

# THE EFFECT OF THE US-SINGAPORE FREE TRADE AGREEMENT ON SINGAPORE'S INFORMATION AND COMMUNICATION INDUSTRY

by Cindy Payne, Founder and Managing Director, Asia-Pacific Connections



**T**he US-Singapore Free Trade Agreement (USSFTA) was initiated in 2000 and is expected to come into effect on 1 January 2004 – now that the legislation has been approved by both the US House of Representatives and the Senate, and the agreement has been signed by US President George W Bush and

Singapore Prime Minister Goh Chok Tong. The US currently has three such free trade agreements (FTAs) – with Canada and Mexico (the North American Free Trade Agreement or NAFTA), Jordan and Israel. Meanwhile, Singapore has signed FTAs with the European Free Trade Association, Japan, New Zealand and Australia, and has been the prime mover behind the Association of South East Asian Nations (ASEAN) FTA talks.

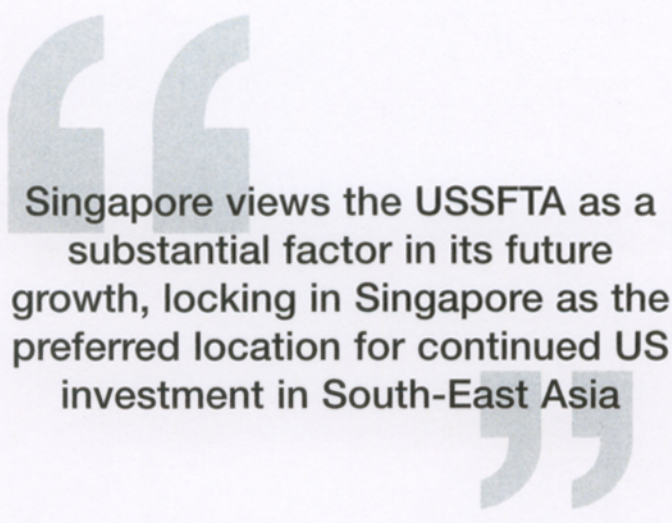
The USSFTA will be the first FTA for the US in Asia-Pacific. Singapore was a natural choice as the country has long been

regarded as the top regional hub for multinational companies, who use it as a springboard to manage their business across the rest of Asia-Pacific. Over 6000 multinational corporations have offices in Singapore – 3600 of which have regional headquarters-related functions and responsibilities. Of these, 1400 are US-based companies, 300 of which use Singapore as their regional headquarters. Multinationals choose Singapore as their Asia-Pacific headquarters for a number of reasons:

- A well-developed, free-market economy
- A well-educated, English-speaking workforce
- Favourable incentives and tax breaks, with no capital gains tax
- A pro-business environment with the absence of labour-management disputes
- A state-of-the-art logistics and communications infrastructure
- One of the busiest seaports in the world

According to the American Chamber of Commerce in Singapore, today, Singapore is the US' twelfth-largest trading





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partner, while the US is Singapore's second-largest trading partner after Malaysia. Approximately 18,000 Americans live and work in Singapore, with Singapore imports from the US totaling US\$17.7 billion, and US imports from Singapore reaching US\$15 billion. The effect of the USSFTA will be felt most in two of Singapore's key sectors – the retail banking and information and communication technology (ICT) industries.

In the banking industry, the USSFTA will allow US companies access to Singapore's countrywide ATM network. In addition, it will open the ranks of full-service US banks eligible to undertake retail businesses and increase the number of branches that licenced US banks can operate.

Within the ICT industry, the USSFTA will initiate a groundbreaking intellectual property rights (IPR) law, with significant enhancements related to trademarks, copyrights, patents and trade secrets. The agreement will further allow Singapore to position itself as an IPR digital distribution hub within the region, offering digital movie production and distribution, as well as software publishing and distribution services. The USSFTA affirms both nations' commitment to eradicate pirated and counterfeit goods, and to reduce Singapore's currently high piracy rates. The new law will facilitate prosecuting individuals who bypass copy-protection technologies – especially those used in DVDs, CDs and computer software.

In addition, an integrated sourcing initiative will allow Singapore-based companies to source components from neighbouring countries, but treat the items as local components when calculating the place of origin. All finished products originating from Singapore will then be made exempt from duties when exported to the US. The Singapore government expects this feat may save up to US\$170 million annually in tariffs, including those previously applied to many of the electronics that go into Singapore's ICT exports. Currently, electronics account for 42 percent of Singapore's total industrial output, the majority of which is exported to the US. Thus, Singapore-based US MNCs are expected to benefit most from this new regulation.


According to industry analyst International Data Corporation (IDC), Singapore is one of the more mature IT markets in the region. Though its IT market declined by 7.8 percent in 2002 to a value of

US\$3.05 billion, in 2003, Singapore's IT market is expected to revive and grow at a compound annual growth rate (CAGR) of 4.5 percent – with IT spending expected to reach US\$3.19 billion by the end of the year. Of this, US\$1.56 billion will be spent on hardware, US\$0.51 billion on packaged software and US\$1.12 billion on services. With the USSFTA in place, Singapore's IT market is set to grow to US\$10.4 billion by 2006, representing a CAGR of 11.1 percent from 2001-2006. By far, the software sector seeks to gain the most by the USSFTA's tough IPR laws.

According to IDC, Singapore's software market is growing at a CAGR of 12.2 percent, fuelling new jobs and overall economic growth. Cutting Singapore's piracy rate from its current high of 51 percent to 41 percent could add as much as US\$1.3 billion to the economy and create 1700 high-wage jobs. Further piracy reductions and projected growth in the software industry could enable Singapore to build the second most powerful software development industry in the region, after India. Software development opportunities include applications in e-commerce, e-banking, e-purchasing, multimedia, IT consulting, networking, and product research and development.

To take advantage of this growth and to leverage Singapore's mature ICT rank and position, the Singapore government is determined to position Singapore as the regional ICT hub. In August 2000, the government initiated a 10-year master plan called 'Infocomm 21', which aims to move Singapore from its current position as a low-value contract manufacturing hub for the IT industry to a high-value regional ICT capital. The government expects that, by 2005, Singapore will report ICT sector revenues of US\$22.8 billion (including telecommunications services revenues) – representing approximately 10 percent of Singapore's GDP – of which, 70 percent will be exports. To facilitate this move, the government is investing to develop a globally-competitive, deregulated telecommunications sector and an island-wide broadband infrastructure. The objective is to develop a wireless network for the delivery and receipt of online content and services. Since Singapore has more cellular phone subscribers than fixed-line subscribers, the provision of infrastructure and research and development facilities to proliferate wireless content and application





is imperative. In addition, the Infocomm Development Authority of Singapore (IDA) will assist local companies to regionalise and globalise by encouraging joint ventures and overseas investments.

Singapore views the USSFTA as a substantial factor in its future growth, locking in Singapore as the preferred location for continued US investment in South-East Asia. The US' nod to Singapore is expected to signal to the American business community that Singapore is one of the most pro-business and stable countries in the region, further encouraging US companies – especially those who are unfamiliar with the region – to use Singapore as a launch pad into the larger ASEAN marketplace. With 500 million consumers generating US/ASEAN bi-lateral trade valued at US\$120 billion, the USSFTA is positioned as the first step towards the US-ASEAN FTA.

With the USSFTA soon to become a reality, Singapore is eyeing the key advantages it expects from the FTA and the related investments. Singapore has ambitious expectations: to become the preferred location for offshore ICT vendor operations in the region; to serve as the regional centre of high-value ICT talent; to emerge as the regional connectivity hub for digital content and media; to function as the centre for ICT research and development; and to act as the real-life testing ground for innovative ICT systems, products and services. By achieving this status, Singapore will then be positioned to reach its potential as the premier information communications hub in Asia-Pacific. ■

As Founder and Managing Director of Asia-Pacific Connections, Cindy Payne brings to the company over 20 years' experience in Asia-Pacific sales, marketing and general management. Located in the region since 1991, Ms Payne founded Asia-Pacific Connections in 1993 to assist IT companies expand into and across Asia-Pacific. Prior to launching the company, she managed the Asia-Pacific distribution sales business for Quantum Corporation, a major hard disk drive manufacturer, which she developed from its 1986 start-up phase to a complex business with revenues exceeding US\$90 million.

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