEAN. Facilitating more budget flights between Hong Kong and ASEAN destinations could go a long way in helping to realize such an objective.

APPENDIX

TABLE 1 KEY ASEAN AGREEMENTS FOR POLITICAL AND ECONOMIC INTEGRATION, 1967 TO 2008

YEAR	AGREEMENTS	OBJECTIVES
1967	ASEAN Declaration	The document declares the formation of ASEAN and exhorts the association to attain its economic, social and cultural aims through “joint endeavours” and “active collaboration and mutual assistance.”
1971	Zone of Peace, Freedom and Neutrality (ZOPFAN) Declaration	<p>This declaration commits all ASEAN members to “exert efforts to secure the recognition of and respect for Southeast Asia as a ZOPFAN, free from any manner of interference by outside powers,” and to “make concerted efforts to broaden the areas of cooperation, which would contribute to their strength, solidarity and closer relationship.”</p> <p>ZOPFAN also recognises “the right of every state, large or small, to lead its national existence free from outside interference in its internal affairs as this interference will adversely affect its freedom, independence and integrity.”</p>
1976	ASEAN Bali Concord	The document states officially that member countries would expand political cooperation by adopting principles for regional stability and a programme of action for political cooperation. The programme includes holding ASEAN summits among heads of government, soliciting commitment from ASEAN members to settle intraregional disputes “by peaceful means”, and devising future initiatives to improve the ASEAN machinery to strengthen political cooperation.
1976	Treaty of Amity and Cooperation	<p>The treaty enshrines the following principles: mutual respect for one another’s sovereignty; noninterference in internal affairs; the peaceful settlement of intraregional disputes; and effective cooperation.</p> <p>The treaty also provides for a code of conduct for the peaceful settlement of disputes, and mandates the establishment of a high council made up of ministerial representatives from the parties as a dispute-settlement mechanism.</p>
1976	Agreement on the Establishment of the ASEAN Secretariat	The agreement establishes the ASEAN Secretariat with the basic mandate of providing "for greater efficiency in the coordination of ASEAN organs and for more effective implementation of ASEAN projects and activities".

1977	ASEAN PTA	The objective of this agreement is to expand intra-ASEAN trade by extending trade preferences to one another. The preferential level was originally set at 10%. This was, however, revised upwards to 25 % in 1981 and to 50 % in 1987. The products covered are not board-based but through group-by-group negotiations between partners. Some sensitive trade items are excluded from the PTA arrangement and they are listed in the exclusion list.
1980	ASEAN Resolution on Shipping and Trade	The resolution aims to attain greater efficiency in ASEAN trade by promoting and strengthening ASEAN self-reliance and cooperation in shipping. This includes the expansion and modernisation of ASEAN merchant fleets and minimisation of restrictive measures for ASEAN vessels.
1987	Extension of Tariffs Treatment under the ASEAN PTA	The extension aims to reduce the items in each member's exclusion list under the ASEAN PTA by end 1992 to no more than 10 % of the number of items traded by them, and 50 % of intra-ASEAN trade value. The items removed would have to be given a minimum Margin of Preference of 25 %. The preferential level of the items that were already included in the PTA arrangement would be gradually increased to 50 % by 1992.
1987	Memorandum Of Understanding On Standstill And Rollback On Non-Tariff Barriers Among ASEAN Countries	The memorandum affirms that ASEAN member states will not introduce new or additional non-tariff measures which would impede intra-ASEAN trade. It also requires members to undertake measures to phase out or eliminate non-tariff measures in ASEAN trade and encourages ASEAN governments to introduce future economic policies that will facilitate intra-ASEAN trade.
1992	Framework Agreement On Enhancing ASEAN Economic Cooperation	This agreement calls for more cohesive and effective performance of intra-ASEAN economic cooperation, and affirms ASEAN members' agreement to establish and participate in the AFTA within 15 years. A ministerial-level Council will be set up to supervise, coordinate and review the implementation of the AFTA.
1992	The Common Effective Preferential Tariff Scheme (CEPT)	<p>This scheme is the cornerstone of the AFTA as it aims to remove all tariff rates on all goods in ASEAN trade. The goods that are affected are listed in the inclusion list and are mostly manufactured products. Goods that are not affected by the CEPT scheme are listed in the Temporary Exclusion List (TEL) and the sensitive and highly sensitive list, but they will be gradually phased into the inclusion list by 2010 for the original ASEAN 6 members (i.e. Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand), and by 2017 for the new ASEAN members (i.e. CLMV).</p> <p>For products in the inclusion list, ASEAN 6 members</p>

		are required to have all tariff rates removed by 2010. The newer members are to follow suit by 2015.
1995	ASEAN Framework Agreement on Services (AFAS)	The AFAS aims to eliminate restrictions to trade in services and enhance cooperation in services within ASEAN. The service sector selected by the agreement are (1) air transport; (2) business services; (3) construction; 4) financial services; (5) maritime transport; (6) telecommunication; and (7) tourism.
1997	ASEAN Vision 2020	<p>This is ASEAN's guiding economic vision. It calls for the creation of "a stable, prosperous and highly competitive ASEAN Economic Region in which there is a free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities."</p> <p>The document pledges to build the ASEAN Economic Region by adhering to previous ASEAN economic initiatives or agreements such as AFTA as well as the introduction of new areas of economic cooperation in areas such as tourism, investment, human resource development, energy, science and technology, etc.</p> <p>After its adoption, the vision is echoed repeatedly in all ASEAN documents.</p>
1998	ASEAN Investment Area	This is a coordinated effort to make ASEAN a competitive, conducive and liberal investment area. Some of the measures under this scheme include programmes to ease investment flow within ASEAN, opening up of all industries for investment to ASEAN investors by 2010 and to all investors by 2020. But some industries as specified in the TEL and the Sensitive List will be opened gradually. Other measures aim to promote freer flows of capital, skilled labour, professional expertise and technology amongst the member countries.
1998	Hanoi Plan of Action	The Action Plan is the first in a series of plans of action designed to help the realisation of the goals of the ASEAN Vision 2020. It is a six-year action plan (1999 to 2004) that contains concrete measures to be taken in 10 key areas, including (1) strengthening macroeconomic and financial cooperation; (2) enhancing greater economic integration; (3) developing of science and technology; (4) promoting of environmental protection; (5) increasing cooperation in human resource training; (6) addressing the social impact of the financial crisis; (7) strengthening cooperation in security and peace; (8) enhancing ASEAN's support for peace in the international order; (9) improving ASEAN's international image and (10) improving existing ASEAN mechanisms for cooperation.

2000	e-ASEAN Agreement	The Agreement takes a holistic approach to achieving digital readiness and acts as a binding mechanism for actions in six areas, namely connectivity, local content, a seamless environment for electronic commerce, a common marketplace for information and communication technology, goods and services, human resource development and e-governance.
2001	Initiative for ASEAN Integration (IAI)	The IAI aims to accelerate the integration of market diversity and the transitional economies of the CLMV. It includes a Work Plan with 48 projects to be introduced on a sub-regional level. The goal of the plan is to ensure dynamic and sustained growth of the GMS and prosperity of its people.
2002	ASEAN Tourism Agreement	The main objective of the agreement is to enhance cooperation in the tourism industry among ASEAN members. Measures under this agreement include (1) cooperating in facilitating travel into and within ASEAN; (2) reducing restrictions to trade in tourism and travel services among ASEAN members; (3) establishing an integrated network of tourism and travel services in order to maximise the complementary nature of the region's tourist attractions; (4) enhancing the development and promotion of ASEAN as a single tourism destination with world-class standards, facilities and attractions; (5) enhancing mutual assistance in human resource development and strengthening cooperation to develop, upgrade and expand tourism and travel facilities and services in ASEAN; and (6) creating favourable conditions for the public and private sectors to engage more deeply in tourism development, intra-ASEAN travel and investment in tourism services and facilities.
2003	ASEAN Bali Accord II	This accord lays out a platform for the establishment of a regional community that includes the creation of a single market by 2020. The establishment will be underpinned through the realisation of three pillars of cooperation, namely the creation of the AEC, the ASEAN Security Community (ASC), and the ASEAN Socio-Cultural Community (ASCC).
2003	East ASEAN Growth Area	This is a sub-regional economic cooperation involving Brunei, Indonesia, the Philippines and Malaysia in establishing a growth region. It aims to bridge the development gap among ASEAN members. The development projects in this growth area include those in the tourism, transportation and agro-industry sectors. They will involve the participation of the private sector.
2004	Vientiane Action Programme (VAP)	The VPA is a six-year plan (2004-2010) which succeeds the Hanoi Plan of Action in realising the end goal of the ASEAN Vision and the Declaration of ASEAN Concord II. It focuses on deepening regional integration and narrowing the development gap

		within ASEAN, particularly with regard to the least developed member countries. Summit leaders agreed to establish the ASEAN Development Fund to support the implementation of VAP and future action programmes.
2007	Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015	The declaration affirms ASEAN's strong commitment towards accelerating the establishment of an ASEAN Community by 2015 along the lines of ASEAN Vision 2020 and the Declaration of ASEAN Concord II, in the three pillars of the ASC, AEC and ASCC. The declaration also notes ASEAN's commitment to further expanding its engagement with its dialogue partners and other parties, and believes that such interaction will assist ASEAN in its integration efforts to achieve the ASEAN Community by 2015.
2008	ASEAN Charter	<p>The ASEAN Charter is about giving ASEAN a stronger and collective voice in the international body and ensuring plans endorsed by its leaders are effectively implemented according to timelines spelt out. It calls for the setting up of ASEAN Community Councils covering political and security, economic and socio-cultural spheres. It also ensures the implementation of decisions of the summit, coordinates the work of the different sectors and submits reports to ministers and leaders.</p> <p>In addition, each ASEAN member state will now appoint a permanent representative to the grouping with the rank of ambassador to be based in Jakarta.</p>

Source: ASEAN Secretariat; IE Singapore

GLOSSARY

AFTA

ASEAN Free Trade Agreement is a free trade arrangement by the Association of Southeast Asian Nations. It was signed on 28 January 1992. The primary goal of the agreement is to eliminate tariffs and non-tariff barriers within ASEAN to increase the grouping's competitive edge and foreign investment inflow into ASEAN.

ASEAN

The **Association of Southeast Asian Nations** is a geo-political and economic organisation of 10 countries from Southeast Asia. It was formed on 8 August 1967. Originally, there were only five member countries: Indonesia, Malaysia, the Philippines, Singapore and Thailand. Brunei became the sixth member in 1984. Vietnam joined in 1995. Laos and Myanmar joined in 1997, while Cambodia joined in 1999.

ATF

The **ASEAN Tourism Forum** is a regional cooperative platform to promote the attractiveness of the region as a tourist destination collectively, as well as to reinforce cooperative ties among the various sectors of the ASEAN tourism industry.

ASEAN-plus Framework

The ASEAN-plus framework provides a platform to help build mutual understanding, confidence and solidarity between ASEAN and its dialogue partners. The topics of discussion within the framework include politics, security, economic cooperation and social and cultural exchanges. The ASEAN+3 framework which consist of ASEAN state members, China, Japan and South Korea is the most prominent example of the ASEAN-plus framework.

ABMI

Asia Bond Market Initiatives is one of the major ASEAN+3 financial initiatives introduced after the Asian financial crisis. It is meant to reduce regional economies' dependence on dollar-based financing and to improve on the use of savings within the region, thereby reducing ASEAN countries' vulnerability to swings in the values of local currencies against the dollar.

Beibu Gulf Rim Economic Circle

The **Beibu Gulf Rim Economic Circle** or the **Pan-Beibu/Tonkin Gulf Economic Cooperation Zone** is an initiative by the Chinese government to increase economic cooperation and development between China's Yunnan and

Guangxi provinces with the ASEAN members of Vietnam, Laos, Myanmar and Cambodia.

CAFTA

The China-ASEAN Free Trade Agreement is a free trade arrangement between China and ASEAN. The negotiation began in November 2001. The aim is to create a zero-tariff China-ASEAN market. CAFTA has been targeted to come into force in 2010 for the six original ASEAN members (Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) and in 2015 for the other four (Burma, Cambodia, Laos and Vietnam). Implementation of the framework agreement would occur in stages.

CLMV

Please see **GMS**

CMI

The **Chiang Mai Initiative** is an initiative under the ASEAN+3 framework which aims to create a network of Bilateral Swap Arrangements (BSAs) among ASEAN+3 countries, to help the countries respond effectively to speculative currency attacks..

EDB

The **Economic Development Board** is the lead government agency responsible for planning and executing strategies to enhance Singapore's position as a global business and investment centre. The agency design and deliver solutions that create value for investors and companies in Singapore.

GLC

Government Linked Companies could be considered a unique Singapore invention. These are firms in which Temasek Holdings, the investment holding arm of the Singapore Government, has substantial stakes. Since Singapore's independence in the mid-1960s, the GLCs have played and continue to play a strategic and important role in the economic development of Singapore.

GMS

The **Greater Mekong Subregion** comprises Cambodia, Laos, Myanmar, Thailand, Vietnam and Yunnan Province of China.

IAI

The **Initiative for ASEAN Integration** programme was introduced by ASEAN in 2001. It aims to accelerate the integration of more advanced economies

within ASEAN and the transitional economies of Cambodia, Laos, Myanmar and Vietnam. It includes a Work Plan with 48 projects to be introduced on a sub-regional level.

IE Singapore

International **E**nterprise Singapore is the lead agency under the Ministry of Trade and Industry spearheading the development of Singapore's external economic wing. Its mission is to help Singapore companies venture overseas and to promote international trade. IE Singapore also aims to work to position Singapore as a base for foreign businesses to expand into the region in partnership with Singapore-based companies.

MTI

The **M**inistry of **T**rade and **I**ndustry is a ministry of the Government of Singapore that directs the formulation and implementation of policies related to the trade and industry of Singapore.

SIJORI

The **S**ingapore **J**ohor **R**iau Growth Triangle was introduced in the early 1990s to promote economic integration between Singapore, the Riau Islands of Indonesia and the State of Johor in Malaysia. Its main aim was to help facilitate better allocation and usage of production resources among the three regions, including the relocation of Singapore's labour-intensive industries such as the textile, furniture and electronic industries to the other two participating countries where they can enjoy low cost advantage.

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