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**Headline: Commentary: Can the RCEP save the Singapore economy?**

### **Commentary: Can the RCEP save the Singapore economy?**

While the Regional Comprehensive Economic Partnership is unlikely to add to Singapore's trade numbers in the short term, it will be a boon for the economy in the long run, says SMU associate professor Henry Gao.



Overcast sky in Singapore, Sep 25, 2019. (Photo: Try Sutrisno Foo)

As 2019 draws to a close, the trade outlook for Singapore appears rather bleak as its exports continued the downward trend which started eight months ago.

This is hardly surprising. Singapore is a small economy with a trade exposure that runs as high as 396 per cent of its GDP, and it will be hit hardest when there are upheavals in the global economy.

Given the ongoing US-China trade war, and the rise of protectionism across the world, Singapore should brace itself for the bumpy road ahead.

#### **A BRIGHT SPARK?**

Of course, it is not all bad news. Earlier this month, the leaders of 15 states announced in Bangkok that they have concluded negotiations on the Regional Comprehensive Economic Partnership (RCEP), with formal signing expected in 2020.

Hailed as the largest trade deal in the world and encompassing several of Singapore's key trade partners such as China, Japan, South Korea, Australia and its ASEAN neighbours, could the RCEP turn out to be the saviour for Singapore's trade and economy?

The answer is a qualified yes, so long as you have the patience to wait it out

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## LITTLE BOOST TO SINGAPORE EXPORTS

In the short term, the RCEP deal is unlikely to add much to Singapore's trade numbers. This is mainly because Singapore already has trade deals with all of the countries involved.



Prime Minister Lee Hsien Loong speaks during the 2nd Regional Comprehensive Economic Partnership summit (RCEP) on the sidelines of the 33rd Association of Southeast Asian Nations (ASEAN) summit in Singapore, Nov 14, 2018. (Photo: AFP/Roslan Rahman)

As one of the first countries to recognise the value of free trade agreements (FTAs), Singapore has already signed FTAs with all of the RCEP countries.

First of all, Singapore is part of the ASEAN Free Trade Area, which aims to facilitate trade and investment flows among all ten ASEAN members.

Singapore also has existing bilateral agreements with non-ASEAN partners in the RCEP, namely China, Japan, Korea, Australia and New Zealand (and India, which decided to pull out of the RCEP negotiations at the last minute).

Singapore is also party to ASEAN-wide FTAs with all of these five RCEP countries.

With the earliest of these FTAs – the ASEAN Free Trade Area – dating back 17 years ago, most of the trade Singapore has with its RCEP partners has long been liberalised, with most tariffs already reduced to either zero or very low levels.

Thus, even with the conclusion of the RCEP, we are unlikely to see drastic tariff cuts that can boost Singapore's exports.

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Thailand's Prime Minister Prayuth Chan-o-cha asks other leaders of the Association of Southeast Asian Nations to shake hands at the Opening Ceremony of the 35th ASEAN Summit in Bangkok, Thailand Nov 3, 2019. (Photo: REUTERS/Athit Perawongmetha)

Moreover, even if the final RCEP deal does include meaningful tariff reductions for major export items, such concessions will most likely be implemented in phases over a period that could span years, with most of the tariffs removed in the last phase.

Again, this is unlikely to boost Singapore's economy in the short-term.

### **AN OPTIMISTIC OUTLOOK**

On the other hand, if we were to take the long-term view, we have every reason to believe that the RCEP will be a boon for the Singapore economy.

In addition to the tariff benefits mentioned earlier (with the caveat that it takes time to realise such benefits), there are two other reasons supporting such an optimistic outlook.

First, the very fact that such a mega deal can be concluded despite such treacherous times is a massive achievement.

The conclusion of the RCEP helps restore people's faith in free trade and the rules-based trading system.

It provides a strong counterbalance against the worrying trends of anti-trade and anti-globalisation that have been engulfing most of the world in recent years, such as the aggressive tariff wars of the United States, the UK's withdrawal from the EU, and the looming crisis at the World Trade Organisation.

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The conclusion of a deal like the RCEP, even if its substantive contents have been criticised as being shallow, bears the additional symbolic value that trade liberalisation should be championed rather than chided.

And without trade liberalisation, open but small economies like Singapore will not be able to survive.

## **GREATER REGIONAL ECONOMIC INTEGRATION**

Second, the RCEP deal will help bind the ASEAN-plus-5 economies together, which would further improve their trade and economic performance in the long run.



An officer adjusts China's national flag before the ASEAN Plus Three (APT) Summit in Singapore on Nov 15, 2018. (Photo: REUTERS/Athit Perawongmetha)

Thanks to its booming electronic industries with closely-knit supply chains, the region of East and Southeast Asia already has one of the highest intra-industry trade in the world.

With the reduction of tariffs and the ability to count inputs from more countries in the region to increase the value-added contents of products, the conclusion of the RCEP will only serve to boost this trend.

Singapore, as the key link in the regional supply chain, will greatly benefit from the deepened economic integration.

While the RCEP is unlikely to add a few digits to Singapore's trade and economic growth in the short term, it will definitely help cement Singapore's position as one of the world's leading traders in the long run.

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In the meantime, firms in Singapore should get themselves familiarised with the new opportunities arising from the RCEP, so that they do not let potential benefits slip away.

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