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**ARTICLE**

## **Effects of Free Trade Agreements (FTAs) on Construction Firms in Singapore**

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### **ABSTRACT**

*Since the 1950s, the international trading system has been characterized by a shift from the multilateral processes towards bilateral and regional arrangements. The signing of the US-Singapore Free Trade Agreement (USSFTA) by the Prime Minister of Singapore and the President of the United States is but part of Singapore's overall trade initiatives and economic strategy which involves forging free trade agreements (FTA) with other countries outside the ASEAN region. This study seeks to analyze the effect of FTA in the context of the construction industry with respect to local contractors. A questionnaire-based survey and in-depth personal interviews were conducted with the local contractors to understand the implications of FTAs on them. A similar set of questionnaire was also formulated for the foreign contractors to identify the impact of FTAs in the local industry. The discussion of FTAs effectiveness on Singapore contractors was limited by the lack of necessary information. As the pursuit of bilateral FTAs is a relatively new development in Singapore's trade policy with many new FTAs under negotiations, opportunities for the local contractors on these potential FTA partners remain to be seen.*

**Keywords:** Free Trade Agreements, Construction, Contractors, Trade Policy, Singapore

### **INTRODUCTION**

A phenomenal integration of the world economy through multilateral, preferential and bilateral trade liberalization has been observed over the past two decades. Multilateral liberalization under the General Agreement on Tariffs and Trade (GATT) and later the World Trade Organization (WTO) have resulted in significant reduction of trade barriers and the expansion of the scope of negotiations. However, the problems and delays of recent rounds of multilateral negotiations have led to many countries seeking alternative routes to trade liberalization. In particular, many countries are forming Regional Trading Agreements (RTAs) as a means to maintain forward momentum towards trade and investment liberalization to prevent a return to protectionism (Bergsten, 1998). It is also hoped that such arrangements would bring about more rapid liberalization than is possible multilaterally.

This surge in RTAs has been termed the “new” or “second” regionalism to distinguish it from the “old” or “first” regionalism of the 1950s and 1960s when many attempts to form regional trading blocs were made in various parts of the world without much success (Krugman, 1993). The term “regionalism” does not have any geographic connotations here and refer to any trade initiatives that are not multilateral in nature (Rajan, et al., 1995). Though some authors have taken the view that another principal force behind the new regionalism is the conversion of the United States from staunch multilateralist to fervent regionalist, this view has been clearly refuted by Baldwin (1997).

Singapore’s moves to bolster its integration with the global economy via the Free Trade Agreement (FTA) route find a parallel with that of the United States in the early 1990s. An FTA is a legally binding agreement between two or more trading partners for closer economic integration. FTAs are a form of RTAs due to their discriminatory nature, where preferential and reciprocal market access is provided only to contracting members.

Singapore has concluded numerous FTAs, including a regional one with ASEAN (AFTA) and five other bilateral ones with New Zealand, the European Free Trade Association, Japan, Australia and the United States, among others. Singapore’s pursuit of FTAs can be viewed as a form of insurance against the increased economic uncertainty of the region and the problems associated with other trade liberalization paths.

FTAs appear to be increasingly regarded by policy-makers as effective and expeditious instruments for achieving trade liberalization among “like-minded” trading partners (Schiff, et al.2000). Formation of bilateral FTAs among such partners is also seen as a way to overcome the so-called “convoy problem”, whereby the pace of trade integration is held back by the least willing member or, as it is sometimes said, those who can run faster should run faster and ought not to be held back by those who choose not to run or do so at a snail’s pace. While the argument that negotiating regional trade pacts are easier to conclude and can be done at a faster pace than global negotiations may not hold true as a general rule (Baldwin, 1997; Bhagwati, 1991), it does seem appropriate in the case of Singapore which sets strict deadlines for completion of discussions.

In addition, as trade agreements nowadays go well beyond trade in goods to encompass an increasing number of areas and issues, FTAs could act as a testing ground or pilot project for exploring complex trade issues and may help establish some sort of precedent or benchmark for trade negotiations involving a large number of countries, including one at the multilateral level (Baldwin, 1997). The FTA initiatives by Singapore may also be a means of building political momentum for other ASEAN/APEC member economies to hasten the process of regional and unilateral liberalization (Bergsten, 1998). Simultaneously, to the extent that

contracting parties to an FTA agree to move beyond their respective WTO commitments, there may be a demonstration effect that motivates future rounds of broader multilateral negotiations under the auspices of the WTO. Singapore's embrace of the FTA option is clearly aimed at it being "WTO-plus" rather than a "WTO-substitute". It has therefore taken pains to reaffirm the primacy of the multilateral trading system.

With respect to the construction industry, Abdul-Aziz and Tan (1998) have studied the impact of GATT and GATS on the global construction industry. The effect of GATS on the construction industry shows that many of the provisions would only come into force through a process of gradual liberalization. Major changes may be slow in coming to the global construction industry but the transformation is likely to be far from uneventful. Abdul-Aziz and Tan's (1998) findings also showed that no contractors in Malaysia had any idea of the long-term ramifications of the multilateral trade talks to the industry.

Singapore, being one of the most open trading nations with the highest GDP-to-trade ratio in the world (Rajan, et al., 2001) and ever ready to identify changing trends of the international trading system is a strong supporter of the new regionalism. Though a major proponent of global trade and investment liberalization, the slow progress of talks at the WTO and Singapore's limited influence in affecting liberalization in the multilateral arena have prompted it to pursue a second track to liberalization via the regional route. Singapore's embrace of the new regionalism took the form of participation in ASEAN (Association of Southeast Asian Nations), APEC (Asia-Pacific Economic Cooperation) Forum and AFTA (ASEAN Free Trade Agreement). The decline of ASEAN as a political force (Hadi, 1991) and its collective economic strength coupled with the slow implementation of AFTA and the incapability of APEC to reach a substantial action plans (Sakong and Lee, 1995) seem to have led to Singapore's pursuit of FTAs.

One of the FTAs' main objectives is to help Singapore companies establish a presence abroad either through the export of more goods or the setting up of overseas branches and is beneficial to Singapore companies as they help to create bigger markets for products and services. In the construction industry, it will help Singapore contractors to export services/products overseas and contractors should therefore take advantage of the benefits brought about by the FTAs. It would appear that contractors generally show little knowledge about the FTAs and are not aware of the benefits FTAs can bring to the local contractors.

It is therefore the aim of this study to find out how the FTAs are beneficial to the local contractors and the effect on the FTAs in relation to the local contractors in Singapore. In addition, this study aims to fill the lack of research on the impact of FTAs in the construction industry.

The methodology employed in this study consists of a questionnaire-based survey and in-depth personal interviews with senior executives of local construction companies. The questionnaires were designed to solicit information within an academic framework. Phone interviews and personal visits were made to the contractor's office in order to secure good response for the surveys and interviews. The executives who participated in the field work have all possessed an overview of the way the company is run because this research is largely a policy study and the interviewees had to be in the position to explain how their corporate systems worked.

### **HISTORY OF FREE TRADE AGREEMENTS**

Free Trade Agreements (FTAs) and Customs Unions, such as the European Union, together comprise the main exception to the Most-Favored-Nation (MFN) principle, the fundamental rule guiding trade in goods among members of the World Trade Organization. Under the MFN rule, members of the WTO must give fellow WTO members no less favorable treatment in terms of tariff rates and other trade measures than they afford to any other country.

FTAs and Customs Unions (together defined as Regional Trade Agreements or RTAs in WTO terminology) are exceptions to this rule. WTO rules allow individual countries to afford preferential treatment to partners in an RTA, provided that the RTA conforms to certain strict conditions. The rationale for allowing this exception is set out in Article XXIV of the General Agreement on Tariffs and Trade (GATT) of 1947, which provided the foundation for the later WTO agreements. Article XXIV recognized the desirability of increasing freedom of trade by the development of closer integration between member countries through agreements establishing customs union or free-trade areas. At the same time, strict conditions apply to RTAs to ensure that they perform a truly liberalizing function in international trade and do not encourage the establishment of new barriers, or provide an easy route to introduce new measures discriminating between trading partners.

The crucial test of an FTA or Customs Union is that it must eliminate all tariffs and other restrictions on substantially all the trade in goods between its member countries. Although WTO members have differed over how precisely to define "substantially all trade", few would disagree that this means, at the very least, that a high proportion of trade between the parties - whether measured by trade volumes or tariff lines - should be covered by the elimination of tariffs and other restrictive trade regulations.

While free trade in goods has been the focus of virtually all FTAs concluded to date, the WTO also provides for bilateral or regional agreements liberalizing trade in services. Technically, these are called "economic integration agreements" (EIAs), sometimes described as "services FTAs". The conditions for concluding EIAs as

exceptions to the Most Favored Nation principle are set out in Article V of the General Agreement on Trade in Services (GATS). EIAs are allowed so long as they (a) have substantial sector coverage, and (b) provide for the absence or elimination of substantially all discrimination between parties, through the elimination of existing discriminatory measures, and/or prohibition of new or more discriminatory measures. To date, no EIA covering services has been concluded separately from an FTA covering trade in goods as well.

While an FTA, as defined under the WTO, does not have to include trade in services, most contemporary agreements that are labeled "Free Trade Agreements" cover both goods and services, reflecting the growing importance of services in the global economy. Such agreements are effectively a combination of FTAs and EIAs. In fact, FTAs together with EIAs provide a framework under which countries can negotiate a range of other bilateral undertakings governing their economic relations. In addition to trade in goods and services, FTAs frequently cover such issues as investment protection and promotion, government procurement and competition policy, which are either not yet encompassed by WTO rules or only partially covered.

FTAs often also contain practical provisions in areas such as harmonization or mutual recognition of technical standards, customs cooperation, application of subsidies or anti-dumping policies, electronic commerce, and protection of intellectual property rights. Such provisions do not have to be included in FTAs under WTO rules, but they can play an important role in facilitating trade between the parties and in a broader regional context. Such bilateral or multi-lateral economic agreements are often given titles such as "Closer Economic Agreements" or "Partnerships" to reflect their broad scope, even if FTA provisions eliminating restrictions on trade in goods form the core element.

### **GATT/BRETTON WOODS AGREEMENT**

GATT was established on a provisional basis after the Second World War in the wake of other new multilateral institutions dedicated to international economic cooperation – notably the "Bretton Woods" institutions now known as the World Bank and the International Monetary Fund. It was an effort at trade liberalization and the correction of protectionist measures which were prevalent in the 1930s. Tariff concessions and rules on world trade disciplines together became known as the GATT and came into force in January 1948.

The first round of tariff-reduction negotiations took place in 1947, with 23 participating countries and resulted in 45,000 tariff concessions, affecting about one-fifth of world trade. The subsequent rounds of negotiations were all concerned with tariff reduction. The sixth trade round, the Kenney Round (1963-7), was the first to deal with reduction of certain non-tariff measures. It was also then that the GATT Anti-Dumping Agreement was conceived.

The Tokyo Round (1973-9) resulted in further tariffs reduction, a series of agreements on non-tariff measures and “framework” agreements, which GATT members must abide by. It brought the average tariff in manufactured products down to 4.7% compared with about 40% at the time of GATT’s creation (WTO, 2000). It also led to the legalization of preferential tariff and non-tariff treatment in favor of developing countries and among developing countries and a number of codes dealing with non-tariff measures (Hoekman and Kostecki, 1995).

The Uruguay Round was the latest and most extensive trade round, with an enlarged number of 123 participating countries. The subjects covered include tariffs, non-tariff measures, rules, services, intellectual property rights, dispute settlement and reintegration of agricultural trade and textiles and clothing into the GATT.

As more issues came under the auspices of the GATT, it was necessary to have a permanent institution where commitments are full and binding. Hence an agreement to establish the WTO was reached at the end of the Uruguay Round in April 1994.

#### **WORLD TRADE ORGANIZATION**

The World Trade Organization (WTO) was established on 1 January 1995 and is based in Geneva, Switzerland. It is the successor to the GATT and an embodiment of the results from the conclusion of the Uruguay Round.

The WTO is the legal and institutional foundation of the multilateral trading system. It provides the main contractual obligations determining how governments frame and implement domestic trade laws. It is charged with the responsibility of implementing the numerous agreements that were reached in the Uruguay Round. The successful establishment of the WTO in 1995 to replace the GATT did not alter the constraints inherent in a multilateral approach. Indeed, in the years following, FTAs blossomed. In 1995, there were 80 FTAs registered with the WTO. In 2003, there were 179.

#### **EVOLUTION OF REGIONAL TRADING AGREEMENTS (RTAs)**

The proliferation of RTAs can be viewed in two waves: the “old” regionalism of the 1950s and 1960s and the “new” regionalism in the 1990s. While the old regionalism involved RTAs of contiguous countries and shallow integration, the new wave involved intercontinental agreements and commitments to harmonization of service sectors, regulatory measures and even human capital.

One of the factors contributing to the increase in popularity of RTAs would be the failure of the Uruguay Round of GATT – a reflection of faltering faith in the ability of the multilateral trading system to further sustain the momentum of trade liberalization. Each successive round of negotiation took much longer to complete

than the preceding round. The first round in Geneva took less than a year to conclude, but the Uruguay Round took eight years (Krugman, 1993).

Regional or bilateral agreements may bring faster results than the multilateral process, may enable parties to conclude levels of liberalization beyond the multilateral consensus, and may be able to address specific issues that do not register on the multilateral menu. The resulting achievements in trade liberalization can be substantial complements to the WTO system, and they can be important building blocks for future multilateral liberalization.

Countries thus turned to RTAs to serve as an alternative approach towards multilateralism. Baldwin (1997) explained the boom of RTAs via the Domino theory - RTAs commonly result in trade and investment diversion for the participants and this in turn generates pressures on excluded nations to get involved. Baldwin (1997) also argued that US hegemony is vital to the sustenance of GATT and that ensuring a shift from multilateralism to regionalism thus inevitably leads to the increase in RTAs worldwide.

Krugman (1993) suggested that RTAs are increasing due to their easy negotiation and implementation as compared to the complexity of multilateral agreements. These FTAs can then serve as building blocks for other countries to join in the liberalization movement.

Geo-political considerations have also played a part in the proliferation of FTAs. In Southeast Asia, for instance, China proposed, and ASEAN accepted, to establish an FTA within ten years. China did not want ASEAN to view her economic ascent as a threat and it wished ASEAN to participate in the opportunities arising from its development.

Aside from economic considerations, the pursuit of RTAs can also be politically motivated. In Singapore's case, it provides opportunities to seek political allies and also allows Singapore to gain recognition and raise its status internationally. In particular, Singapore's FTA with the United States serves to reinforce Singapore's diplomatic ties with the United States. This is viewed as an important factor to Singapore which relies actively on the United States for military procurements and training grounds. The United States presence is also deemed vital by Singapore for maintaining security and stability in the region.

#### **SINGAPORE'S FTA NETWORK**

Singapore could not afford to wait for other countries in the region to strengthen their commitment towards trade liberalization. Singapore needed to ensure that it remained attractive to investors even if the region as a whole did not. The need to



liberalize quickly is made more urgent by China's entry into the WTO and the implications that such a move brings with it. In recent years, China has eroded a substantial share of the total new investments coming into Southeast Asia. With the entry of China into the WTO, the share of investments captured by ASEAN is expected to fall further.

In recent years, Singapore's relatively higher cost of production has led to many firms relocating their production plants to neighboring countries. This is a major concern as it poses a potential risk of having the manufacturing sector hollowed out, resulting in catastrophic implications for employment. In order to cope with this problem, Singapore actively encouraged its companies to go regional by shifting their lower-end production activities to cheaper regional locations while at the same time, maintaining their more important, higher-end activities in Singapore. However, the problems with this regionalization drive of the 1990s meant that a new strategy was needed to cope with this problem. Singapore's pursuit of bilateral FTAs stemmed partly out of a need to solve this problem. This is because the possible shift of export platforms from regional countries to Singapore, so as to benefit from preferential access to markets of Singapore's FTA partners, would help alleviate this problem.

Singapore has one of the largest FTA networks in the region spanning the United States, Asia, Europe and in the near future, the Middle East. This diverse network helps to expand the economic space by providing Singapore-based companies with preferred access into their FTA partners' markets.

Amongst the FTAs signed and concluded, the integration between Singapore and New Zealand (ANZSCEP) was the first to be launched on 18<sup>th</sup> August 2000. Singapore and Japan's FTA (JSEPA) was concluded in October 2001. A free trade pact between Singapore and the European Free Trade Association (EFTA) states of Switzerland, Liechtenstein, Norway and Iceland came into force on 1<sup>st</sup> January 2003. Besides these, Singapore also engaged into an FTA with Australia on 17<sup>th</sup> February 2003. Singapore then took a bold step to initiate a bilateral agreement with her largest trading partner, the United States. The negotiation was finally wrapped up and became effective from 1<sup>st</sup> January 2004. Table 1 shows some of the dates of entry and review for FTAs concluded by Singapore.

On the regional front, China is the new economic powerhouse. Singapore is in negotiations to strategically engage it through the ASEAN-China FTA. At the time of writing, ASEAN will commence FTA talks with Japan and India shortly, and in the near future, South Korea. Singapore was similarly in negotiations with India, Canada, Mexico, Jordan and New Zealand-Chile. FTAs with South Korea and Sri Lanka are also in the pipeline. The benefits and costs of Singapore's FTA network are discussed in the next section to further elaborate on the reasons for Singapore to pursue FTAs.

## **OPERATIONAL DETAILS OF FTAs**

There are basically six main areas of coverage in the FTA:

- Trade in Goods
- Trade in Services
- Investment
- Government Procurement
- Dispute Settlement
- Movement of Natural Persons

As far as the construction industry is concerned, in the 4 modes of Supply for Trade in Services, the third mode (i.e. commercial presence) and the fourth mode (i.e. presence of natural persons) are the most frequently employed methods of service delivery.

Specific to construction, Market Access and National Treatment would allow foreign contractors to establish a permanent presence in Singapore. In addition, they can expect equal application of tax, investment, licensing, financial and other relevant national policies.

In construction, the lack of transparency has paved the way for substantial discrimination against foreign contractors. Complete transparency in construction may be difficult simply because of the vast number of laws and regulations – those specific to construction as well as those indirectly affecting the industry such as investment laws and measures, certification of professional qualifications and licensing requirements.

Each of Singapore's FTAs goes beyond the four basic tenets of liberalization towards deeper economic engagement. One of the salient features of liberalization with the United States agreement relevant to construction is the provision for architects and engineers to boost exchange of building and construction talents. This entails consultation to develop mutually acceptable standards for licensing and certifying professional service providers, especially architects and engineers.

Under the investment chapter, local contractors are granted equal treatment with foreign contractors in partner countries. Singaporean contractors may freely transfer profits from investments out of partner countries. These benefits provide local contractors with a stepping-stone to invest in construction operations overseas. With a more predictable operating environment, local contractors can export with less risks and more assurance.

Singaporean contractors often face common threats that include entry barriers in favor of indigenous firms and competition with both indigenous contractors and

other foreign firms. This has impeded many Singaporean contractors from exporting, as they are commonly disadvantaged in both developing and developed countries. In developed countries where greater emphasis is placed on areas such as design, quality and technology, Singaporean contractors have no distinct competitive advantage as compared to the indigenous firms. In developing countries, where the conditions favor financing and Build, Operate and Transfer or BOT arrangements in the larger projects, local contractors are disadvantaged when compared to firms from the United States, United Kingdom, Europe, Japan and South Korea which have the financial resources and back-up from government aid programs and export credit facilities.

However, these threats will be slowly removed with Singapore increasing the FTA network with her partner countries. Contractors can enjoy better market access, national treatment and fair domestic regulation with Singapore's FTA partner countries. With effective exchange of talents and knowledge through stronger bilateral relationships, Singaporean contractors can effectively target their market niche in the relevant markets.

Table 2 shows the commitments of some of the FTAs signed so far in relation to construction related sectors. Other than the EFTA, which has some restrictions, all other FTAs are committed to the construction sector.

As an FTA partner, Singaporean contractors can make use of the investment advantage by entering into joint investments with contractors of the partner country. By forming consortiums, contractors can then pool their technical, administrative and marketing resources to reduce costs and risks as well as to build on each other's strengths in technical and management resources. Through the joint investments, Singaporean contractors will be better enabled to build up their brand name in foreign countries. With FTAs being negotiated with countries like China and India, this will further strengthen relations for Singaporean contractors who are currently exporting to these countries and at the same time, help to encourage more Singaporean contractors to export their services overseas.

## **SURVEY FINDINGS**

The research began with understanding the history of FTAs, their operational details and the FTAs that have been signed with Singapore. The effects of FTAs on the export of construction services were also described. A survey was then conducted to explore the effectiveness of FTAs for Singaporean contractors. Effectiveness in this case can be defined as how the FTAs benefit Singaporean contractors in venturing overseas. At the same time, the survey served to find out more about contractors' knowledge of FTAs and their awareness level of the benefits. It aims to examine contractors' interests in FTAs and the current export volume of Singaporean

contractors in relation to the FTAs. The effectiveness of FTAs on Singaporean contractors can then be evaluated and suggestions made to raise awareness of FTAs to contractors.

The sampling frame for the selection of construction companies was taken from the Building and Construction Authority (BCA) Contractor's Registry. 48 local contractors were randomly surveyed. A questionnaire survey form was prepared and pilot tested before sending to the contractors identified in the sampling frame. 35 local contractors responded, which equates to a response rate of 73%. 10 responses were secured through telephone interviews with senior managers and managing directors involved with managerial and policy matters. Four of the firms belonged to BCA's list of Top 20 Exporting Construction Firms at the time of the study.

Only senior managers who are involved with managerial and policy matters were surveyed. The 35 local companies were all registered in the BCA Contractor's Registry under the CW 01 General Building Work-head. 25 of the 35 respondents (or 71.4%) are currently exporting construction services overseas. Of the 25 local contractors involved in export, the markets exported to include China, Malaysia, Vietnam, India, Thailand, Taiwan and Australia. Only one respondent was exporting to a FTA partner country, Australia. Most of the contractors are exporting goods and services to China and the Indian subcontinent.

As FTAs provide a level playing field and better market access for local contractors exporting overseas, it is important to understand the difficulties local contractors face when exporting to determine how much they can benefit from the FTAs. The respondents involved with export were asked about the barriers they faced. The results in Table 3 show that 80% of Singaporean firms experienced "Discriminatory practices of host government, which favor local companies" and 60% found "Excessive licensing fees" as a barrier.

With FTAs being signed, Singaporean contractors can expect to reduce the barriers encountered. For example, discriminatory practices in FTA partner countries will no longer be a problem as "national treatment" will be given to Singaporean firms, i.e. they will be treated like locals upon entering FTA partners' markets.

Although FTAs provide Singaporean firms with the added advantage of better market access and ease of operation overseas, there are other factors that can influence their decisions to export overseas. In Table 4, of the 35 respondents, 34 (97.1%) viewed the economic situation of the country as an important factor affecting their decisions. 30 (86.7%) respondents indicated the political and legal situation as a factor affecting their export decisions. 20 (57.1%) respondents were also concerned with the construction technology adopted in the foreign country. It is interesting to find that none of the respondents viewed social and cultural differences as a factor of concern when venturing overseas.

This finding suggests that despite opportunities provided by the FTAs, local contractors still have to consider other aspects like construction technology used in FTA partner countries. If construction technology differs between countries, it may be difficult for Singaporean contractors to export to the FTA partner country. The economic situation of the country is an important factor for Singaporean contractors to export and opportunities must also be available in the construction sector of the partner country. So far, the agreements Singapore have signed are with developed countries like the United States, Japan and New Zealand; opportunities for the construction sector in these countries are not as high compared to developing countries. In developed countries, most of the infrastructure and buildings have already been built and thus opportunities for Singaporean contractors would appear to be significantly lower.

#### **AWARENESS LEVEL OF FTAs**

With the opportunities provided, it is important for Singaporean contractors to be aware of the FTAs before they can take advantage of the benefits they provide. From the survey results in Table 5, 17 out of the 35 respondents (48.6%) ranked their awareness level of FTAs at 4 points and above on an a Likert scale of 1 to 5. 12 respondents (34.3%) ranked the awareness of FTAs at the median point of 3. None of the respondents claimed that they are not aware of FTAs.

With an average of 3.5, it appears that Singaporean contractors are aware of the existence of FTAs. With this awareness, the respondents were asked what benefits they think FTAs can bring to Singapore. 23 out of 35 respondents (65.7%) felt that “Goods manufactured in Singapore will enjoy lower tariffs” and only 10 respondents (28.6%) found it beneficial for “Service companies to enjoy better market access and ease of operation”.

The response indicated that a large proportion of Singaporean contractors found FTAs more beneficial to the manufacturing sector for goods rather than service companies like contractors in the construction sector.

The respondents were asked to rank their knowledge of benefits of FTAs for the construction industry on a Likert scale of 1 to 5 (1 being not aware and 5 being fully aware). From Table 6, 32 contractors (91.4%) indicated they were not aware of the benefits of FTAs to the construction industry. None of the contractors were fully aware of the benefits FTAs can bring to them. The average score is 1.9, suggestion that Singaporean contractors were not very aware of the benefits that FTAs can bring to the construction industry.

Although local contractors are aware of the FTAs Singapore is actively signing with her foreign partners, only a small proportion of them have specific knowledge of the

benefits that FTAs can bring to the construction industry. Of those who were aware of the benefits (those who ranked 3 and above), their source of knowledge of these benefits was surprisingly from reports in newspapers, magazines, media and internet and not from governmental bodies or other construction firms.

A comparison was made between contractor's knowledge of FTAs and the export volume. Three contractors (8.6%) ranked their knowledge of FTAs as being aware. All three contractors were exporting overseas. However, interestingly, their export volume was not as high as some other contractors in the survey. This is illustrated in Table 7 for two contractors who were interviewed; one with very high export volume and the other with low export volume.

The study suggests that the export volume of the contractors may not necessarily be linked to their knowledge of the FTAs. A contractor with a higher knowledge of FTAs may not necessarily have a high export volume; similarly a contractor with a high volume of overseas contracts may not necessarily have much knowledge about the FTAs. From the two interviews, this phenomenon can be attributed to the following factors:

- Contractors were not exporting to FTA partner countries.
- Publicity talks have not been sufficient nor beneficial to local contractors.
- Emphasis on construction in FTA negotiation was not significant.

Contractors with low export volume would appear to have higher knowledge of the benefits of FTAs on the construction industry because they are more interested in opportunities that would allow them to export overseas. This would help them to gain greater market share and establish a niche for themselves in the foreign market.

Although the respondents have little knowledge of the benefits which FTAs can bring to the construction industry, 25 of the 35 respondents (71.4%) are still interested in the FTAs. Some of the reasons given by the respondents for their interests in FTAs included:

- Increasing market share
- Expanding business overseas
- Spreading of risks with diversification into new markets
- Economies of scale generated by enlarged market base
- Encouragement from BCA to export overseas
- Dwindling local market demand

However, 10 (28.6%) respondents were not interested in FTAs. From the interviews, the main reason appears to be that there was no significant impact of FTAs on the construction industry. This can be further explained through the respondents' perceptions of the importance of FTAs on construction exports, as shown in Table 8. The respondents generally felt that FTAs were not significant for the construction

industry (at a Likert scale of 1 being least significant and 5 being most significant). None of the respondents viewed the FTAs as being very significant. The average significance level of FTAs, in the opinion of the respondents, was 2.2. This seems to suggest that from their point of view, most do not find FTAs particularly significant and useful for the construction industry.

One reason why Singaporean contractors do not find FTAs significant could be due to the countries involved in the FTAs. These are predominately developed countries like Australia, Japan, the United States, New Zealand, and European countries like Switzerland, Norway, Iceland and Liechtenstein, which appear to provide little opportunities for Singaporean contractors.

26 (74.3%) of the respondents showed interest in exporting to FTA partner countries with preferential treatment. The remaining 26% expressed no such interest. Amongst the 26 respondents who showed interest, 22 of them did not choose any of the FTA partner countries to export to. The four contractors who would consider exporting to FTA partner countries preferred to export to Australia, New Zealand and Japan. None of the contractors chose to export to the United States or countries in the EFTA. No contractors chose the United States and countries in EFTA largely due to the operational difficulties involved when exporting to these countries where they have to compete with the larger and more established firms in their local markets.

From the interviews and surveys conducted, it appears that the respondents showed little interests in the FTA partner countries that Singapore currently has an agreement with. Instead they were more interested in the developing countries and Southeast Asian countries. Some of the countries which they were also interested with included Taiwan and countries (such as China and India) that have ongoing negotiations with Singapore. Many respondents viewed China and India as ideal export markets due to their low operating costs and BCA's incentives for companies to form consortia in China. However, taxes and duties were still high in China and India; therefore FTAs with them will benefit Singaporean contractors.

15 (42.9%) respondents found the preferential treatment for foreign companies entering Singapore a threat. Some of the reasons given by the other 20 contractors for not viewing this as increasing competition were because there was already a low demand for construction in Singapore; therefore foreign contractors were unlikely to be interested in the Singapore market. Moreover, they do not seem to view the benefits of the FTAs as sufficient enough to influence a big influx of foreign contractors into Singapore. Instead, some respondents viewed the entry of foreign contractors as a good chance for technology transfer or acquisition of skills which would help in upgrading their company and gearing them for operations overseas.

## CONCLUSION

With Singapore's pursuit of FTAs, this study examined if FTAs were beneficial to the construction industry and the effect of FTAs on Singaporean contractors. The survey findings suggested that with FTAs being signed and under negotiations, Singaporean contractors have some knowledge of the FTAs. The respondents in general were aware of the FTAs although they may not have full knowledge of the benefits that FTAs can bring to the construction industry. Contractor's awareness of FTAs was mainly attributed to the media/news. With BCA's encouragement to export overseas, Singaporean contractors were therefore receptive to any opportunity that can help to facilitate their export of services overseas. However, due to a lack of coordinated dissemination of information from the respective government bodies to the construction industry, Singaporean contractors do not appear to be fully aware of the benefits that FTAs can bring to them. Several suggestions were made to raise awareness of FTAs to Singaporean contractors, one of which would be for the BCA to organize more talks and seminars.

The survey findings also seem to suggest that FTAs, despite all the perceived benefits when exporting to the respective FTA partner country, do not necessarily benefit Singaporean contractors. There were several factors that would determine the local decision to export. As Singaporean contractors were not as established and diversified in the technology of construction, one of the main concerns would be the level of sophistication of the construction techniques used in the foreign country. Singapore has signed FTAs with largely developed countries that have a good pool of established contractors with better technological prowess compared to Singaporean contractors. This therefore makes exporting to FTA partner countries difficult. Of the contractors surveyed, only one respondent exported to Australia (an FTA partner country) and most of them showed no interest in the other FTA partner countries which Singapore has an agreement with.

Another reason was that little emphasis was placed on the construction sector when negotiating the FTAs. Many respondents have pointed out this problem and hoped that the relevant government bodies or trade associations would be able to participate more pro-actively in the negotiation or review process in order to bring about greater benefits to Singaporean contractors. Some of the contractors interviewed suggested getting the BCA to be more involved with FTA negotiations. In this way, the views and ideas of the construction industry can be taken into consideration in the negotiations.

Despite FTAs not having a direct impact on Singaporean contractors presently, the latter showed great interest in FTAs that were still being negotiated at the time of writing. They included markets like India and China where most of Singaporean contractors were exporting their services to. With vast opportunities in these markets,



Singaporean contractors were keen to find out more about the benefits these FTAs can bring to the construction industry.

As it was apparent that many Singaporean contractors were interested in the FTA negotiations with China and India, it would be strategic if future studies can be made to examine the potential impact of these two FTAs on the local construction industry in Singapore.

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Table 1 Dates of entry and review for selected FTAs

	ANZSCEP	ESFTA	JSEPA	SAFTA	USSFTA
Entry into force	1 Jan 2001	1 Jan 2003	30 Nov 2002	28 Jul 2003	1 Jan 2004
Date of review	Biannual	2005	Annual review	After 1 year of entry into force	After 1 year of entry into force
	November 2001 and (End 2003)	Every 2 years thereafter	(End 2003)		

Table 2 Commitments of selected FTA in construction related sectors

	ANZSCEP	JSEPA	EFTA	SAFTA	USSFTA
Architectural	Yes	Yes	Yes	Yes	Yes
Engineering	Yes	Yes	Yes except in Switzerland	Yes	Yes
Urban Planning	Yes	Yes	Yes	Yes	Yes
Integrated Engineering	Yes	Yes	Yes	Yes	Yes
Land Surveying	No	Yes	No	Yes	Yes
Construction (General)	Yes	Yes except mining	Yes except in Liechtenstein and Elevators in Switzerland	Yes	Yes
Real Estate	Yes	Yes	No in Liechtenstein, Deposit Insurance in Iceland; Yes in Norway and Switzerland	Yes	Yes

Table 3 Barriers when exporting overseas

Difficulties/Barriers	Number of respondents	Percentage %
Market access restriction imposed by host government	7	28
Discriminatory practices of host government which favor local companies	20	80
Excessive licensing fees	15	60
Entry and extended stay for business personnel	5	20

(Based on 25 firms with experience in exporting construction services)

Table 4 Factors affecting exports

Factors when exporting construction services	Number of respondents	Percentage %
Social/cultural differences	0	0
Language barrier	10	28.5
Political and legal considerations	30	85.7
Economic situation of the country	34	97.1
Safety and security of the country	5	14.3
Construction technology of the country	20	57.1

Table 5 Awareness of FTAs

	Not Aware 1	2	Aware 3	4	Fully Aware 5
Awareness of FTAs	-	17.1%	34.3%	28.6%	20.0%

Table 6 Knowledge of construction industry benefits in FTAs

	Not Aware 1	2	Aware 3	4	Fully Aware 5
Awareness of benefits that FTAs bring to the construction industry	20.0%	71.4%	5.7%	2.9%	-

Table 7 Knowledge versus export volume

Contractors	Export Volume	Rank of Knowledge of FTA
Contractor X	> S\$ 10,000,000	1
Contractor Y	< S\$ 500,000	4

Table 8 Significance of FTAs to the construction industry

	Least significan t 1	2	3	4	Most significant 5
Significance of FTAs to the construction industry	2.8%	74.3%	22.9%	-	-

*We are what we repeatedly do.  
 Excellence, then, is not an act, but a habit.*

**ARISTOTLE**

## Humility + Will = Level 5

### LEVEL 5 LEADERSHIP KEY POINTS

- Every good-to-great company had Level 5 leadership during the pivotal transition years.
- “Level 5” refers to a five-level hierarchy of executive capabilities, with Level 5 at the top. Level 5 leaders embody a paradoxical mix of personal humility and professional will. They are ambitious, to be sure, but ambitious first and foremost for the company, not themselves.
- Level 5 leaders set up their successors for even greater success in the next generation, whereas egocentric Level 4 leaders often set up their successors for failure.
- Level 5 leaders display a compelling modesty, are self-effacing and understated. In contrast, two thirds of the comparison companies had leaders with gargantuan personal egos that contributed to the demise or continued mediocrity of the company.
- Level 5 leaders are fanatically driven, infected with an incurable need to produce sustained *results*. They are resolved to do whatever it takes to make the company great, no matter how big or hard the decisions.
- Level 5 leaders display a workmanlike diligence – more plow horse than show horse.
- Level 5 leaders look out the window to attribute success to factors other than themselves. When things go poorly, however, they look in the mirror and blame themselves, taking full responsibility. The comparison CEOs often did just the opposite – they looked in the mirror to take credit for success, but out the window to assign blame for disappointing results.
- One of the most damaging trends in recent history is the tendency (especially by boards of directors) to select dazzling, celebrity leaders and to de-select potential Level 5 leaders.
- I believe that potential Level 5 leaders exist all around us, if we just know what to look for, and that many people have the potential to evolve into Level 5.

**Jim Collins**