

REGIONAL TRADING ARRANGEMENTS IN GLOBALIZE WORLD : SINGAPORE EXPERIENCES WITH SIJORI AND AFTA

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1. Introduction

Singapore success story and development experience is pretty much characterized by the path of open economy. The nation affluence derived from operating as trading post, resulting in one of the highest international exposures to domestic nation in the world, also in the busiest sea and airport. The geographic arrangement has served Singapore very well indeed, hence not without effort. This paper will deal with the consequences of such arrangement in the globalize world with some references to Singapore Johor Riau Growth Triangle as the pioneer of regional trading arrangement which later evolved into more complex institution such as AFTA and APEC.

2. Theoretical Framework of Regionalism

The rationale behind closer cooperation and economic integration among neighboring countries is to pool scarce resources, leads countries to specialize in what they do best and increase efficiency of each and every country member. The forerunner into such theory is Viner (1950) that exclamation the theory of custom union. Reduction or removal of tariff and any other means of barrier will induce greater flow of goods and services. Incrementally it will reinforce the movement of capital and labor.

Custom union will push each member to specialize by pulling down the tariff and non-tariff restriction on trade from member states and at the same time impose common external tariff for non-member countries. The first step casually known as Preferential trading arrangement. It will create a larger market of consumer that gives more incentive to producer. The next move will be creating a free trade area where a tariff and non-tariff barrier effectively abolished among its member. However since every member is sovereign state then policy toward non-member is left to its or her own discretion.

One step further along this line will take the region to economic union, which differs from the previous arrangement gleaned from the aside. Under these circumstances there will be synchronizations of monetary, fiscal, industrial, and numerous economic policy. The most

prominent case for this, nonetheless than European Union with their currency and central bank. The last step in regional integration is the set up of supranational institution which has sovereignty of it's own and has the capacity to govern the people live under its jurisdiction. Again we must refer to EU with its governing institution such as European Parliament, European Court of Justice and European Commission.

Conditions	Free-Trade Area	Custom Union	Common Market	Economic Union	Economic and Political Union
Remove tariff and quota	Y	Y	Y	Y	Y
Common External Tariff	N	Y	Y	Y	Y
Factor Mobility	N	N	Y	Y	Y
Integrated Economic System	N	N	N	Y	Y
Integrated Political System	N	N	N	N	Y

3. Prerequisite of Successful Economic Integration

Park and Goh (1998) there are some circumstances that should be noted with great care toward progressing with economic integration. There are static effects that calculate the member's respond in neglect of changing world and there are dynamic effects that observe behaviors of member once the barrier is removed.

The first item on static effects is the size of the union. It should be large enough to be able to pool resources and customer, but not too large that would make negotiation and constructing treaty difficult. Second, initial tariff rates. It should be higher than developed countries but lower than most developing countries, even though tariff for non-member

remain significance. It will indeed trade creation among member instead of trade diversion.

Item number three is the existence of tied of trade before integration. Regions that heavily trade each other naturally better suited for bigger and meaningful step. Those that already hold on to bilateral ties among each other are more ready for regional integration. Fourth, substitutability of product. High rate of interchangeable product among member will enable deeper engagement with non-member. Substitutability refers to production of similar but differentiated products among members.

The fifth consideration is the disparity in the level of development prior to integration. Members that too differ with each other will be obstacle for greater cooperation since the mature have to take care of the adolescent and so forth. Sixth, geographical proximity and transportation infrastructure. Countries with closer distance and descent infrastructure will facilitate economic integration easily. Those who are not will raise the cost of trade and slow intra-regional trade.

The last question that should be posed is the type of product and economic structure. Trade creation will be more significance if before integration each country produce similar product but after the curtain is removed then the efficient producer will replace the more inefficient one, hence start to specialize. Just what to be expected as the gain from integration.

The dynamic effect of formation of Asean customs union are harder to measure and hence tend to be overlook. The cause of this is the evolving nature of dynamic effect that indeed takes some time to develop. Acceleration of trade will push the welfare level higher. In which will induce the people to acquire up to date skill for fear to be replace, thus, will provide significance assistance to the national productivity gain. Critical mass of affluent people will hold purchasing power to push up the prosperity in the end it is a self enforcing process at much faster rate compare to natural, each for himself process.

4. Perils of Regional Integration

Krugman (1991) forewarned about the possibility where economic integration does not push further prosperity. The first reason is trade diversion. Move to free trade that be made with continuation of tariff against other country would leave them worse off. Group of nation that produce inefficient product may pool their resources to obtain more of that other than specialize in product that they're able to provide at lower

cost. The obvious case for this is the enlargement of agricultural sector in European Union, which requires heavy protection and subsidy.

The second effect that might be reproducing during economic integration is beggar-thy-neighbor effect. A country outside the trade area may be hurt since the curtain posted. Since trading bloc tries to maximize the welfare of its member then the optimal tariff rate will normally be higher than the tariff if left to each country to decide.

The last but the most damaging of all, trade war among trading blocs. Since the bloc is stronger and yielding more market power than the sum of its member. There is incentive to formulate protectionism or dumping policy for that particular region. The temptation sometime is too great to not practice aggressive trade policies. The very policy that will leave every one worse off.

5. Regionalism vs. Globalism

At first we see many attempt to implement globalism all at once, such effort could be recognize in the remnant of Uruguay Round, GATT, and WTO. But as saying goes that too much hand spoils the cook has its wisdom. Varying level of development and exhausting negotiation drain the energy of its member with minimal outcome. It is pretty much ease of convenient that regional trading arrangement other than multilateral that flourished. Stronger sense of community and higher interaction among neighboring country is much stronger foundation for cooperation that abstract principle that supposed to bound all humanity. One step at the time.

Gradual convergence among regional group is the thing to look forward in the future. Each has to prove worthy for its cause to make further step to multilateralism. It is two-track system that complements each other instead of a competing ideology.

6. Sijori : The Case for Growth Triangle

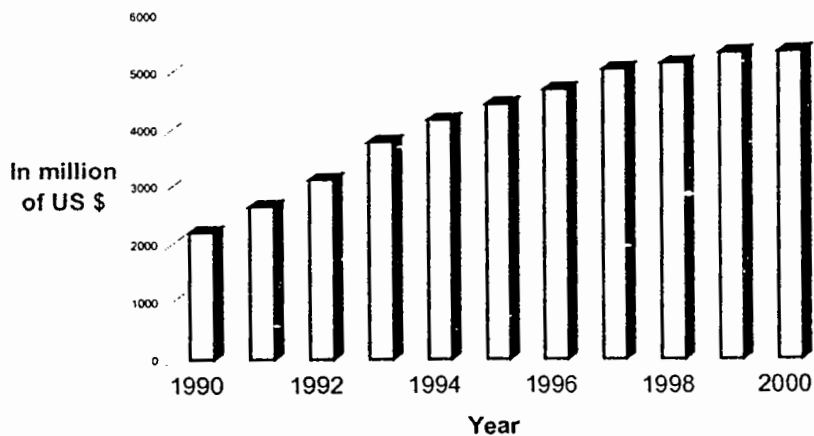
There are some obstacles that have been mentioned above to immediately form a trading bloc in Asean. The middle path will be to start with sub regionalism for the reason, which we will observe subsequently. The first will be economic complementary. Singapore being the busy trading port but lacking in land and labor, it is natural that expansion of Singapore's economy followed by transferring the activity out to cheaper land and labor. Johor and Riau at late eighties is not the most developed part of each country, with activities ranging from agricultural to light industry.

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The second requirement will be geographical proximity, which Sijori fulfill at ease. Less than half an hour of traveling by water and the bridge between Johor and Singapore almost dismiss the factor it self. The third one is political commitment and policy coordination. There is a need to coordinate policy concerning regulation, investment, real estate and foreign exchange. Those cannot be done with out high political commitment. The fact that Batam is put under separate and all encompassing body, Batam Industrial Development Agency, clearly state out the intensity of political commitment.

The last necessity is infrastructure development. With three country acting in coordination to attract investor it is very important that the standard of infrastructure in those area share certain kind of standard. The lack of it will impede the mobility, hence the investment in those area

Private Investment Growth in Batam Island (Domestic & Foreign)



The figure below could help the effect of complimentary economics and economy of scale on action. The incestment in bata surge almost four times in five year. As in the case of Johor total approved investment in 1990 is about 3,5 times it is five years ago.

	1985	1990
Batam (\$ 000)	222,448	724,739
Johor (M\$ Million)	527,5	2090

7. ASEAN-AFTA

Association of South East Asian Nation has served as the underlying institution for previously mentioned arrangement. Founded in 1967 in the midst of political upheavals, Asean managed to promote regional peace, stability and cooperation among its member. All of which have paved the way for prosperity and economic growth throughout the region.

As the project Sijori carry on with ease, the confidence for more significant step is getting bolder. Early nineties is characterized by more intense competition among nation for trade and investment. Most notably Single European Market and North American Free Trade Agreement in developed country and major reform in China and Vietnam in the side of developing country. Moving up the value added ladder, share of manufacture in ASEAN total export jump from 21,8% in 1980 to 59,8% in 1990.

The leader of ASEAN come up with the idea of AFTA in 1991 by the Thai Prime Minister Anand Panyarachun. At the fourth Asean summit in Singapore in 1992 the ASEAN heads of government formally agreed to establish an ASEAN Free Trade Area. The main mechanism for realization is Common Effectice Preferential Tariff (CEPT). The CEPT Agreement mentions, for example, harmonization of standards, reciprocal recognition of tests and certification of products, removal of barriers to foreign investment, macroeconomics consultations, rules for fair competition and promotion of venture capital.

The implementation of AFTA seem coming into halt when the crisis abruptly attacked Asia. Occupation of each country with their own backyard problem and the changing political landscape in many ASEAN countries impede any significant step toward AFTA. But as shown in the table below, there are significant contraction of trade in period 1997-1998 to intra ASEAN and extra ASEAN countries. Singapore hit significantly with severe reduction in import for intra ASEAN and total trade intra ASEAN.

8. Conclusion

Being small and open economy put Singapore in constant necessity for close relation with trading partner. The sluggish trend in international trade is unlikely to be permanent, concerning America continuing growth will provide market for export. Regional trading arrangement will bring benefit the most to Singapore if the neighboring country in the constant path of recovery. It will ensure Singapore as the hub for investment and commerce in their region. Any movement toward multilateral will bring more prosperity for Singapore as its unending effort to equip herself with nothing than the best infrastructure and attitudes.

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