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# United States Employment Impact Review of the U.S.-Singapore Free Trade Agreement

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# United States Employment Impact Review of the U.S.-Singapore Free Trade Agreement

## **Abstract**

[Excerpt] This employment impact review is the first-ever U.S. employment impact review of a new U.S. trade agreement prepared pursuant to section 2102(c)(5) of the Trade Act of 2002 which requires the President to review and report to the Congress on the impact of future trade agreements on U.S. employment, including labor markets. This review presents an overview of the employment impact review process, the background and contents of the U.S-Singapore Free Trade Agreement (FTA), and assessments of the potential economic and employment effects of the FTA. In addition, the review considers four selected issues related to the FTA that are relevant to employment and labor markets in the United States: the labor provisions of the FTA; the investment provisions in the FTA; the temporary entry provisions for business persons in the FTA; and trade adjustment assistance (TAA) and other federal programs to assist U.S. workers who may be displaced by international trade. The Trade Act of 2002 not only included the Trade Promotion Authority (TPA) but also renewed the TAA program and greatly expanded and enhanced the coverage, benefits, and services available to workers certified under the program.

## **Keywords**

U.S.-Singapore Free Trade Agreement, labor provisions, employment, labor markets

## **Comments**

### **Suggested Citation**

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# United States Employment Impact Review of the U.S.-Singapore Free Trade Agreement

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## EXECUTIVE SUMMARY

This employment impact review is the first-ever U.S. employment impact review of a new U.S. trade agreement prepared pursuant to section 2102(c)(5) of the Trade Act of 2002 which requires the President to review and report to the Congress on the impact of future trade agreements on U.S. employment, including labor markets. This review presents an overview of the employment impact review process, the background and contents of the U.S-Singapore Free Trade Agreement (FTA), and assessments of the potential economic and employment effects of the FTA. In addition, the review considers four selected issues related to the FTA that are relevant to employment and labor markets in the United States: the labor provisions of the FTA; the investment provisions in the FTA; the temporary entry provisions for business persons in the FTA; and trade adjustment assistance (TAA) and other federal programs to assist U.S. workers who may be displaced by international trade. The Trade Act of 2002 not only included the Trade Promotion Authority (TPA) but also renewed the TAA program and greatly expanded and enhanced the coverage, benefits, and services available to workers certified under the program.

The major finding of this review is, given the current volume, composition, and structure of bilateral trade between Singapore and the United States, the U.S.-Singapore FTA is not expected to have any significant effects on employment in the United States. The absence of any significant domestic employment effects from the FTA is attributable to, among other factors, substantial amounts (85 percent) of imports from Singapore already enter the United States duty free, the gradual removal over a 10-year period of the remaining U.S. tariffs on imports from Singapore, and safeguards for increases in imports that may cause serious injury to a domestic industry.

As Singapore's markets become more open to U.S. goods and services with the introduction of the U.S.-Singapore FTA, and U.S. goods become more competitive in the Singaporean market, it is expected that U.S. services and merchandise exports to Singapore will increase. This especially ought to be the case for the current leading U.S. merchandise exporters and service providers to Singapore in areas such as capital and industrial goods, including aircraft, computers, machinery and equipment, chemicals, and measuring instruments, and financial and other business related services, including banking, financial services, and insurance. New U.S. export opportunities may also arise in the areas of agriculture, manufacturing, and services as the Singaporean market—though relatively small—becomes more open. U.S. imports from Singapore are also expected to increase as the result of the FTA, especially in products such as wearing apparel, chemicals, prepared foods, jewelry, machinery, computers and electronic equipment, electrical motors and appliances, and scientific instruments.

## **I. Introduction: Overview of the Employment Impact Review Process**

### **A. Scope and Outline of the Employment Review**

This employment impact review consists of three additional parts. Part II discusses the background and contents of the U.S.-Singapore FTA, including the bilateral economic setting, current barriers to bilateral trade, and the major elements of the FTA. Part III considers the potential economic and employment effects of the FTA, with special emphasis on industrial employment and occupational labor markets in the United States. Part IV considers four special issues related to the FTA that are relevant to employment and labor markets in the United States and have been raised by the public in the context of the FTA negotiations: (1) the labor provisions of the FTA, including a labor cooperation mechanism; (2) the investment provisions in the FTA and their implications for employment in the United States; (3) the temporary entry provisions for business persons in the FTA; and (4) the availability of trade adjustment assistance and other federal programs to assist U.S. workers that may be displaced by increased imports or companies transferring their production overseas.

### **B. Legislative Mandate**

This review of the employment impact of the U.S.-Singapore FTA has been prepared pursuant to section 2102(c)(5) of the Trade Act of 2002 (“Trade Act”) (Pub. L. No. 107-210). Section 2102(c)(5) provides that the President shall:

review the impact of future trade agreements on United States employment, including labor markets, modeled after Executive Order 13141 to the extent appropriate in establishing procedures and criteria, report to the Committee on Ways and Means of the House of Representatives and the Committee on Finance of the Senate on such review, and make that report available to the public.

The President, by Executive Order 13277 (67 *Fed. Reg.* 70305), assigned the responsibility of conducting reviews under section 2102(c)(5) to the United States Trade Representative (USTR), who delegated such responsibility to the Secretary of Labor with the requirement that reviews be coordinated through the Trade Policy Staff Committee (67 *Fed. Reg.* 71606).

The employment impact review is modeled, to the extent appropriate, after Executive Order 13141; the guidelines developed for the implementation of that order provided guidance for the development of procedures and the determination of the scope of this employment review.<sup>1</sup> Because of the short time frame between the completion of the negotiation of the U.S.-Singapore FTA and the submission due date of the employment impact review, there was not sufficient time to seek public comments on a draft review. The U.S. Department of Labor and USTR would welcome comments on the organization, content, and usefulness of this review that would lead to improvements in the employment impact reviews of future trade agreements.

## C. Public Outreach and Comments

### 1. Responses to Federal Register Notice

The U.S. Department of Labor and USTR jointly issued a notice on October 21, 2002 in the *Federal Register* announcing the initiation of a review of the potential impact on U.S. employment of the proposed U.S.-Singapore FTA, including the effects on domestic labor markets, and requesting written public comment on the review and the provision of information on potentially significant sectoral or regional employment impacts (both positive and negative) in the United States as well as other likely labor market effects of the FTA.<sup>2</sup>

Four submissions were received in response to the notice:

(i) The Rubber and Plastic Footwear Manufacturers Association (RPFMA), representing domestic manufacturers of fabric-upper, rubber-soled footwear and protective footwear, noted that the impact on domestic employment of the FTA can only be adverse since there are not likely to be increases in U.S. exports of footwear to Singapore as the result of the FTA and that the phase-out of U.S. tariffs on these products should be done over a 15-year period.

(ii) The American Apparel & Footwear Association (AAFA), a national association of apparel and footwear industries, argued the employment impacts of the FTA in the industrial sectors it represents will be negligible because Singapore is a very small supplier of apparel and footwear to the U.S. market, Singapore represents a small market for U.S. apparel and footwear, and given the already high level of import penetration in the U.S. market any further growth in apparel and footwear imports is likely to come at the expense of other foreign suppliers rather than displacing U.S. production and employment.

(iii) The American Yarn Spinners Association, a national trade association representing the yarn put-up-for-sale manufacturing industry, observed that Singapore is not competitive with other Asian countries in yarn production and would likely source yarn and fibers for apparel production from Asian sources rather than U.S. firms (i.e., they did not anticipate any significant export opportunities resulting from the FTA). The Association argued further that preferences under the FTA should be available only for apparel goods made completely of U.S. or Singaporean yarns (i.e., not yarns from a third country), claiming that without such a requirement domestic apparel jobs would be jeopardized by imports of finished apparel using third-country-sourced yarn or fibers as well as employment in domestic yarn mills to the extent that the use of third-country-sourced yarn displaces domestic customers for U.S. made yarn.

(iv) The American Dehydrated Onion and Garlic Association argued duty-free treatment of dehydrated onion and garlic from Singapore constituted an unacceptable risk of transshipments of lower-than-fair-value products from China

that would severely affect employment opportunities within the U.S. dehydrated onion and garlic industry and U.S. tariffs on these products should be phased-out over a 15-25 year period.

2. *Reports of the Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) and Other Advisory Committees*

Section 2104(e) of the Trade Act requires that advisory committees provide the President, USTR, and Congress with reports under Section 135(e)(1) of the Trade Act of 1974, as amended, not later than 30 days after the President notifies Congress of his intent to enter into an agreement. The advisory committee reports are available on the USTR web site at: [http://www.ustr.gov/new/fta/Singapore/advisor\\_reports.htm](http://www.ustr.gov/new/fta/Singapore/advisor_reports.htm).

The Advisory Committee on Trade Policy and Negotiations (ACTPN) and the other 29 trade advisory committees virtually all expressed the view that the U.S.-Singapore FTA is in the economic interests of the United States and stated their support for the FTA. The findings of a majority of the ACTPN found that the FTA will “substantially improve market access for American farm products, industrial and other non-agricultural goods, and services;” a labor representative on the ACTPN dissented from the positive views of other ACTPN members. The Industry Sector Advisory Committees (ISACs) on Capital Goods (ISAC-2) and on Transportation, Construction, and Agricultural Equipment (ISAC-16), in particular, commented that the FTA would benefit the exports of their respective industries. ISAC-13 (Services) noted that the temporary entry provisions in the FTA are constructive. The ACTPN and a number of other trade advisory committees also indicated that the investment provisions of the FTA are especially noteworthy as they significantly improve the opportunities and conditions for U.S. investments in Singapore.

The Labor Advisory Committee for Trade Negotiations and Trade Policy (LAC) submitted its report to the President on February 28, 2003. Contrary to the 30 other advisory committees, the LAC argued in its report that the FTA will lead to a deteriorating trade balance and lost jobs, citing their views of NAFTA and the establishment of permanent normal trade relations with China. They noted that Singapore’s tariffs on U.S. exports are already zero and claimed that the main focus of the FTA was on removing obstacles to increased U.S. investment in Singapore at the expense of the United States, with a consequent loss of U.S. jobs.<sup>3</sup> [This issue is addressed in section IV.B of this review.]

The LAC was also critical of the FTA’s labor provisions that commit the Parties to enforce their own labor laws without any enforceable obligation for those laws to meet international standards as defined by the ILO. The LAC interpreted the FTA’s dispute resolution procedure as providing for longer timelines and lower penalties for violations of the Labor Chapter than for other violations and that requiring financial penalties be used to improve labor standards reduced their punitive value. [These issues are discussed in section IV.A of this review.] The LAC also opined that FTA provisions on the temporary entry of professionals erode basic protections for U.S. workers in the domestic labor market, and that the FTA provisions on investment, procurement, and services

would constrain the ability of the U.S. government to regulate in the public interest and provide public services. [These issues are addressed in section IV.C of this review.]

## II. Background and Contents of the FTA

### A. Bilateral Economic Setting

#### 1. *Population and the Economy*

Singapore's population is 4.2 million, 1.4 percent of that of the United States, and its land size is only 3.5 times that of Washington, DC. Singapore is a small city-state, and approximately 19 percent of its population are foreigners (mainly migrant workers and professionals). Located amid one of the world's busiest shipping lanes, its economy is heavily dependent on both imports and exports. Singapore's total imports and exports exceed its GDP. In 2002, Singapore's GDP totaled \$92.3 billion (at current market prices)—about one percent of the U.S. GDP of \$10.4 trillion, while its total goods trade (exports plus imports) was \$241.4 billion. Singapore's GDP growth rate has decelerated from the high annual rates seen from 1965-1997, in part due to regional and global economic effects, but also due to the maturation of Singapore into a developed economy. In 2001, real GDP declined 2 percent, but recovered in 2002 to show positive growth of 2.2 percent. Singapore's labor force of approximately 2.1 million in 2002 is roughly 1.5 percent of that of the United States. Singapore's gross national income (GNI) per capita in 2001 was \$21,500, which was just between that of Italy (\$19,390) and Canada (\$21,930) and approximately 63 percent of that of the United States (\$34,280).<sup>4</sup>

#### 2. *Labor Force*

##### a. U.S. Labor Force

In 2002, the U.S. labor force totaled 145 million workers. The service-producing industries, also known as the service sector, are the major source of employment in the United States. In 2002, service-producing industries accounted for 77 percent of total U.S. employment; within this group, services, including personal, private, business, and other services, accounted for 38 percent of total U.S. employment and wholesale and retail trade accounted for 21 percent. Other major sectors of employment include manufacturing which accounted for 13 percent of total U.S. employment, mining and construction which accounted for about 7 percent and agriculture which accounted for slightly over 2 percent.<sup>5</sup> On an occupational basis, approximately 31 percent of all the employed persons were in either managerial professions (15 percent of total employment) or professional specialty occupations (16 percent of total employment); other major occupational categories of U.S. employment were technical, sales, and administrative support occupations (29 percent of total employment) and service occupations (14 percent of total employment). On the industrial basis used for cross-country analysis,<sup>6</sup> U.S. employment in 2000 was distributed across industrial sectors as follows: 2 percent in the agricultural sector,<sup>7</sup> 22 percent in industry,<sup>8</sup> and 75 percent in the service sector.<sup>9</sup> Nearly 47 percent (67.4 million) of the civilian U.S. labor force in 2002 was female.<sup>10</sup>

The annual average unemployment rate in the United States was 5.8 percent for 2002, an increase over its recent low point of 3.8 percent in April 2000.<sup>11</sup> The majority of the U.S.

unemployed in 2002, as is typical, included job losers and those who had completed temporary jobs (55 percent). Reentrants to the labor force made up 28 percent of the unemployed in 2002, new entrants represented 6 percent, and job leavers accounted for 10 percent. From an industry standpoint, job losses during 2002 were in mining, construction, manufacturing, retail trade, and transportation. These losses were countered in part by an increase in jobs in the services and government industries.<sup>12</sup>

Education appears to have been a favorable influence on finding and keeping a job. Of workers 25 years or older, 10 percent of the employed had less than a secondary degree, 31 percent had finished secondary schooling, 27 percent had some tertiary schooling, and 32 percent had a college degree in 2002.<sup>13</sup> Of the unemployed in 2002, 19 percent had not completed secondary school, 35 percent had completed secondary schooling, 27 percent had attended some college (including those receiving an associate degree), and 20 percent had a college degree.<sup>14</sup>

In 2002, business sector labor productivity rose 4.8 percent, a sharp increase from the 1.1 percent annual average labor productivity growth in 2001.<sup>15</sup> Overall, labor productivity in manufacturing increased 4.5 percent on average in 2002, compared to labor productivity increases for durable goods and nondurable goods within the manufacturing sector of 5.6 percent and 2.8 percent, respectively.<sup>16</sup> Between 1990 and 2000, labor productivity increased in 111 of the 119 industries in the manufacturing sector.<sup>17</sup>

On average, U.S. workers worked 39.2 hours per week during 2002; the average full-time worker put in 42.9 hours per week. Persons working in agriculture reported more work hours per week, 41.1 hours on average (46.8 hours for full-time workers), than those in nonagricultural industries, 39.1 hours per week (42.8 hours for full-time workers).

#### b. Singapore's Labor Force

Singapore's labor force was comprised of approximately 2.1 million workers in June 2002.<sup>18</sup> The major sectors of employment in Singapore in 2002 were: community, social and personal services (26 percent); manufacturing (18 percent); wholesale and retail trade (21 percent); business and financial services (17 percent); and transport, storage and communications (11 percent). The top occupational groups in 2002 were: production craftsmen, operators, cleaners and laborers (30 percent); professionals and managers (25 percent); technicians and associate professionals (17 percent); clerical workers (13 percent); and service and sales workers (11 percent).<sup>19</sup> In 2002, female workers made up 44 percent of the total Singaporean labor force.<sup>20</sup> The female labor force was composed of 927 thousand workers, and had an employment rate of 95 percent.

Unemployment in Singapore reached a high of 4.6 percent in September 2002, but fell back to 4.2 percent by the end of the year. Job losses have come mainly in the manufacturing sector.<sup>21</sup> The top occupational categories of the unemployed in 2002 were: production craftsmen, operators, cleaners and laborers (23 percent); service and sales workers (16 percent); clerical workers (16 percent); professionals and managers (13 percent); and technicians and associated professionals (12 percent).<sup>22</sup>

The Singapore Ministry of Manpower estimates that labor productivity decreased by 5.4 percent in 2001.<sup>23</sup> Standard hours worked were 42.6 per week in 2001, and average weekly overtime hours were 3.6. In 2001, 38 percent of the labor force had a post-secondary education, 42 percent had completed secondary or lower secondary schooling, and 20 percent had a primary school or lower education.<sup>24</sup> About 33 percent of the economically active residents between the ages of 15 and 64 years were engaged in “job-related structured training” over the 12-month period ending June 2001.

### 3. *International Trade in Goods*

#### a. Global and Bilateral Trade

Trade in goods represented 18 percent of U.S. GDP in 2001. U.S. goods trade with the world amounted to \$1.8 trillion (\$666.0 billion exports and \$1,132.6 billion imports) in 2001. Based on available statistics from the World Trade Organization (WTO), the United States was the world’s number one exporter and number one importer in 2000.<sup>25</sup>

Singapore’s trade in goods (excluding re-exports) represented 167 percent of its GDP in 2000, while its trade in goods and services represented 220 percent of its GDP. During 2001, Singapore’s total goods trade with the world amounted to \$237.1 billion (\$121.5 billion exports and \$115.6 billion imports). Singapore is a regional hub for Asian trade, with almost 43 percent of its total exports consisting of re-exports of products from other countries. In 2000, its total exports to the world totaled \$137.9 billion, while exports of Singaporean domestic products totaled only \$78.9 billion. Similarly, total imports measured \$134.5 billion in 2000, while imports for Singapore’s domestic consumption measured \$75.6 billion. Based on available statistics from the WTO, Singapore was the world’s 22<sup>nd</sup> largest exporter and the 18<sup>th</sup> largest importer in 2000.<sup>26</sup>

U.S. bilateral goods trade with Singapore represented 2.4 percent (\$15.8 billion) of overall U.S. exports to the world and 1.3 percent (\$14.9 billion) of overall U.S. imports from the world in 2001. Singapore ranked as the 11<sup>th</sup> largest U.S. export market and the 13<sup>th</sup> largest source for U.S. goods imports in 2001. In contrast, the United States was Singapore’s second largest export partner and second largest import supplier in 2001, accounting for 15 percent of Singapore’s total exports and 17 percent of Singapore’s total imports. Between 1997 and 2001, U.S. exports to Singapore have increased by less than one percent while imports from Singapore have decreased by over 25 percent. The U.S. goods trade surplus with Singapore was \$.9 billion in 2001, a \$4.0 billion swing from the \$3.1 billion trade deficit in 2000.

In 2002, Singapore ranked as the 11<sup>th</sup> largest U.S. export market and the 16<sup>th</sup> largest source for U.S. goods imports. U.S. goods exports to Singapore amounted to \$14.7 billion in 2002 and U.S. goods imports from Singapore were \$14.1 billion. The U.S. goods trade surplus with Singapore was \$.6 billion in 2002, down slightly from 2001.

#### b. U.S. Merchandise Exports to Singapore

U.S. goods exports to Singapore amounted to \$15.8 billion in 2001. Almost 71 percent were accounted for by the top-10 3-digit export-based Standard Industry Classification (SIC) industries covering a variety of manufactured products, including: aircraft; electronic components and machinery; office machines; construction, industrial, and mining machinery and equipment; measuring instruments; and petroleum products (See Table 1).<sup>27</sup>

**Table 1: Top-10 SIC-based U.S. Exports to Singapore in 2001**

U.S. Export Industry	SIC Code	Value of U.S. Exports to Singapore (\$mil.)	Percent of	
			Total U.S. Industry Exports	All U.S. Exports to Singapore
Aircraft and Parts, not specifically provided for	372	4,118	7.4	26.1
Electronic Components and Accessories	367	2,175	4.5	13.8
Office, Computing, and Accounting Machines	357	1,409	3.7	8.9
Construction, Mining, and Materials Handling Machines	353	694	4.4	4.4
Instruments for Measuring Non-electric Quantities	382	672	3.3	4.3
Petroleum Refinery Products	291	475	6.3	3.0
General Industrial Machines and Equipment	356	417	2.8	2.6
Electrical Machinery	369	412	5.2	2.6
Special Industry Machines, not specifically provided for	355	386	4.5	2.4
Manufactured Commodities Not Identified by Kind	3XX	386	2.0	2.4

Source: U.S. Department of Labor tabulations of official U.S. trade data from the U.S. Department of Commerce, Bureau of the Census.

Viewed from the vantage point of Singapore's published statistics which include re-exports, during 2000 Singapore imported more than \$500 million from the United States in each of several 2-digit Standard International Trade Classification (SITC) product categories; these imports of U.S. goods accounted for more than 10 percent of Singapore's imports for: Electrical Machinery (\$5.9 billion; 15 percent); Office Machines (\$2.3 billion; 14 percent); Specialized Machinery (\$2.0 billion; 36 percent); Scientific Instruments (\$1.5 billion; 44 percent); Miscellaneous Manufactures (\$988 million; 26 percent); Transport Equipment (\$867 million; 46 percent); General Industrial Machinery (\$775 million; 18 percent); Chemical Materials (\$566 million; 39 percent); and Power Generating Machinery (\$521 million; 21 percent).

c. U.S. Merchandise Imports from Singapore

U.S. goods imports from Singapore amounted to \$14.9 billion in 2001. Almost 90 percent were accounted for by the top-10 3-digit import-based SIC industries covering a variety of manufactured products including computer and office machines, electronic components, drugs, medical instruments, radios and TVs, measuring devices, communications equipment, petroleum products, and industrial organic chemicals (See Table 2).

**Table 2: Top-10 SIC-based U.S. Imports from Singapore in 2001**

U.S. Import Industry	SIC Code	Value of U.S. Imports from Singapore (\$mil.)	Percent of	
			Total U.S. Industry Imports	All U.S. Imports from Singapore
Computer and Office Equipment	357	7,942	10.6	53.3
Electronic Components	367	2,108	4.4	14.1
U.S. Goods Returned	980	994	2.9	6.7
Drugs	283	672	2.0	4.5
Medical and Dental Instruments	384	420	3.5	2.8
Radio/TV Sets; Phonographs	365	332	1.4	2.2
Measuring and Controlling Devices	382	289	1.9	1.9
Communication Equipment	366	287	0.8	1.9
Petroleum Refinery Products	291	187	0.5	1.3
Industrial Organic Chemicals	286	158	1.0	1.1

Source: U.S. Department of Labor tabulations of official U.S. trade data from the U.S. Department of Commerce, Bureau of the Census.

Several items, not in the top-10, imported from Singapore that accounted for more than one percent of total U.S. imports of the item in 2001 include the following SIC-based import groups: Aircraft and Nautical Instruments—SIC 381 (\$31 million; 2 percent); Ship Repair—SIC 373 (\$22 million; 2 percent); and Manifold Business Forms—SIC 276 (\$71 thousand; 1 percent).

Again, viewed from the vantage point of Singapore's statistics which include re-exports, during 2000 the United States imported more than \$250 million in goods from Singapore in each of several 2-digit SITC sectors including: (also provided is the U.S. percentage of Singapore exports of each category): Office Machines (\$10.7 billion; 35 percent); Electrical Machinery (\$7.3 billion; 17 percent); Telecommunications Equipment (\$1.2 billion; 15 percent); Apparel (\$1.0 billion; 57 percent); Scientific Instruments (\$611 million; 30 percent); Miscellaneous Manufactures (\$389 million; 8 percent); Organic Chemicals (\$344 million; 11 percent); Petroleum Products (\$323 million; 3 percent); Transportation Equipment (\$265 million; 19 percent); and General Industrial Machinery (\$251 million; 9 percent).

#### 4. *International Trade in Services*

U.S. exports of private commercial services (i.e., excluding military and government) to Singapore were \$4.1 billion out of total U.S. services exports of \$266 billion in 2001 (about 1.5 percent of total U.S. services exports), and U.S. services imports from Singapore were \$2.0 billion out of the total U.S. imports of \$192 billion (about 1.0 percent of total U.S. services imports).

U.S. exports of services to Singapore in 2001 consisted of \$314 million in travel (or about 8 percent of U.S. services exports to Singapore), \$68 million in passenger fares (about 2 percent), \$601 million in transportation (about 15 percent), \$923 million in royalties (about 23 percent), and \$2,175 million of other private services (about 53 percent). U.S. imports of services from Singapore in 2001 consisted of \$423 million in travel (or about 21 percent of U.S. services imports from Singapore), \$171 million in passenger fares (about 9 percent), \$792 million in transportation (about 39 percent), \$52

million in royalties (about 3 percent), and \$572 million in other private services (about 28 percent).

Sales of services in Singapore by majority U.S.-owned affiliates were \$5.4 billion in 2000, while sales of services in the United States by majority Singapore-owned firms were \$979 million.

## 5. *Foreign Direct Investment*

Net inflows of foreign direct investment (FDI) in 2000 accounted for 22 percent of Singapore's gross capital formation and 7 percent of GDP. FDI accounts for 70 percent of total investment in the manufacturing sector.<sup>28</sup> The stock of U.S. foreign direct investment in Singapore was \$27.3 billion in 2001. U.S. FDI in Singapore is concentrated largely manufacturing (notably industrial machinery, semiconductors and other electronics, and pharmaceuticals), petroleum, and financial service sectors.<sup>29</sup>

The stock of Singapore's FDI in the United States was \$6.5 billion in 2001, down slightly from \$7.8 billion in 2000, but up considerably from \$2.6 billion in 1997, \$1.8 billion in 1998, and \$1.4 billion in 1999.<sup>30</sup>

## B. **Current Barriers to Bilateral Trade**

### 1. *Trade in Goods*

Virtually all of Singapore's imports enter duty free except for four tariff lines involving alcoholic products. Singapore does levy excise taxes on a number of products (most of which are not produced domestically) including motor vehicles, tobacco products, alcohol products, gasoline, and motor oil. Singapore has no restrictions or duties on imports of textiles and apparel. Although Singapore's current applied tariffs are zero for most products, its average WTO bound duty rate (which only covers 71 percent of its tariffs) was 9.7 percent in 1999 and is projected to decline to 6.9 percent in 2005.

Of the \$14.9 billion of U.S. merchandise imports from Singapore in 2001, \$12.6 billion (85 percent) entered normal trade relations (NTR) duty free. Of the remaining \$2.3 billion that was subject to duty, \$833 million entered duty-free under either the Harmonized Tariff System (HTS) 9802 program (\$10.6 million) or other special tariff provisions (\$822.4 million).<sup>31</sup> Of the \$1.4 billion (10 percent) that was actually assessed duties, the average *ad valorem* duty rate was 6.7 percent. Over \$235 million of these dutiable imports were subject to an *ad valorem* duty rate of less than or equal to one percent. Another \$299 million was assessed duties between one and two percent, \$353 million between two and five percent, \$164 million at between 5 and 10 percent, \$185 million at between 10 and 20 percent, \$52 million between 20 and 30 percent, and \$65 million above 30 percent.<sup>32</sup> Total estimated annual tariff revenue collected by the United States on imports from Singapore was \$96.5 million, which was about 0.5 percent of total

U.S. tariff revenues in 2001.

2. *Trade in Services, Investment, and Temporary Entry of Business Persons Related to these Activities*

Singapore has a generally open investment regime, and no overarching screening process for foreign investment.<sup>33</sup> Singapore does maintain limits on foreign investment in broadcasting, the news media, domestic retail, banking, property ownership, and in some government-linked companies. There are no restrictions on reinvestment or repatriation of earnings and capital. In the service sector, Singapore maintains restrictions in several sectors. For example, the local free-to-air broadcasting, cable and newspaper sectors are effectively closed to foreign firms; in the professional services—law, architecture, engineering, and accounting—Singapore maintains certification and registration requirements not unlike those required to practice these professions in the United States. In addition, foreign law firms with offices in Singapore are unable to practice Singapore law, cannot employ Singapore lawyers to practice Singapore law, and cannot litigate in local courts. There are also restrictions on engineering and architectural services as well as on accounting and tax services. Foreign banks in the domestic retail banking sector face significant restrictions and are not accorded national treatment. There are also restrictions on offshore banking and Singapore dollar lending.

The U.S. services and investment regimes are open.<sup>34</sup> Such restrictions as exist are fully consistent with international obligations under the WTO and bilateral and multilateral agreements. Cabotage laws reserve domestic routes to U.S. operators and U.S.-flag vessels. The United States restricts foreign ownership and control of U.S. air transport carriers, and the provision of domestic air service is restricted to U.S. carriers. The United States also restricts foreign investment in telecommunications, radio broadcast, atomic energy, and energy pipelines. Insurance is subject to sub-federal regulation at the state level, which frequently limits competition from other U.S. states and foreign providers, unless they establish a commercial presence in the state. Professional services are similarly regulated by the states. Finally, under the Exon-Florio Amendment to the Defense Production Act, the President has the authority to suspend or prohibit foreign mergers, acquisitions, and takeovers, where there is credible information of a threat to national security.

Temporary entry of business persons is an important counterpart to the facilitation of trade in goods and services and investment. Separate from the question of professional licenses or accreditation, the degree to which these persons can enter another country can affect the ability of firms and persons to carry out activities that are important to trade in goods or services or the conduct of investment.

Singapore's existing temporary entry system includes three tiers: the worker pass (WP), the employment pass (EP), and the social visit pass (SVP). Unskilled and semi-skilled workers are admitted by means of the worker pass (WP). The social visit pass (SVP) is available for short-term visits (less than 90 days) during which the entrant is not permitted to work within the domestic economy. Persons entering for longer periods of

time and/or in order to work under an employment contract in Singapore must obtain an employment pass (EP). The EP is issued for up to 2 years, but may be renewed in increments of up to 3 years if the individual continues to work for the same employer. A new EP is required when changing employers in Singapore. Neither SVP nor EP entries are numerically capped.

Under the U.S. temporary admission system, applicants are only admitted for specific types of activities, and must be fully qualified to engage in those activities at the time of entry. For the temporary entry categories of traders or investors (E-1, E-2 visas), intra-company transferees (L-1), and professionals (H-1B), work authorization is issued along with the grant of temporary entry. However, traders and investors are only admitted from countries that have entered into treaties of commerce and navigation with the United States. The United States does not numerically limit entries of business visitors (B-1), traders or investors, or intra-company transferees, but it does impose a worldwide limitation on professional entries under its H-1B visa program. Singaporean professionals desiring to enter the United States have had to compete with other foreign nationals for entry under this program.

### **C. Major Elements of the FTA**

The U.S.-Singapore FTA consists of 21 chapters and associated annexes: Establishment of a Free Trade Area (including a preamble) and Definitions; National Treatment and Market Access for Goods; Rules of Origin; Customs Administration; Textiles; Technical Barriers to Trade; Safeguards; Cross Border Trade in Services; Telecommunications; Financial Services; Temporary Entry of Business Persons; Competition Policy; Government Procurement; Electronic Commerce; Investment; Intellectual Property; Labor; Environment; Transparency; Administrative and Institutional Arrangements (including dispute settlement procedures); and General Provisions (including general exceptions). The complete text of the FTA and summary fact sheets are available on USTR's web site at <http://www.ustr.gov>.

Following is a summary of the FTA provisions that are most relevant to this employment impact review.

- *Preamble (Chapter 1)*

Although it does not create specific obligations, the Preamble to the FTA (contained in Chapter 1) frames the FTA's obligations and sets out the broad aims and objectives of the Agreement. The Preamble recognizes that liberalized trade in goods and services will assist the expansion of trade and investment flows, raise standards of living, and create new employment opportunities in the two countries.

- *National Treatment and Market Access for Goods (Chapter 2)*

The FTA market access provisions set out the schedules for the elimination of tariffs on goods originating in the two countries. Most tariffs will be eliminated immediately, with

remaining tariffs phased out over three to ten years. For the United States, the import sensitivity of goods is generally reflected in the tariff phase-out schedules.

- *Rules of Origin, Customs Administration and Enforcement Cooperation Regarding Import and Export Restrictions (Chapters 3 and 4)*

The FTA provides clear, simple, and enforceable rules of origin to ensure that only eligible products from the FTA Parties receive preferential treatment. Certain non-sensitive information technology products that already enter MFN duty-free into each Party's territory, such as lower-end information and communications components, are considered to be products of the Parties when exported to the other Party even if they are not manufactured in a Party's territory. The FTA requires transparency and efficiency in customs administration, with commitments on publishing laws and regulations on the Internet, and ensuring procedural certainty and fairness. Both Parties agree to share information to combat illegal transshipment of goods.

- *Textiles (Chapter 5) and Market Access for Textiles (Chapter 2)*

Chapter 5, Textiles and Apparel, establishes extensive monitoring and anti-circumvention commitments—such as reporting, licensing, and unannounced factory checks—to assure that only Singaporean-originating textiles and apparel receive tariff preferences. In addition, the chapter contains provisions for Bilateral Textile and Apparel Safeguard Actions under which emergency measures may be taken on textile or apparel imports causing serious damage during a 10-year transition period.

The market access provisions in Chapter 2 establish that textile and apparel will be admitted duty-free immediately if they meet the FTA's rule of origin. The rule of origin, a "yarn-forward" rule, requires that an apparel item be made from yarn or fabric manufactured in Singapore or the United States to benefit from duty-free admission. There are some departures from this rule that allow a limited yearly amount of textiles and apparel containing non-U.S. or non-Singaporean yarns, fibers, or fabrics to qualify for duty-free treatment.

- *Technical Barriers to Trade (Chapter 6)*

The FTA includes an enhanced co-operation program to exchange information on subjects covered by the WTO Agreement on Technical Barriers to Trade (WTO TBT Agreement), which addresses technical regulations, standards, and conformity assessment procedures. The FTA does not contain any additional obligations beyond those contained in the WTO TBT Agreement.

- *Government Procurement (Chapter 13)*

The FTA's Government Procurement Chapter builds on the existing commitments in the WTO Government Procurement Agreement (GPA), which ensures non-discrimination, transparency, predictability, and accountability in the government procurement process

and provides appropriate reciprocal, competitive government procurement opportunities to U.S. suppliers in Singapore's government procurement market. The chapter on government procurement provides additional coverage to the WTO GPA Agreement, in particular in the area of government owned/controlled entities. The chapter also contains exceptions for non-discriminatory measures necessary to protect human, animal or plant life or health.

- *Safeguards (Chapter 7)*

The FTA Safeguards Chapter allows a Party to restore the MFN duty if a product is being imported in such increased quantities so as to be a substantial cause of serious injury or threat thereof to a domestic producer of a like or directly competitive product. A safeguard action may be taken only during the 10-year transition period and generally not be in place for longer than 2 years. The Party taking the action must provide compensation or be subject to withdrawal of substantially equivalent concessions by the other Party. The Parties' WTO rights are reserved. A Party taking a global safeguard action may exclude the imports of the other Party if such imports are not a substantial cause of injury.

- *Services (Chapter 8 and related provisions)*

The FTA's core commitments regarding services are modeled on obligations and concepts in the WTO General Agreement on Trade in Services (GATS), the North American Free Trade Agreement (NAFTA), and other FTAs to which the United States is a Party. These include provision for national treatment and most-favored-nation treatment for services suppliers in like circumstances; obligations on transparency in regulatory processes; and exclusions for services supplied in the exercise of governmental authority, i.e., any service that is supplied neither on a commercial basis, nor in competition with one or more services suppliers.

The FTA disciplines will apply across a broad range of services sectors in Singapore.<sup>35</sup> As a result, U.S. service suppliers are afforded substantially improved market access opportunities in Singapore, with very few exceptions. The FTA's disciplines apply both to cross-border supply of services (such as those delivered electronically, or through the travel of services professionals across borders) and the right to establish a local services presence in Singapore.

- *Temporary Entry (Chapter 11)*

Mutual commitments for the temporary mobility of business visitors, traders and investors, intra-company transferees, and professionals are set forth in Chapter 11, Temporary Entry of Business Persons. Its provisions do not affect policies regarding visa issuance and screening procedures related to national security. This chapter promotes transparency by detailing the circumstances under which FTA temporary labor mobility will be authorized. Apart from the FTA professional category, for which U.S. legislation will be necessary, all temporary entry commitments will be implemented through existing

immigration law. This agreement will form the basis for a Singaporean national's access to the treaty trader and treaty investor classifications for temporary entry into the United States.

- *Investment (Chapter 15)*

The FTA's Investment Chapter contains a comprehensive set of well-established standards found in investment agreements throughout the world, including provisions obligating each Party to treat investors of the other Party and their investments no less favorably than its own investors and their investments in like circumstances (national treatment) and no less favorably than the investors of other countries and their investments in like circumstances (most-favored-nation treatment). Likewise, the chapter contains disciplines on imposing listed "performance requirements" on investors of the other Party as a condition of the investment. However, the chapter does provide exceptions for non-discriminatory health, safety, and environmental requirements, as well as requirements related to locating production and training and employing workers in the territory of a Party.

The chapter also incorporates a number of modifications to investment provisions in prior agreements that respond to Congress' guidance on investment objectives in the Trade Act. In particular, the provisions on minimum standard of treatment of investors and expropriation, together with supplementary annexes, provide more detail and context to the Parties' understanding of these obligations to ensure that they are properly interpreted and applied. The FTA's provisions on investor-State dispute settlement procedures (a mechanism allowing an investor to pursue a claim in international arbitration against a host government for alleged breach of its investment obligations) include a significant number of innovations to improve the transparency of arbitral proceedings and to help assure that arbitral panels properly interpret the FTA's investment provisions.

- *Labor (Chapter 17)*

The Labor Chapter of the FTA is consistent with the guidance from the Congress in the Trade Act. The Agreement includes promotion of internationally recognized core labor standards as a chapter within the main text of the Agreement, obligates the Parties to effectively enforce their labor laws, and makes the effective enforcement of a Party's labor laws subject to the same State-to-State dispute settlement procedures that apply to the commercial chapters. It also includes procedural guarantees ensuring that interested persons have access to the relevant courts and/or tribunals necessary for the enforcement of a Party's labor laws.

Consistent with the guidance of the Congress on other priorities, the Agreement includes provisions for consultations to resolve issues that may arise under the chapter and establishes a Labor Cooperation Mechanism for cooperation on labor issues between the Parties to promote respect for the principles embodied in the *ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up* and compliance with ILO

*Convention 182 Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labor.*

- *Environment (Chapter 18)*

The FTA's Environment Chapter incorporates Trade Act guidance through a number of core obligations concerning effective enforcement of environmental laws, providing for high levels of environmental protection, and not weakening environmental laws to encourage trade or attract investment. The FTA also includes articles on environmental cooperation, procedural guarantees (e.g., commitments by each Party to provide certain basic remedies for violations of its environmental laws, and to provide appropriate public access to environmental enforcement proceedings), and a consultative mechanism for implementing the provisions of the chapter. Consistent with Trade Act guidance, the effective enforcement provision is enforceable through the FTA's State-to-State dispute settlement provisions.

- *Transparency (Chapter 19)*

The FTA's Transparency Chapter, modeled on the NAFTA, requires both Parties to publicize their laws, regulations, procedures and administrative rulings of general applicability respecting matters covered by the Agreement such as to enable interested persons to become acquainted with them. Also, to the extent possible, such proposed measures shall be published in advance to provide interested persons a reasonable opportunity to comment on them.

- *Dispute Settlement Procedures (Chapter 20)*

The FTA sets out detailed provisions providing for speedy and impartial resolution of government-to-government disputes over the implementation of the Agreement. Consistent with Trade Act guidance, the FTA's core obligation to effectively enforce labor laws (as well as the analogous obligation in the FTA's environmental provisions) is subject to the dispute settlement provisions. An innovative enforcement mechanism includes monetary penalties as a way to enforce commercial, labor, and environmental obligations of the trade agreement. Special provisions give guidance on factors panels should take into account in considering the amount of monetary assessments in environmental and labor disputes, and provide for assessments to be paid into a fund to be expended for appropriate environmental and labor initiatives.

The dispute settlement provisions also set high standards for openness and transparency, including provisions for open public hearings, public release of legal submissions, and rights for interested third parties to submit views.

- *Institutional Provisions (Chapter 20)*

The FTA establishes a Joint Committee composed of government officials to review the FTA's general functioning and consider specific matters related to its operation and implementation with respect to labor, among other areas, and to establish a subcommittee on labor affairs as necessary. Recognizing the importance of transparency and openness, the Parties reaffirm their respective practices of considering the views of members of the public in order to draw upon a broad range of perspectives in the FTA's implementation.

### **III. Potential Economic and Employment Effects of the FTA**

The focus of this review is on the potential employment and labor market impacts of the U.S.-Singapore FTA in the United States. This assessment is based upon qualitative assessments of the current structure and volume of U.S. trade with Singapore, including the potential effects of removing barriers to trade, as well as publicly available independent quantitative assessments (econometric modeling) of the economic and employment effects of a U.S.-Singapore FTA.

#### **A. Aggregate Economic Effects**

A review of the economic modeling literature revealed only two independent academic quantitative assessments of a U.S.-Singapore FTA have been conducted. One study was performed by Professors Drusilla Brown (Tufts University), Alan Deardorff and Robert Stern (University of Michigan), employing their Michigan Model of World Production and Trade that they have used to evaluate the economic effects (including sectoral employment changes) of various proposed U.S. trade agreements.<sup>36</sup>

The Michigan Model is a computable general equilibrium (CGE) model of world production and trade containing 18 economic sectors in each of 20 countries or world regions. The model incorporates some aspects of increasing returns to scale, monopolistic competition, and product variety. The model assumes full employment or that total employment in each economy does not change, while employment in each economic sector is permitted to adjust to a new equilibrium after the introduction of the FTA with sectors either expanding or contracting their production in response to changes in bilateral trade flows.<sup>37</sup>

The other study of a U.S.-Singapore FTA was conducted by Robert Scollay (University of Auckland) and John P. Gilbert (Washington State University) as part of their examination of the economic effects of various regional trade agreements in the Asia-Pacific region.<sup>38</sup> Scollay and Gilbert used a CGE model, under the assumption of perfect competition, with 22 countries or world regions and 21 economic sectors. Their study reports only the aggregate economic effects of the FTA and does not provide estimates of changes in sectoral employment resulting from the FTA.

The Brown, Deardorff, and Stern (BDS) study found that the U.S.-Singapore FTA would boost global welfare by \$25.1 billion, with U.S. welfare increasing by \$17.5 billion (0.2 percent of U.S. GNP), Singapore's welfare increasing by \$2.5 billion (3.4 percent of Singapore's GNP), and the rest of the world would benefit as well.<sup>39</sup>

The Scollay and Gilbert study found that the U.S.-Singapore FTA would boost Singapore's welfare by 0.7 percent of its GDP, with a negligible effect on U.S. welfare. Scollay and Gilbert also estimate that as the result of a U.S.-Singapore FTA, U.S. exports would increase by 0.2 percent and those of Singapore would increase by 0.9 percent, while U.S. imports would increase by 0.2 percent and those of Singapore by 0.9 percent. As the modelers note in their study, however, their results tend to be relatively small

compared to other CGE models that are dynamic or account for imperfect competition in some sectors—as the BDS model does; models taking the latter into account have a tendency to produce larger estimates.

The measures of welfare changes only consider how national aggregate consumption possibilities may change and do not consider how it is distributed amongst the population; hence, an increase in a country’s welfare does not necessarily imply that all, or even a majority, of the population is better off.

## B. Sectoral Employment Effects

According to the BDS study, the sectoral employment effects in the United States of the FTA would be very small (less than 0.2 percent of employment in every sector affected) with expected increases in employment in the agricultural and manufacturing sectors balancing expected job losses in services. U.S. employment would be expected to expand in 15 sectors and to contract in 3 sectors as the result of the FTA (See Table 3).

**Table 3: Sectoral Employment Effects in the United States of a U.S.-Singapore FTA Based on Simulations Using the Michigan Model of World Production and Trade**  
(number of workers and percent of sector employment)

<b>U.S. Sector</b>	<b>Employment Increasing</b>	<b>Employment Decreasing</b>
Agriculture	Agriculture (4,216 workers or 0.10 percent)	--
Mining	Mining (616 workers or 0.09 percent)	--
Construction	Construction (38 workers or z percent)	--
Manufacturing	Machinery and Equipment (4,222 workers or 0.15 percent); Other Manufactures (3,511 workers or 0.19 percent); Metal Products (2,045 workers or 0.07 percent); Chemicals (1,769 workers or 0.06 percent); Wood and Wood Products (1,231 workers or 0.03 percent); Transportation Equipment (1,231 workers or 0.06 percent); Food, Beverages and Tobacco (1,146 workers or 0.04 percent); Textiles (581 workers or 0.05 percent); Non-metallic Mineral Products (338 workers or 0.04 percent) Leather Products and Footwear (275 workers or 0.19 percent).	Wearing Apparel (-300 workers or -0.03 percent)
Services	Government Services (1,254 workers or z percent); Electric, Gas and Water (409 workers or 0.01 percent).	Trade & Transport (-22,013 workers or -0.07 percent); Other Private Services (-569 workers or z percent).

Note: z percent = less than 0.005 percent.

Source: Drusilla K. Brown, Alan V. Deardorff, and Robert M. Stern, “Multilateral, Regional, and Bilateral Trade-Policy Options for the United States and Japan,” Research Seminar in International Economics Discussion Paper No. 490 (Ann Arbor, MI: The University of Michigan, School of Public Policy, December 16, 2002), Table 8.

The expected sectoral employment changes under the BDS study are either quite small or negligible (especially when compared to the employment size of the affected sector or the normal turnover—quits, separations, and new hires—in the U.S. labor market). The largest expected absolute U.S. employment gains (sectors likely to expand) are Machinery and Equipment, Metal Products, Chemicals, Wood and Wood Products, Transportation Equipment, and Food Products—all strong and competitive U.S. export sectors, while the largest expected employment declines (sectors likely to contract) are Trade and Transport Services, Other Private Services, and Wearing Apparel.

These estimated levels of job changes in Table 3 (sectoral employment adjustments to a new equilibrium following the full implementation of the FTA) are quite insignificant,

particularly given that they are likely to occur over a number of years. In a typical month in 2002, 1.5 million U.S. workers were laid off or discharged while 4.2 million were hired. In addition, the estimated job losses do not necessarily imply that current workers in these industries will actually lose their jobs (although that could happen). Many of the expected employment losses may be achieved simply by not hiring new workers to replace workers voluntarily leaving their jobs.

### **C. Potential U.S. Labor Market Effects**

#### *1. Industry*

##### **a. Sectors Likely to Expand as the Result of the FTA**

Current export patterns and the BDS modeling results suggest that U.S. employment in several manufacturing industries is likely to increase due to the FTA. The industries likely to gain jobs include: Food, Beverages, and Tobacco (SIC 20 & 21), Lumber and Wood Products (SIC 24), Chemicals (SIC 28), Primary and Fabricated Metals (SIC 33 & 34), Industrial Machinery (SIC 35), Electrical Machinery (SIC 36), Transportation Equipment (SIC 37); smaller or insignificant gains may occur in Textiles (SIC 22), Non-Metallic Mineral Products such as stone, clay, and, glass products (SIC 32), and Leather Products and Footwear (SIC 31). The projections of the BDS study also suggest employment gains in construction and several service sectors.

##### **b. Sectors Likely to Contract as the Result of the FTA**

Based upon the current pattern of U.S. imports from Singapore and their current duty treatment, both the BDS modeling results and current import patterns suggest that the only major U.S. manufacturing industry likely to be negatively affected by the FTA is the apparel industry. Of the \$301.2 million in imports from Singapore in 2001 that faced U.S. duties of more than 10 percent, \$276.9 million (or 92 percent) were apparel items. Included in this category are a broad range of items including cotton and synthetic, and men's and women's shirts, trousers, coats, sweatshirts, pajamas, and sweaters. The phase out of tariffs may lead to some employment declines in the United States for those employed in this sector. However, apparel items currently account for only 2 percent of U.S. imports from Singapore, and the gradual phase out of tariffs should allow for adjustment in this sector. Further, the modeling of the FTA by BDS does not take into account the potential effects of the yarn forward rule for qualifying apparel goods, which could offset potential losses in other parts of the industry.

The BDS model assumes full employment (i.e., total U.S. employment does not change) and as a result projected increases in sectoral employment must be matched by sectoral employment declines elsewhere in the economy. Under the BDS study, employment increases are projected for agriculture, mining, construction, and manufacturing (only one goods-producing industry—apparel—is expected to contract in employment as the result of the FTA), so nearly all of the employment declines (99 percent of the estimated 22,882 employment losses) are expected to occur in the service-producing industries and, in

particular, those in the trade and transport services sector. This sector in the BDS model, however, represents an aggregation of two fairly large major groups within the service-producing sector that includes wholesale and retail trade (where employment stood at 30.4 million in December 2002) and transportation services (where employment stood at 4.3 million in December 2002); together these two major groups account for about one-third of all service-producing jobs. The predicted employment losses in trade and transport services are likely to result not from direct import competition from Singapore, but from economy-wide secondary effects. For example, lower prices for imports are likely to draw expenditures away from the services sector, and higher prices for exports are likely to draw productive resources (i.e., labor) away from the service-producing sectors. The FTA is expected to result in a more efficient allocation of resources away from some of the service-providing industries—such as wholesale and retail trade and transportation services—into more productive export-oriented industries. Given the relatively large size of the trade and transport services sector, and the lengthy FTA phase-in period, the estimated employment losses need not imply actual job displacements but may simply mean slower employment growth in these services sectors than would have occurred otherwise.

The only goods-producing industry likely to be negatively affected by the FTA is the apparel industry where employment has been contracting over the last several decades and where employment declines were occurring even during the 1990s when the overall economy experienced rather strong employment growth. The majority of the employment losses, however, are estimated to occur in the service sector, which has seen rather healthy employment growth over the last several decades. Again, any such losses would be a negligible share of U.S. employment in these sectors. Indeed, the opening of Singapore's market to U.S. service suppliers (banking, insurance, etc.) is expected to provide new and more widespread opportunities for U.S. service providers.

c. Rules of Origin, Phase-in of the FTA, and Safeguards

Features have been built into the FTA to help ease the adjustment process in the United States during the transition to bilateral free trade with Singapore and help assure that only imports from Singapore benefit from the FTA. These include strict rules of origin, rules to protect against transshipment of goods (e.g., a third country using Singapore as an export platform to the United States), the gradual phase-out of U.S. tariffs on goods originating from Singapore, and mechanisms to address surges in imports from Singapore.

*Rules of Origin and Anti-Circumvention Provisions:* The FTA contains strict rules of origin to assure that only products grown or produced in each country are afforded the benefits under the FTA. These rules generally include requirements which specify that items must undergo substantial transformation within the United States or Singapore to be eligible for benefits under the FTA—namely, a change in HTS classification (either a change to another subheading within or outside the group, a new heading, or a new chapter) and, in addition, some items must meet a specific regional content rule of 35-45 percent of the value of the item, depending on the method of valuation used.

As discussed above, textile and apparel goods produced or assembled in Singapore must meet a yarn forward rule (i.e., be produced from yarns or fabrics that originated in either the United States or Singapore) in order to be considered as a product of the United States or Singapore and be eligible for preferential treatment under the FTA.

The FTA contains a *de minimis* provision for goods that do not meet the requirements of the Agreement to be considered as originating from one of the Parties. Generally, if the value of materials used in the production of a good does not undergo the required change in HTS classification and does not exceed 10 percent of the adjusted value of the good, and the good otherwise meets all other applicable criteria, it qualifies as an originating good. There are, however, some exceptions to this general rule.<sup>40</sup>

The Integrated Sourcing Initiative (ISI) in Chapter 3 of the FTA exempts certain information technology (IT) products and medical devices from specific complex documentation requirements in Singapore and the United States. Importantly, the ISI does not confer new tariff preferences on products of other third-country (non-Party) origin; it eliminates certain origin-related import procedures and a nominal fee for a list of products that already enter the United States duty-free under the 1996 WTO Information Technology Agreement (ITA).<sup>41</sup> By further enabling manufacturers to purchase components from modern, competitive facilities, the ISI reduces unnecessary red tape, and encourages the use of high-technology facilities.

The FTA contains provisions that commit each Party to enforce its own laws related to circumvention and its prevention. Circumvention means providing false declaration or information for the purpose or effect of violating or avoiding existing customs, country of origin labeling, or trade laws of the respective Parties. Examples of circumvention include illegal transshipment and false declarations concerning country of origin and product content or description.

Regarding textile and apparel goods exported to the United States, Singapore has committed to instituting registration of exporting establishments in Singapore or operated by Singaporean companies in third countries under an outward processing arrangement to help monitor the importation, production, exportation, and processing or manipulation in free trade zones. To receive preferential treatment under the FTA, textile and apparel establishments in Singapore that export to the United States must be registered with the government of Singapore. These registered establishments are required to maintain detailed records for a period of five years on all export shipments to the United States as well as records related production capabilities and number of employees to support or verify claimed production.

*Gradual Phase-out of Tariffs:* Table 4 summarizes the scheduled phase-out of tariffs by the United States on goods originating from Singapore under the FTA and estimates of the U.S. customs duties foregone by each staging category going duty free, based on 2002 U.S. import data and NTR tariff rates.

**Table 4: Phase-Out of U.S. Tariffs on Originating Goods from Singapore under the U.S.-Singapore FTA and U.S. Customs Duties Foregone**

Staging Category: Duty-Free In Year of FTA	Value and Percent of U.S. Imports from Singapore Going Duty-Free under the FTA		Value and Percent of Duties Foregone by Staging Category Going Duty-Free	
	2002 Import Value (\$million)	Percent of Total Import Value	Duties Foregone (\$million)	Percent of Total Duties Foregone
<u>Immediate</u>				
MFN Duty-Free	11,998.1	85.5	0.2	0.3
Other	962.7	6.9	63.0	72.0
Year 4	762.3	5.4	1.9	2.1
Year 5	274.1	2.0	9.1	10.4
Year 8	12.3	0.1	Less than 0.05	0.0
Year 10	18.0	0.1	13.3	15.2
Total	14,028.1	100.0	87.5	100.0

Source: Office of the U.S. Trade Representative, Office of Asia and the Pacific.

Nearly 90 percent of U.S. imports from Singapore entered the United States duty-free in 2001. Only 10 percent of the total value of U.S. imports from Singapore were assessed U.S. import duties in 2001; 85 percent of the total value of U.S. imports from Singapore entered NTR duty-free and slightly less than 6 percent entered duty-free under special tariff provisions. Under the FTA, the United States will phase-out all of its import tariffs on goods originating from Singapore over a period of 10 years. As Table 4 shows, based data for 2002, the bulk of U.S. imports from Singapore (92 percent by value, accounting for 72 percent of foregone duties) will be duty-free upon the initiation of the FTA, with most of the balance becoming duty-free by year 5 of the FTA and only a small number of the most-sensitive items becoming duty-free after 8 years of the FTA. The 5-year and 10-year staging categories, which contain some of the most import-sensitive items, together account for about 26 percent of duties foregone, but only slightly over 2 percent of the total import value.

Table 5 presents a summary of the product content of each tariff phase-out category (tariff staging category) for U.S. tariffs on goods originating from Singapore.

**Table 5: U.S. Tariff Staging for Imports from Singapore under the FTA**

<b>Duty Free Beginning of Year</b>	<b>Tariff Staging Category and Product Content</b>
<b>0</b> (immediate)	<p><b>E:</b> Items now duty-free, continue duty-free.  <b>A:</b> Some agricultural and food products and the majority of consumer and industrial goods currently subject to duty.  <b>G:</b> Items now duty-free under bond, become duty-free without bond (e.g., items imported for samples, repair, exhibit, etc.).</p>
<b>4</b>	<p><b>B:</b> Some agricultural and food products, including certain poultry and meats; meals and flour; fish; snails; milk products and dairy spreads; cheese; fresh onions, cauliflower, radishes, and other vegetables; dried vegetables; fruits and melons; green tea; fresh sugar cane; certain seed oils; some syrups; some cocoa preparations and chocolate; uncooked pastas; certain fruit juices; some tobacco and cigars. Some industrial and consumer goods, including some chemicals; plastics and plastic products; certain conveyor belts; some leather and leather goods; plywood; willow wicker baskets and luggage; some wool; some sports and other footwear; hats; some umbrellas; stone; porcelain and ceramic products; glass and glass products; cultured pearls; some metal products; iron or steel screws; aluminum pipes and tubes; tungsten, molybdenum, and manganese; certain hand tools; tableware; steam turbines; toasters; video monitors; Christmas tree lights; fishing equipment; saw blades; pens and pencils; musical instruments; lamps and lighting equipment; bicycles; combs; binoculars and telescopes; cameras; watches and clocks; certain measuring devices.</p>
<b>5</b>	<p><b>F:</b> Certain cotton and manmade fiber textile and apparel items subject to tariff preference levels, including some coats and suits, jackets, skirts, dresses, trousers, shorts, braziers and undergarments, t-shirts, panty hose, sweaters, swim wear, stocking and hosiery, ties and handkerchiefs, gloves, baby garments.</p>
<b>8</b>	<p><b>C:</b> Certain agricultural and food products, including preserved citrus, prepared artichokes and tomatoes, lobsters and crabs, soybean and cotton oils, nuts, rice, cereals, melons, fruits and berries, sturgeon roe, some milk and cheese products, dried eggs, broccoli, cucumbers, carrots, spinach, potatoes, and other vegetables, and cigarettes. Certain industrial goods, including some brooms, slide fasteners, parts of lamps, quilts, sporting and hunting rifles, watches and clocks &amp; pts, instruments, telescopic equipment, bicycles, railway or train cars, cathode ray television or monitor tubes, flashlights and parts, various chemicals and dyes, molybdenum ores, unwrought manganese, titanium, and molybdenum, iron or steel screws, ferrosilicon chromium, kitchen and tableware utensils, glassware, float glass, china and tableware, ceramic flags and tiles, jewelry and precious stones, umbrella frames, artificial flowers, footwear, wood blinds, articles of natural cork, wood cases and pallets, and leather gloves.</p>
<b>10</b>	<p><b>D:</b> Certain agricultural products, including beef*, liquid dairy products*, cheese*, milk powder*, butter*, other dairy products*, peanuts*, sugar*, cotton*, and tobacco*. Some other agricultural and food products, including certain frozen turkey offal and cuts, asparagus, sweet corn, dried onions and garlic, dates, hops, sardines and tuna, citrus juice, and rum. Certain industrial products, including brooms, military rifles, motor vehicles for transport of goods, glassware, porcelain or china tableware, footwear, luggage and flat goods of rattan, and paperboard containers and handbags with vulcanized fiber surface.  <b>H:</b> Foreign value added to item entered under HTS 9802 provisions; spare parts for vessels installed before first entry into the United States; certain protective ski-racing wearing apparel.</p>

Notes: \* with a tariff-rate quota (i.e., immediately duty-free up to a specified quantitative limit [quota] with staged tariffs applied to the amount in excess of the quota; quotas expire at the end of the staging period and the item is then duty-free in unlimited quantities). The staging categories are defined as follows:

**A:** Duty-free January 1 of year 1 of the FTA.

**B:** Four equal annual reductions, beginning Jan 1 of year 1; duty-free January 1 of year 4.

**C:** Eight equal annual reductions, beginning Jan 1 of year 1; duty-free January 1 of year 8.

**D:** Ten equal annual reductions, beginning Jan 1 of year 1; duty-free January 1 of year 10.

**E:** Already duty-free on January 1 of year 1, continue duty-free.

**F:** Preferential tariff treatment for certain non-originating cotton or manmade fiber textile and apparel items, 8 equal annual reductions in the amount assessed at preferential rate, starting at 25 million square meter equivalents, applying a reduced duty (five equal annual reductions, beginning January 1 of year 1; duty-free January 1 of year 5) applied on amounts up to limits specified in the tariff preference levels. Beginning January 1 of year 9, only goods that qualify under the yarn forward rule would enter duty free.

**G:** Already duty-free under bond on January 1 of year 1, becomes duty-free without bond on January 1 of year 1.

**H:** Duty-free January 1 of year 10.

Singapore is a significant supplier of wearing apparel to the U.S. market, the 28<sup>th</sup> largest supplier to the U.S. market in 1998. Provisions have been made in the FTA for the gradual phasing out of tariffs on certain apparel products, subject to quantitative limits known as tariff preference levels (TPLs), for particularly import sensitive items such as cotton and manmade fiber apparel wholly assembled in Singapore from non-originating fabric or yarns (applying to 49 textile categories covering 105 8-digit tariff line items). The initial TPL level is set at 25 million square meter equivalents, to be phased out in eight equal increments over 8 years with tariffs that are applied on these TPL goods being phased out over 5 years in five equal increments with the first increment effective on the initiation of the FTA. At the end of the eighth year of the FTA, only goods that qualify under the yarn forward rule would receive benefits under the FTA. Only textile and apparel goods that qualify under the yarn forward rule of origin (items made of yarns or fabrics made in either the United States or Singapore) will be granted duty-free treatment upon implementation of the FTA.

Other traditionally import-sensitive items such as agricultural goods, footwear, watches and clocks, leather goods, glassware, and china also have long tariff phase-out periods to allow for adjustment, although Singapore currently supplies no or very small amounts of these products. The longest phase in period (10 years) is provided for especially sensitive agricultural products with additional provisions for tariff rate quota limits for some of these items.

Singapore will eliminate its few remaining import tariffs on U.S. goods (four tariff lines covering beer and certain alcoholic beverages) upon implementation of the FTA. Singapore has also committed to harmonizing its existing taxes on imported and domestic distilled spirits by 2005. In addition, Singapore has committed to allow the importation of chewing gum with therapeutic value for sale and supply, subject to Singapore's laws and regulations. Singapore has also committed not to maintain any import ban on broadcast apparatus, including satellite dishes.

*Safeguards:* The FTA contains two separate safeguard mechanisms—a general bilateral safeguard and a Textile and Apparel Bilateral Emergency Action safeguard—that should provide additional means of helping industries adjust to increased imports resulting from the FTA:

- The Safeguards Chapter of the FTA allows a Party to restore the most-favored-nation (MFN)—now known in the United States as normal trade relations (NTR)—duty if a product is being imported in such quantities so as to be a substantial cause of serious injury or threat thereof to a domestic producer of a like or directly competitive product. A safeguard action may be taken only during the ten-year transition period and not be in place for longer than two years. The Party taking the action must provide compensation or be subject to withdrawal of substantially equivalent concessions by the other Party. Each Party retains its rights and obligations for global safeguard actions under Article XIX of GATT 1994 and the WTO Agreement on Safeguards.

- Bilateral Emergency Action measures may be taken on textile and apparel goods during the ten-year transition period and may not be in place for longer than two years. The MFN rate of duty may be restored if imports of a textile or apparel product are being imported in such quantities as to cause serious damage, or threat thereof, to a domestic industry producing a like or directly competitive product. Compensation is required or the exporting Party may suspend substantially equivalent concessions.

## 2. *Occupation and Compensation*

As a result of the FTA, some industries in the United States are expected to experience modest employment gains while a few are expected to experience small employment losses. To see how this may affect U.S. workers in particular occupations, current employment by occupation is examined for these industries.

As noted above, the BDS model predicts that machinery equipment, metal products, chemicals, wood and wood products, transportation equipment, food and beverages, and tobacco, textiles, non-metallic mineral products, and leather products and footwear are among the industries in the United States where employment may increase as a result of the FTA. Table 6 presents the estimated number of workers and average hourly wage for the leading occupations in 2001 for these 2-digit SIC industries where employment is expected to increase as a result of the FTA.

The BDS model also predicts employment decreases for the U.S. wearing apparel industry—an industry with a lower than average wage; the number of workers and average wage by occupation for this industry are presented in Table 7.

**Table 6: Leading Occupations in Selected U.S. Manufacturing Industries in 2001 in which Employment is Expected to Increase as the Result of the U.S.-Singapore FTA**

Industrial Sector and Occupational Group	Workers	Percent of Total	Average Wage
<b>All Manufacturing (SIC 20 – 39)</b>	<b>17,700,000</b>	<b>100.00</b>	<b>\$14.83</b>
<b>Machinery and Equipment</b>			
<b>Industrial and Commercial Machinery (inc computers) (SIC 35)</b>	<b>1,884,910</b>	<b>100.00</b>	<b>\$19.51</b>
Production occupations	982,130	52.10	\$14.93
Office and administrative support occupations	195,780	10.39	\$14.56
Architecture and engineering occupations	168,370	8.93	\$27.40
<b>Electronic and Other Electrical Machinery (SIC 36)</b>	<b>1,490,880</b>	<b>100.00</b>	<b>\$19.21</b>
Production occupations	719,310	48.25	\$12.79
Architecture and engineering occupations	213,620	14.33	\$26.65
Office and administrative support occupations	151,120	10.14	\$14.88
<b>Metal Products</b>			
<b>Primary Metal Products (SIC 33)</b>	<b>603,400</b>	<b>100.00</b>	<b>\$17.19</b>
Production occupations	343,500	56.93	\$14.77
Transportation and material moving occupations	61,060	10.12	\$14.54
Installation, maintenance, and repair occupations	54,280	9.00	\$18.81
<b>Fabricated Metal Products (SIC 34)</b>	<b>1,399,780</b>	<b>100.00</b>	<b>\$16.18</b>
Production occupations	822,490	58.76	\$13.69
Office and administrative support occupations	140,330	10.03	\$13.90
Transportation and material moving occupations	106,030	7.57	\$12.38
<b>Chemicals (SIC 28)</b>			
Production occupations	377,830	37.95	\$15.91
Office and administrative support occupations	118,940	11.95	\$15.81
Life, physical and social science occupations	102,690	10.31	\$25.58
<b>Lumber and Wood Products, Except Furniture (SIC 24)</b>			
Production occupations	362,490	47.49	\$11.63
Transportation and material moving occupations	129,980	17.03	\$11.04
Office and administrative support occupations	55,630	7.29	\$12.57
<b>Transportation Equipment (SIC 37)</b>			
Production occupations	848,750	49.51	\$17.44
Architecture and engineering occupations	216,580	12.63	\$30.49
Office and administrative support occupations	119,120	6.95	\$16.42
<b>Food, Beverages, and Tobacco</b>			
<b>Food and Kindred Products (SIC 20)</b>	<b>1,684,440</b>	<b>100.00</b>	<b>\$14.03</b>
Production occupations	824,840	48.97	\$11.53
Transportation and materials moving occupations	335,940	19.94	\$12.23
Office and administrative support occupations	133,450	7.92	\$13.56
<b>Tobacco (SIC 21)</b>	<b>33,470</b>	<b>100.00</b>	<b>\$20.00</b>
Production occupations	11,950	35.70	\$16.46
Transportation and material moving occupations	5,460	16.31	\$12.28
Office and administrative support occupations	4,180	12.49	\$15.45
<b>Textiles (SIC 22)</b>			
Production occupations	281,070	64.27	\$11.07
Transportation and material moving occupations	42,090	9.62	\$10.23
Office and administrative support occupations	37,750	8.63	\$12.81
<b>Stone, Clay, Glass, and Concrete Products (SIC 32)</b>			
Production occupations	215,460	39.27	\$13.55
Transportation and material moving occupations	149,190	27.19	\$13.49
Office and administrative support occupations	48,260	8.80	\$13.99
<b>Leather (SIC 31)</b>			
Production occupations	37,380	66.18	\$10.30
Office and administrative support occupations	6,890	12.20	\$12.32
Transportation and material moving occupations	3,990	7.06	\$10.21

Source: U.S. Department of Labor, Bureau of Labor Statistics.

In 2001, the manufacturing sector employed 17.7 million workers. The average hourly wage in manufacturing in 2001 was \$14.83.<sup>42</sup> In many cases, the average hourly wage in the specific manufacturing industries listed in Table 6—those expected to expand their employment as the result of the FTA—is well above the overall manufacturing industry

average. The exceptions to this are lumber and wood products (SIC 24), food and kindred products (SIC 20), textiles (SIC 22), and leather (SIC 31).

**Table 7: Leading Occupations in the U.S. Wearing Apparel Industry in 2001 where Employment is Expected to Decrease as the Result of the U.S.-Singapore FTA**

Industrial Sector	Workers	Percent of Total	Average Wage
<b>All Manufacturing (SIC 20 – 39)</b>	<b>17,700,000</b>	<b>100.00</b>	<b>\$14.83</b>
<b>Wearing Apparel (SIC 23)</b>	<b>512,880</b>	<b>100.00</b>	<b>\$11.48</b>
Production occupations	351,470	68.53	\$9.36
Office and administrative support occupations	59,430	11.59	\$12.10
Transportation and material moving occupations	39,600	7.72	\$9.41

Source: U.S. Department of Labor, Bureau of Labor Statistics.

The DBS model predicts slight employment declines in the wearing apparel industry as a result of the FTA. Table 7 presents the three leading occupational groups for wearing apparel that compare to those for industries in which employment is expected to expand as the result of the FTA (See Table 6). Production workers are the leading occupational category in the wearing apparel industry, but their average wage is lower than the average wage received by production workers in any of the industries listed in Table 6. A similar observation holds for those working in office and administrative support positions and in transportation and material moving occupations.

It may be possible that the skill set of some production workers, transport and material movers, and those in office administration and support jobs in this import-sensitive industry is similar enough to that held by their counterparts in the export-oriented industries that a decline in demand for workers in certain occupations in apparel may be absorbed, at least in part, by an increase in demand for them in the expanding export-oriented industries.

### 3. *Gender Issues*

In varying degrees, women and men participate differently in the workplace. In many cases, women do not work in the same types or places of work as men. An FTA may change the mix of industrial production and the occupational concentration of the labor force, and may affect female workers differently than it does men. Accordingly, a growing literature has emerged dedicated to this question. These studies draw upon gender-differentiated data to analyze women's experiences in the labor market, including gender issues faced in the workplace, home and school, as a result of changes in international trade and investment flows.<sup>43</sup>

While the employment effects of the FTA in the United States are expected to be minimal, the adjustment costs associated with the FTA are likely to be higher for female workers than for male. A substantial number of women work in import-competing industries (such as apparel) and hence may be at a marginally greater risk of losing their jobs as the result of more open trade.<sup>44</sup> However, other sectors such as metal products and food, beverages, and tobacco have higher proportions of male workers, suggesting that the potential for disparate impact by gender is modest.

#### **IV. Special Issues Selected for Review**

During the course of the negotiation of the U.S.-Singapore FTA, concerns were expressed by representatives from trade unions, business, and the general public about a variety of broader negotiation issues and objectives that might have possible implications for workers in the United States and for the U.S. labor market. This section addresses several of these: the inclusion of a chapter in the FTA that addresses labor issues; the treatment of foreign direct investment in the FTA; provisions in the FTA for the temporary entry of business persons and professionals; and the expanded trade adjustment assistance program provided for in the Trade Act of 2002.

##### **A. Labor Chapter, Including the Labor Cooperation Mechanism**

###### *1. Labor Chapter in the FTA*

###### *a. Overview*

The Labor Chapter of the FTA—Chapter 17—fully meets the relevant provisions of the Trade Act of 2002. The FTA includes protection for internationally recognized core labor standards as a chapter within the text, obligates the Parties to effectively enforce their labor laws, and makes the effective enforcement of a Party’s labor laws subject to the same State-to-State dispute settlement procedures that apply to the other chapters.

The incorporation of a Labor Chapter within the text of the U.S.-Singapore FTA represents the latest step in a process in which compliance with certain labor rights has been incorporated into U.S. trade legislation. This process began in 1983 with the Caribbean Basin Initiative (CBI). Labor rights provisions were also added to the Generalized System of Preferences (GSP) when the program was renewed in 1984. The process continued with the passage of the Andean Trade Preference Act (ATPA) in 1991, and the Caribbean Basin Trade Partnership Act (CBTPA) and Africa Growth and Opportunity Act (AGOA) in 2000. All of these trade benefit programs made adherence to internationally recognized worker rights one of a number of conditions for eligibility.

The first U.S. free trade agreement that included labor rights provisions was the North American Free Trade Agreement (NAFTA). Under the NAFTA framework, labor rights and standards were addressed in a supplemental agreement, the North American Agreement on Labor Cooperation (NAALC). The U.S.-Jordan FTA, which entered into effect in 2002, was the first bilateral free trade agreement to which the United States is a Party that includes labor rights protections in the main text.

###### *b. Labor and the Trade Act*

The Trade Act sets out a number of provisions with respect to labor rights and standards that must be included in an agreement for it to be considered under the special Trade Act procedures.

As overall negotiating objectives, the United States is to:

- foster economic growth, raise living standards, and promote full employment in the United States and to enhance the global economy;
- seek the promotion of worker rights and the rights of children consistent with the ILO's core labor standards and an understanding of the relationship between trade and worker rights;
- seek provisions in trade agreements by which the Parties strive to ensure not to weaken or reduce the protections afforded in domestic labor law as an encouragement for trade;
- promote universal ratification and compliance with ILO Convention 182 *Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labor*.

As principal negotiating objectives with respect to labor, the United States is to:

- ensure that the parties to a trade agreement do not fail to effectively enforce their labor laws through a sustained or recurring course of action or inaction in a manner affecting trade between the parties;
- recognize that the parties to a trade agreement retain discretionary authority in the enforcement of their labor laws;
- strengthen the capacity of U.S. trading partners to promote respect for core labor standards;
- ensure that labor, health or safety practices of parties to trade agreements do not arbitrarily discriminate against U.S. exports or serve as disguised barriers to trade.

As a principal negotiating objective with respect to dispute settlement and enforcement, the United States is to seek provisions to treat principal negotiating objectives equally with respect to:

- the ability to resort to dispute settlement procedures;
- the availability of equivalent dispute settlement procedures; and
- the availability of equivalent remedies.

As a negotiating objective with respect to the worst forms of child labor, the United States is to seek commitments by parties to trade agreements to vigorously enforce their laws against the worst forms of child labor.

In the promotion of certain priorities, the United States is to:

- seek greater cooperation between the ILO and the WTO;
- seek to establish consultative mechanisms with the parties to trade agreements to strengthen their ability to promote respect for core labor standards and compliance with ILO Convention 182, and report to the Senate Finance Committee and House Ways and Means Committee on the content and operation of such mechanisms; and
- review the impact of future trade agreements on employment in the United States and report to the Senate Finance Committee and the House Ways and Means Committee.

In pursuing these objectives and priorities, the President is to:

- direct the Secretary of Labor to consult with any country seeking a trade agreement with the United States concerning that country's labor laws and provide technical assistance to that country if needed;
- submit to the Senate Finance Committee and the House Ways and Means Committee a meaningful report on labor rights in any country with which the United States plans to implement a trade agreement; and
- submit to the Congress a report describing the extent to which any country with which the United States plans to implement a trade agreement has laws governing exploitative child labor.

The Trade Act defines core labor standards as: (1) the right of association; (2) the right to organize and bargain collectively; (3) a prohibition on the use of any form of forced or compulsory labor; (4) a minimum age for the employment of children; and (5) acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

c. Summary of FTA Chapter 17: Labor

Chapter 17 of the FTA consists of seven Articles and an Annex as follows:

- In Article 17.1, the Parties reaffirm their commitments as members of the ILO and in accordance with the ILO *Declaration on Fundamental Principles and Rights at Work and Its Follow-up*.<sup>45</sup> The Parties agree that they shall strive to ensure that such labor principles and the internationally recognized labor rights defined in Article 17.7 are recognized and protected by domestic law.
- Under Article 17.2, the Parties agree that they shall not fail to effectively enforce their labor laws, through a sustained or recurring course of action or inaction, in a

manner affecting trade between the Parties. The labor laws included under this provision are defined as those related to the internationally recognized labor rights listed in Article 17.7 below. This section represents the primary obligation of the Parties under the Agreement and violation of this obligation is subject to the same State-to-State dispute settlement procedures that apply to the other chapters of the FTA. The provision recognizes Parties' authority to decide for themselves how to enforce labor laws, and to exercise discretion regarding investigatory, prosecutorial, regulatory, and compliance matters.

The Parties further recognize that it is inappropriate to encourage trade or investment by weakening or reducing the protections afforded in domestic labor laws and agree that each Party shall strive to ensure that it does not waive or otherwise derogate from, or offer to waive or otherwise derogate from, such laws in a manner that weakens or reduces adherence to internationally recognized labor rights, as an encouragement for trade with the other Party, or as an encouragement for the establishment, acquisition, expansion, or retention of an investment in its territory.

- Article 17.3 provides for procedural guarantees and public awareness in which the Parties agree to ensure that interested and affected persons have access to judicial and non-judicial tribunals for the enforcement of the Parties' labor laws and may seek enforcement of their rights. The Parties further agree to ensure that proceedings are fair, equitable, and transparent and to promote public awareness of their labor laws.
- Article 17.4 establishes the institutional arrangements for overseeing the Agreement. It provides that the Parties may establish a subcommittee on Labor Affairs to meet as necessary to discuss issues related to the implementation of the chapter and for the designation by each Party of a point of contact within its labor ministry. The points of contact are to provide for submissions by the public on matters related to the Agreement.
- Article 17.5 establishes a labor cooperation mechanism between the Parties to promote respect for the principles embodied in the ILO *Declaration on Fundamental Principles and Rights at Work and its Follow-up* and compliance with ILO Convention 182 *Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labor*. Annex 17A of the chapter establishes the framework for the cooperation mechanism and lists a range of activities in which the Parties agree to cooperate.
- Article 17.6 establishes a mechanism for consultations between the Parties to resolve any matter that may arise under the chapter. If a Party believes that the other Party is not in compliance with its effective enforcement obligation in Article 2, the Party may either seek consultations under the Labor Chapter or may invoke the consultations provisions of the Dispute Settlement Chapter.

- Article 17.7 defines the terms used in the Labor Chapter of the FTA. It lists the internationally recognized worker rights to which the Parties are bound as: (1) the right of association; (2) the right to organize and bargain collectively; (3) a prohibition on the use of any form of forced or compulsory labor; (4) a minimum age for the employment of children and the prohibition and elimination of the worst forms of child labor; and (5) acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.

Under the dispute settlement procedures, if a dispute settlement panel finds that a Party has not conformed to its obligations to effectively enforce its labor laws, the losing Party may settle the case. Parties are unable to reach agreement on a settlement, the panel would establish an annual monetary assessment. The assessment would be paid into a fund for appropriate labor initiatives, including efforts to improve or enhance labor law enforcement. If the losing country fails to pay the assessment, the other country would be entitled to suspend tariff benefits under the FTA sufficient to collect the assessment.

## 2. *Labor Cooperation Mechanism*

The Trade Act includes among its principal U.S. trade negotiating objectives “to strengthen the capacity of United States trading partners to promote respect for core labor standards.” Additionally, the Trade Act includes within the trade negotiating objectives the promotion of certain priorities by the President, including to “seek to establish consultative mechanisms among Parties to trade agreements to strengthen the capacity of United States trading partners to promote respect for core labor standards . . . and to promote compliance with ILO Convention No. 182 *Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labor* . . . [and to] direct the Secretary of Labor to consult with any country seeking a trade agreement with the United States concerning that country’s labor laws and provide technical assistance to that country if needed.”

The U.S.-Singapore FTA includes provisions that fully meet these objectives. The Parties recognize that cooperation provides enhanced opportunities to further advance common commitments, including the ILO *Declaration on Fundamental Principles and Rights at Work and its Follow-up* and compliance with ILO Convention 182 *Concerning the Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labor*. To assist in further implementing these commitments, the FTA includes a Labor Cooperation Mechanism, which establishes a framework for the two labor ministries to work together to promote respect for core labor standards and compliance with ILO Convention No. 182, and to improve systems of administration and enforcement of labor laws, among other things. The contact point provided for in Article 17.4 of the Labor Chapter will also serve as a contact point for the Labor Cooperation Mechanism.

## B. Investment

International agreements on investment are designed to provide a secure legal framework for investment among the Parties and reduce protectionist barriers, taking into account governments' need to protect the public welfare and other policy objectives. Such agreements have a long history, including in 36 bilateral investment treaties (BITs), currently in effect, to which the United States is a party, and Chapter 11 of the NAFTA. These agreements all include provisions allowing private investors of a party to submit to arbitration a claim that another party has violated one or more of the investment obligations and has thereby caused loss or damage to the investor or investment ("investor-State" mechanism). Investment agreements have brought benefits to the United States, helping to remove barriers to U.S. investment abroad and to provide U.S. investors overseas with fair and non-discriminatory treatment. However, concerns have been raised by the LAC and others that arbitral panels could potentially misinterpret the investment obligations to be inconsistent with legitimate government regulatory functions, including protecting the environment, shielding consumers from fraud, delivering public services and safeguarding public health.

The Trade Act provides guidance on the appropriate resolution of the regulatory issues in the form of principal negotiating objectives regarding investment. As further explained in the accompanying Conference report, the Trade Act instructs that it is a priority for negotiators to seek agreements protecting the rights of U.S. investors abroad and ensuring the existence of a neutral investor-State dispute settlement mechanism. At the same time, these protections must be balanced so that they do not come at the expense of making U.S. federal, state, and local laws and regulations more vulnerable to successful challenges by foreign investors than by similarly situated U.S. investors. As part of this balance, the substantive investment protections (e.g., expropriation, fair and equitable treatment, and full protection and security) are to be consistent with U.S. legal principles and practice and are not to provide "greater substantive rights" to foreign investors in the United States than are available to U.S. investors in the United States.

### 1. *Overview*

The FTA fully meets the Trade Act requirements as indicated in the overview of the Investment Chapter—Chapter 15—under Section II(C) of this report. In addition to providing a comprehensive set of standards that will protect investors from discriminatory or arbitrary actions by the host government, the Investment Chapter also incorporates a number of provisions that respond to Congressional concerns regarding the regulatory impact of the investment provisions.

To the extent that regulatory concerns expressed by the LAC are similar to those raised by Congress and others, these issues have been analyzed in the Environmental Review.<sup>46</sup> The effect of the investment provisions would likely be the same with respect to the enforcement of U.S. labor laws.

To further ensure the ability of the U.S. government to carry out certain legitimate regulatory functions, the FTA contains an Annex of Non-Conforming Measures, in which the United States reserves the right to adopt or maintain any measure in the case of social services established or maintained for a public purpose: income security or insurance, social security or insurance, social welfare, public education, public training, health, and child care.

## 2. *Employment Impact*

Predicting the employment impact of U.S. and Singaporean investment flows that may arise out of the Investment Chapter of the FTA is problematic, and there is no generally accepted economic model for doing so. While such investment flows are likely to increase, given the additional security and predictability that an FTA provides, investment decisions depend on a host of factors, ranging from political to social to economic, many of which are exogenous to the FTA. Short-term investment, including portfolio investment, is too volatile to predict with any degree of certainty. Foreign direct investment (FDI) is more stable and long term, but is, nevertheless, dependent on different factors. Moreover, outward flows of U.S. investment capital would need to be measured against inward flows resulting from intra-company transfers by U.S. overseas subsidiaries and operations to the host-company or investors in the United States. The same would apply to Singaporean investment in the United States. This section, therefore, focuses on the current stock of U.S. investment in Singapore and areas where additional U.S. FDI appears likely, given Singapore's economic objectives and information from various sources, without drawing any conclusions or making any predictions regarding the impact on employment in the United States.

The total stock of U.S. direct investment in Singapore at the end of 2001 was just over \$27 billion, invested mainly in manufacturing (primarily electronics, \$15 billion), financial services (\$7 billion), and oil refining and storage (\$2 billion). The stock of Singaporean direct investment in the U.S. at the end of 2001 was about \$7 billion, concentrated in manufacturing (about \$5 billion) and real estate (slightly over \$1 billion).

Singapore's economy, while still based primarily on manufacturing, is becoming increasingly services oriented. Therefore, a major objective of U.S. negotiators was to secure increased access for U.S. services providers.<sup>47</sup> This coincided with Singapore's objective to attract high quality and high value-added U.S. services providers. Moreover, Singapore serves as a regional financial and services center as well as a manufacturing and distribution center for high value-added items throughout the Southeast Asian region. U.S. services providers' presence in Singapore, therefore, can serve as a platform for expansion to regional operations.

Increased access to the Singaporean financial services and banking sectors were important sectoral objectives of U.S. negotiators.<sup>48</sup> A separate Financial Services Chapter covers this sector, but disputes that arise for those services that require a local presence are subject to the procedures of the Investment Chapter. Increased U.S. FDI is likely to occur in the financial services sector, where it is already significant, and in the

banking (depository institutions) sector, where investment has been less so (\$775 million).

Considering Singapore's economic priorities and the provisions of the FTA, additional U.S. investment in a number of service sectors appears likely. These could include biomedical services, education services, electronics and power engineering, environmental services, information technology, legal services and aerospace services.

U.S. investment in Singapore in manufacturing is also likely to expand as the result of the FTA. Given Singapore's highly educated and generally well-remunerated workforce, as well as the government's economic strategy, increases will likely take place primarily in high-tech, learning intensive, industries, with a high value added. These could include aerospace equipment, electronics and computers, chemicals and pharmaceuticals, transport engineering, medical devices, and telecommunications equipment. There are also opportunities for U.S. investment in petroleum, regional distribution of food and consumer goods, and franchising.

### C. Temporary Entry Provisions for Business Persons in the FTA

Successful implementation of the FTA will require that business persons from each country be able to travel readily between the two countries. Development and expansion of business opportunities, investment of capital, and movement of key personnel between foreign and local business sites requires that the two countries establish transparent, predictable, facilitative rules governing the temporary admission, stay, and employment of business persons. Unfortunately, this aspect of an FTA is not normally taken into account in most quantitative economic models that compute the employment effects of proposed FTAs. Such computer models typically assume that each country's labor force is fixed and fully employed, and that an FTA will result in the free flow of goods and services between countries without altering the size of the domestic labor force.

Chapter 11 of the FTA, entitled Temporary Entry of Business Persons, articulates a set of mutual commitments for the admission of business visitors, traders and investors, intra-company transferees, and professionals. These FTA categories directly parallel and are consistent with categories of temporary entry under U.S. immigration law. However, Singapore will implement these temporary entry commitments through its existing visa system that does not identify visa categories in this way.

Only citizens of Singapore and the United States will be eligible for these benefits. The benefits cover the right of temporary admission but do not guarantee the right of employment in the other country. Business persons applying for temporary entry under this chapter must meet the standards established for the relevant temporary entry category under domestic law.

Singapore imposes no numerical limitations on the entry or employment of the business persons covered under this Temporary Entry Chapter. The only class of business persons for whom the United States imposes a numerical limitation is professionals. Because of the worldwide cap on specialty occupation (H-1B) workers, Singaporean professionals currently compete with other nationalities for U.S. admission. To further facilitate their entry, the FTA also provides for up to 5,400 approvals of initial applications from Singaporean professionals each year, above and beyond those available through the H-1B visa program. This annual cap on Singaporean FTA professional admissions is permanent.

#### 1. *Categories of Temporary Entry Under the FTA*

##### a. Business Visitor

Both the United States and Singapore have strong interests in the business visitor category, which grants citizens of either country temporary entry into the other country to perform certain business-related functions that do not constitute direct employment within the host economy. These business-related functions include: conducting certain independent research and design functions; certain commercial transactions for an enterprise in the host country; undertaking marketing and sales activities; facilitating

import and export of goods; fulfilling obligations taken under a contract of sale; and certain general service functions.

The United States will admit Singaporean business visitors using the existing B-1 nonimmigrant (i.e., temporary) visa classification. The rules for this classification stipulate that the individual's principal residence and primary source of remuneration for these activities must be outside of the United States. U.S. business visitors to Singapore will receive a social visit pass that likewise bars their direct employment within the Singaporean economy.

b. Traders and Investors

Both countries likewise share a strong interest in the movement of traders and investors. The FTA articulates a single overarching category for these individuals. However, the United States will implement this commitment using two existing temporary entry categories, treaty traders or treaty investors (the E-1 and E-2 nonimmigrant visa categories, respectively). Following U.S. general law, Singaporean traders may enter the United States to carry on substantial trade in goods or services only if their company's trade is principally between the United States and Singapore. Singaporean investors will be admitted to establish, develop, administer or provide key technical assistance to the operation of investments to which they or their enterprise have committed (or are in the process of committing) a substantial amount of capital. Only persons in supervisory or executive roles, or those having essential skills relevant to the business of the enterprise, are eligible for these temporary entry categories. In implementing this part of the agreement, Singapore will grant social visit passes to U.S. traders whose activities in Singapore will not involve remuneration within the domestic economy, e.g., exporters. Investors and traders who do expect to receive remuneration from businesses within Singapore will require an employment pass.

c. Intra-company Transferees

A third area of mutual interest is intra-company transferees. Inclusion of intra-company transferees in the FTA will enable multinational companies to transfer citizens of either country, employed in one of their own (or their affiliate's) business sites elsewhere into a temporary assignment within their company or affiliate in Singapore or the United States. The United States will implement this commitment using the L-1 visa classification, which stipulates that employees transferred into the United States must be in an executive or managerial position, or must hold a job that requires specialized knowledge relevant to the company's operation. Under the FTA, a Party may also require the transferee to have completed one year of employment with the company or its foreign affiliate during the three previous years. U.S. transferees to companies within Singapore will not be subject to a prior employment standard. They will enter Singapore on an employment pass.

d. Professionals

The FTA professional category will cover the direct delivery of services by individual workers. Under this category, professionals from Singapore will be admitted to the United States on a temporary basis for employment with a U.S. employer. U.S. legislation will be necessary to establish this new temporary entry category. U.S. rules for Singaporean FTA professionals, which are not yet fully formulated, are likely to resemble those of the H-1B and NAFTA “TN” professional constructs. Singaporean FTA professionals will be subject to a numerical limitation of 5,400 per year. This figure is sufficiently large, relative to current professional entries from Singapore [665 Singaporean initial H-1B petitions were approved in FY-2001] that it should accommodate considerable increased professional mobility under the agreement. Singapore will implement its commitment for professionals by means of its existing employment pass.

## 2. *Areas in Which this FTA Extends New Temporary Entry Rights*

The Immigration and Nationality Act (INA) already affords Singaporean nationals use of the B-1 (business visitor) and L-1 (intra-company transferee) temporary entry categories. For these categories, the FTA commits the United States to not unduly restrict existing terms of mobility through future legislation or rule-making. The Agreement also grants eligibility for certain categories not currently available to Singaporean nationals. It provides the legal foundation for U.S. admission of Singaporean treaty traders and treaty investors. It also allows up to 5,400 Singaporean professionals to be admitted to the United States each year, regardless of any future changes that may occur within the U.S. H-1B nonimmigrant program.

## 3. *Potential U.S. Labor Market Impacts*

There is widespread consensus that the first three categories of FTA entry have neutral or net positive impacts on the U.S. labor market. By definition, business visitors are precluded from direct employment in the domestic labor market. The functions they perform within the United States are intended to facilitate trade between the two partner-countries, creating employment opportunities in both nations. The actions of traders and investors are likewise expected to stimulate the growth of businesses in the United States, thereby generating employment opportunities for U.S. workers. Non-managerial employees admitted for the purpose of applying their essential skills within the company also work in support of this generally positive mission. The temporary admission category of intra-company transferees is intended to simultaneously benefit labor markets in the United States and abroad. This category is considered indispensable for the smooth operation of multinational corporations, which often require the movement of key personnel between sites and affiliated companies in various countries. Technical personnel admitted under this category are not subject to a prevailing wage requirement, and in recent years there have been anecdotal reports of multinational companies trying to take advantage of this by bringing in low-wage contract workers as intra-company transferees. Nonetheless, on balance, intra-company transferees are still regarded as a stimulus to the domestic labor market.

Concerns about potential labor market impacts typically focus on the professional category that admits foreign workers into the domestic labor market on a temporary basis. Under terms of the FTA, U.S. employers will not be required to recruit or to consider the applications of U.S. professionals before hiring professionals from Singapore. To mitigate concerns about potential labor market impacts, FTA commitments for professionals enable the United States to incorporate certain worker protections Congress established in the H-1B specialty worker program. While the Administration and the Congress have not yet formulated the specific rules for this temporary entry category, there is consensus that they will include:

- explicitly defining a “professional occupation” as one that requires a post-secondary degree (or the equivalent of such a degree) in a specialty requiring four or more years of study, and theoretical and practical application of a body of specialized knowledge;
- requiring any FTA “professional” to acquire the requisite education and skills before entering the country;
- requiring that the professional’s U.S. employer attest to some of the same terms of employment as H-1B employers, such as payment of the prevailing wage, notification of other employees regarding this hiring decision, and an attestation that this hiring action will not adversely affect similarly situated U.S. workers;
- prohibiting the employment of FTA professionals in situations that might adversely affect the settlement of labor disputes;
- inclusion of an annual numeric cap of 5,400 initial approvals for Singaporean FTA professionals that will operate independently of the H-1B cap; and
- granting entry and extensions of temporary stay in one-year increments, so long as the professional can demonstrate continuing employment that satisfies the terms of this FTA.

## **D. Trade Adjustment Assistance and Other Federal Programs to Assist Displaced Workers**

While international trade has net economic benefits, it is recognized that it may also result in dislocations, particularly in specific goods-producing industries or geographical areas, and some workers may need help in finding a new job. Even though the expected displacements due to the FTA are likely to be minimal, it is a clear policy goal to provide coordinated adjustment and transition services and to make them available in a timely manner.

The U.S. Department of Labor has several programs to assist workers who lose their jobs as a result of U.S. international trade agreements to find re-employment. These include the newly reauthorized Trade Adjustment Assistance (TAA) program that was part of the Trade Act of 2002, the Workforce Investment Act (WIA), Unemployment Insurance (UI), and a compliance requirement that there be advance notification of plant closings which affect more than 50 workers.

### *1. New Enhanced Trade Adjustment Assistance Program*

The Trade Act consolidated the former TAA program and the NAFTA Transitional Adjustment Assistance (NAFTA-TAA) program, which assisted workers adversely affected by trade with Mexico or Canada, into a single enhanced TAA program and authorized it through fiscal year 2007. It expanded the eligibility of workers for TAA assistance to include workers who lose their jobs when their firms shift production either to countries that are parties to a free trade agreement with the United States or to countries that are beneficiaries under certain specified legislation. Coverage applies also to cases where there has been or is likely to be an increase in imports like or directly competitive with articles produced by the firm. In addition, certain “secondary” workers are also eligible for TAA, namely, workers in firms that produced and supplied component parts directly to a trade-impacted firm where these component parts were directly incorporated into the articles that served as the basis for the TAA certification for the primarily affected workers. TAA eligibility was also expanded to certain secondary workers who are downstream producers who performed additional, value-added production processes directly for a primary firm for articles that were the basis for the primary firm’s TAA certification. For the downstream producer to receive a certification, the primary firm’s certification must result from trade with Canada and/or Mexico. Downstream production, for example, can include final assembly or finishing of articles produced by a directly affected firm. In general, workers who are not covered by a TAA certification may be eligible for the employment-related services available under the Workforce Investment Act (WIA) and described below if they have been permanently laid off, or have received a notice of termination or layoff from employment; that is, they are dislocated workers.

Coverage was also extended to farmers who face dislocations due to increased imports. The Trade Act created a new trade adjustment assistance program for farmers that provides compensation (limited to \$10,000 per person, per year), employment services,

and training when commodity prices fall below the average for the past five years due to import surges. The program is administered by the U.S. Department of Agriculture, which is to be appropriated an amount not to exceed \$90 million for each of the fiscal years 2003 through 2007 to carry out the purposes of this program.

## 2. *Benefits and Services Provided to Dislocated Workers*

Early intervention is a key principle to return workers to jobs. In this light, the Trade Act requires rapid response services be available to workers as soon as a petition for TAA is filed. Rapid Response Services provide immediate aid to workers affected by announcements of plant closings and large layoffs. Dislocated Worker offices may send one or more representatives to the work site to coordinate the layoff before it occurs. Early interventions are also facilitated by the Worker Adjustment and Retraining Notification (WARN) Act that requires employers of 100 or more full-time workers to provide 60-days advance notice of a plant closing or major layoff (over 50 employees). Such a notice triggers a Rapid Response from state teams, and during rapid response, specialists in helping workers cope with job change will gather information on workers' needs and begin to organize the services necessary to help them get back to work.

The TAA program provides training, income support, and other reemployment and supportive services to certified workers who lost their jobs or had their work hours or salary reduced because of increased imports or shifts in production to foreign countries. Trade affected workers are “dislocated workers” under the Workforce Investment Act (WIA) that is administered by the U.S. Department of Labor. The Trade Act of 2002 strongly encourages close coordination with WIA services. Three types of services are potentially available:

- All workers have access to core services—information on and assistance with unemployment insurance (UI) benefits, electronic job search, and local area job openings—through a local One-Stop Career Center. If they have not received information on these services through their Rapid Response team, this is the first step in obtaining them;
- If more than the core services are needed, intensive services may be available such as one-on-one assistance, group career workshops, and other assistance such as skills assessment, stress management workshops, and one-on-one job counseling. TAA certified workers are entitled to financial assistance for out-of-area job search and relocation; and
- Training services, including on-the-job training (OJT), occupational skills improvement, and remedial education classes—such as English as a second language (ESL)—may be available. One-Stop Career Centers have a list of approved training programs, descriptions and costs to help guide the decision-making process. Under TAA services, training must generally be full time and the length of the training program may not exceed 104 weeks. However, if

remedial training is needed initially, a total of 130 weeks of training and income support are possible through TAA.

Not everyone who is eligible to participate in the TAA program or WIA needs training. Dislocated workers will work with staff in the One-Stop Career Center to determine the type of services needed and whether or not training is needed to find a new job. The revised TAA program spells out specific criteria for approval of training: there is no suitable employment available, training is available and appropriate (i.e., training is suitable for the worker and available at a reasonable cost, and the worker is qualified for and would benefit from the training), and there's a reasonable expectation of a job after completion. The amount of funds available annually for training under TAA is \$220 million. The total appropriation for the TAA program in FY-2003 is \$972.2 million.

The revised TAA program also includes a temporary 5-year program of alternative trade adjustment assistance for older workers. Under this program, workers in firms with a significant number of workers over the age of 50 who are without easily transferable skills may choose, in lieu of the other benefits available under the TAA program, to receive payments of 50 percent of the difference between pre-layoff wages and their reemployment wages. A worker could receive payments for up to a two-year period, but the maximum amount paid may not exceed \$10,000. In order to qualify, the worker must be at least 50 years of age, become reemployed within 26 weeks of separation, and be reemployed at annual wages of not more than \$50,000 in a full-time job that is not the job from which he/she was laid off.

There are also a number of new provisions providing health insurance assistance to certain TAA-eligible workers. The primary source of assistance is a tax credit of 65 percent of the cost of coverage of the eligible individual and qualified family members under qualified health insurance. The eligible individuals include three groups: (1) TAA participants who are receiving extended income support under the TAA program, or who would be eligible to receive such income support if they had exhausted their unemployment insurance (UI); (2) TAA participants who are participating in the alternative TAA for older workers program; and (3) individuals age 55 or older who are receiving pension benefits paid by the Pension Benefit Guaranty Corporation.

### *3. Grant Programs to the States for Provision of Health Insurance Assistance*

The Trade Act also established a number of grant programs to assist the states in the provision of health insurance assistance to these eligible groups. Two grant programs (with a total appropriation of \$100 million), which are administered by the Department of Health and Human Services, were established in order to help states establish and operate qualified high-risk pools. Two additional grant programs were added to the National Emergency Grants (NEGs), which are administered by the Department of Labor under the WIA. The first grant program awards grants to provide interim health insurance coverage and supportive services (such as transportation, child and dependent care, and income assistance) to the three groups that are eligible for the tax credit. This grant is for

assisting in the payment (65 percent) of the eligible participant's health insurance. Moreover, it was the "sense of Congress" that supportive services like childcare should be provided through other U.S. Department of Labor programs as well. The Trade Act authorizes \$50 million for FY-2002, \$100 million for FY-2003, and \$50 million for FY-2004 for this program. The second new NEG grant program provides health insurance coverage assistance to individuals included in the three eligible groups and pays the administrative costs of enrolling such individuals, including the processing of the eligibility certificates necessary for the tax credit. This grant is for state infrastructure for this part of the program. Ten million dollars for FY-2002 became available upon enactment, and \$60 million per year is authorized for each of fiscal years 2003-2007 for these grants.

The Trade Act also amended ERISA, the Public Health Service Act, and the Internal Revenue Code to allow a temporary extension of the period during which a worker who is "TAA-eligible" may elect COBRA continuation coverage under the layoff employer's health insurance plan. The extension is for a 60-day period that begins on the day the individual first meets the TAA eligibility requirements, and the election must occur within 6-months of the trade-related layoff. If a worker makes such an election, assistance in making the payments for the continuation coverage is provided through the tax credit or through the NEG grants.

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## **End Notes**

<sup>1</sup> Executive Order 13141—Environmental Review of Trade Agreements—was signed by President Clinton on November 16, 1999. The Order commits the U.S. government to a policy of careful assessment and consideration of the environmental impacts of trade agreements, including factoring environmental considerations into the development of its trade negotiating objectives. The Order directs that, in certain instances, written environmental impact reviews be made and made available to the public in final form. Also, the Order directs the Office of the U.S. Trade Representative (USTR) and the Council on Environmental Quality (CEQ) to oversee the implementation of the Order, including the development of procedures or guidelines pursuant to the Order. In December 2000, USTR and CEQ published *Guidelines for the Implementation of Executive Order 13141—Environmental Review of Trade Agreements*. The Order and Guidelines are available on the USTR web site at: <http://www.ustr.gov/environmental.shtml>. USTR and CEQ jointly oversee implementation of the Order and Guidelines, while USTR, through its Trade Policy Staff Committee (TPSC), is responsible for conducting individual reviews.

<sup>2</sup> See 67 *Fed. Reg.* 64693-64694 (October 21, 2002).

<sup>3</sup> The LAC strongly objected to the inclusion within the coverage of the agreement of two Indonesian islands, where Singaporean and other foreign companies are heavily invested and produce primarily electronic components for export, and treating these items as if they were manufactured in Singapore for purposes of the FTA. However, FTA commitments on the Integrated Sourcing Initiative (ISI) make no reference to these islands or any precise geographic locations, and all of the products included under the ISI already enter the United States at zero MFN duty rates under the WTO Information Technology Agreement (ITA). [This issue is addressed in section III.C(c) of this review.]

<sup>4</sup> See 2003 *World Development Indicators* (Washington, DC: World Bank, 2003), pp. 14-16.

<sup>5</sup> Taken from unpublished tabulations from the Current Population Survey, Bureau of Labor Statistics, U.S. Department of Labor.

<sup>6</sup> See *World Development Indicators* (Washington: World Bank, 2003).

<sup>7</sup> Employment in agriculture is the proportion of total employment recorded as working in the agricultural sector. Agriculture includes hunting, forestry, and fishing, corresponding to major division 1 (ISIC revision 2) or tabulation categories A and B (ISIC revision 3)

<sup>8</sup> Employment in industry is the proportion of total employment recorded as working in the industrial sector. Industry includes mining and quarrying (including oil production), manufacturing, electricity, gas and water, and construction, corresponding to major divisions 2-5 (ISIC revision 2) or tabulation categories C-F (ISIC revision 3)

<sup>9</sup> Employment in services is the proportion of total employment recorded as working in the services sector. Services include wholesale and retail trade and restaurants and hotels; transport, storage, and communications; financing, insurance, real estate, and business services; and community, social, and personal services—corresponding to divisions 6-9 (ISIC revision 2) or tabulation categories G-P (ISIC revision 3).

<sup>10</sup> Current Population Survey, Bureau of Labor Statistics, U.S. Department of Labor: <http://www.bls.gov> .

<sup>11</sup> The reported unemployment rate is for the civilian labor force 16 years or older and is an annual average for 2002. For more information see the US Bureau of Labor Statistics web site: <http://www.bls.gov> .

<sup>12</sup> See *The Employment Situation: December 2002*, US DOL, BLS (released January 2003).

<sup>13</sup> Taken from unpublished tabulations from the Current Population Survey, Bureau of Labor Statistics, U.S. Department of Labor.

<sup>14</sup> Taken from unpublished tabulations from the Current Population Survey, Bureau of Labor Statistics, U.S. Department of Labor.

<sup>15</sup> See *Productivity and Costs, Preliminary Fourth Quarter and Annual Averages for 2002*, U.S. Department of Labor, Bureau of Labor Statistics, February 2003.

<sup>16</sup> *Productivity and Costs, Preliminary Fourth Quarter and Annual Averages for 2002*, U.S. Department of Labor, Bureau of Labor Statistics, February 2003.

<sup>17</sup> *Productivity and Costs by Industry*, U.S. Department of Labor, Bureau of Labor Statistics, April 2002.

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<sup>18</sup> In Singapore, the labor force is defined as “persons aged 15 years and over who were either employed or unemployed during the reference period.” See Ministry of Manpower, Manpower Research and Statistics, Concepts and Definitions, <http://www.mom.gov.sg>.

<sup>19</sup> *Manpower statistics in brief*, Singapore Ministry of Manpower.

<sup>20</sup> *Annual Manpower Statistics*, Singapore Ministry of Manpower, Manpower Research and Statistics Department.

<sup>21</sup> *Annual Manpower Statistics*, Singapore Ministry of Manpower; see web site: <http://www.mom.gov.sg>.

<sup>22</sup> ILO, Laborsta.

<sup>23</sup> Preliminary estimate (Singapore Ministry of Manpower).

<sup>24</sup> *Manpower Statistics in Brief*, Singapore Ministry of Manpower, 2002.

<sup>25</sup> Trade ranking are compiled by the World Trade Organization (WTO); see *International Trade Statistics 2001*, Table I.5 (Geneva: World Trade Organization, 2001), p. 21.

<sup>26</sup> Trade ranking are compiled by the World Trade Organization (WTO); see *International Trade Statistics 2001*, Table I.5 (Geneva: World Trade Organization, 2001), p. 21.

<sup>27</sup> Since U.S. employment data from the U.S. Bureau of Labor Statistics (BLS) were available only on a SIC basis, U.S. trade data in this review have been tabulated on a SIC basis for the purposes of impact analysis. BLS will begin publishing current U.S. employment data on the new North American Industry Classification System (NAICS) basis, beginning with the release of May 2003 data in June 2003.

<sup>28</sup> *Trade Policy Reviews: Singapore: March 2000* (Geneva: World Trade Organization), press release March 22, 2000.

<sup>29</sup> See, *2003 National Trade Estimate Report on Foreign Trade Barriers* (Washington, DC: Office of the United States Trade Representative, 2003), p. 342.

<sup>30</sup> Total foreign direct investment in the United States amounted to \$1,321 billion in 2001, with Singapore accounting for slightly less than 0.5 percent. See *Foreign Direct Investment in the United States: Country Detail for Selected Items, International Accounts Data*, Bureau of Economic Analysis, U.S. Department of Commerce, updated July 10, 2002, at <http://www.bea.gov/bea/di/fdi-ctry.htm>.

<sup>31</sup> Chapter 98 of the Harmonized Tariff Schedules (HTS) of the United States contains provisions related to foreign processing of U.S. materials; duties are assessed only on the foreign value added and not on the U.S. content value. Chapter 99 of the HTS contains special or temporary duty exemptions.

<sup>32</sup> Duties were collected on another \$94 million but, for technical reasons, U.S. Customs Service did not calculate an estimated duty.

<sup>33</sup> This paragraph is based on information in the *2002 National Trade Estimate Report on Foreign Trade Barriers* (Washington, DC: Office of the United States Trade Representative, 2002), pp. 374-380.

<sup>34</sup> See *WTO Trade Policy Review: United States, September 2001* at [http://www.wto.org/english/tratop\\_e/tpr\\_e/tp172\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp172_e.htm), and *Statement on Foreign Direct Investment Policy* (U.S. Department of Treasury, December 26, 1991).

<sup>35</sup> See *USTR Fact Sheet*, December 16, 2002, at <http://www.ustr.gov>.

<sup>36</sup> See Drusilla K. Brown, Alan V. Deardorff, and Robert M. Stern, “Multilateral, Regional, and Bilateral Trade-Policy Options for the United States and Japan,” Research Seminar in International Economics Discussion Paper No. 490 (Ann Arbor, MI: The University of Michigan, School of Public Policy, December 16, 2002). The paper is available at <http://www.spp.umich.edu/rsie/workingpapers/wp.html>.

<sup>37</sup> For further information about the model, see <http://www.Fordschool.umich.edu/rsie/model>.

<sup>38</sup> See Robert Scollay and John P. Gilbert, *New Regional Trading Arrangements in the Asia Pacific? Policy Analyses in International Economics*, No. 63 (Washington, DC: Institute for International Economics, 2001).

<sup>39</sup> See Drusilla K. Brown, Alan V. Deardorff, and Robert M. Stern, “Multilateral, Regional, and Bilateral Trade-Policy Options for the United States and Japan,” Research Seminar in International Economics Discussion Paper No. 490 (Ann Arbor, MI: The University of Michigan, School of Public Policy, December 16, 2002). The paper is available at <http://www.spp.umich.edu/rsie/workingpapers/wp.html>.

<sup>40</sup> For textile and apparel goods made of non-originating fibers or non-elastomeric yarns used in the production of a component of a good that determines the tariff classification of the good do not undergo the applicable change in tariff classification for the good, the total weight of all such fibers or yarns in that component does not exceed 7 percent of the total weight of that component. In other cases, the *de minimis* rule does not apply to: non-originating dairy products, bird eggs, natural honey, and some other edible products of animal origin used in the production of other like products or in ice cream, dried milk, animal

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feeds, or juice products; non-originating fresh or dried citrus fruit used in the production of juices; non-originating animal or vegetable fats and oils, prepared edible fats, or animal or vegetable waxes used in the production of lards, greases, or other oils; non-originating cane or beet sugar and chemically pure sucrose in solid form used in the production of other sugar products; non-originating sugar and confectionary products and cocoa powder used in the production of other cocoa powders; non-originating beer, wine, vermouth, and other fermented beverages; undenatured ethyl alcohol; and spirits, liqueurs, and other spiritous beverages used in the production of other spirits and beverages; and non-originating live animals, vegetables, fats and oils, and prepared food stuffs used in the production of similar goods unless the non-originating material is provided for in a different subheading of the Harmonized Tariff Schedule than the good from which origin is being determined.

<sup>41</sup> The ISI product list is derived from the list of IT products contained in the WTO's 1996 Ministerial Declaration on Trade in Information Technology Products (ITA), under which participants agreed to completely eliminate duties on IT products covered by the Agreement by January 1, 2000, with some developing countries being granted extended periods for some products. More than 50 WTO member-countries (including Singapore and the United States) are parties to the Agreement; collectively, they account for 95 percent of world trade.

<sup>42</sup> See U.S. Bureau of Labor Statistics web site at: <http://www.bls.gov/iag/iag.manufacturing.htm>.

<sup>43</sup> For example, Women's EDGE published a comprehensive methodology for conducting a gender assessment for trade and investment agreements. See *Framework for Gender Assessments of Trade and Investment Agreements*, The Coalition for Women's Economic Development and Global Equality, 2002. See also, Heather Gibb, *Gender Mainstreaming, Good Practices from the Asia Pacific Region*, Asia-Pacific Economic Cooperation (2001), <http://www.apecsec.org.sg>; and *GenderReach*, the Office of Women in Development, United States Agency for International Development web site at: <http://www.genderreach.com>

<sup>44</sup> See for example Kletzer, Lori G., *Job Loss from Imports: Measuring the Costs*, The Globalization Balance Sheet Series, Institute for International Economics, September 2001.

<sup>45</sup> The Declaration, enacted by the ILO in 1998, commits all member countries to "... promote and to realize, in good faith and in accordance with the Constitution, the principles concerning the fundamental rights which are the subject of those Conventions, namely: (a) freedom of association and the effective recognition of the right to collective bargaining; (b) the elimination of all forms of forced or compulsory labour; (c) the effective abolition of child labour; and (d) the elimination of discrimination in respect of employment and occupation."

<sup>46</sup> See, [www.ustr.gov](http://www.ustr.gov).

<sup>47</sup> Services that require a commercial presence, and, therefore, investment in the host-country, come under the scope of the Investment Chapter of the FTA, rather than the Services Chapter, which focuses on cross-border services.

<sup>48</sup> A separate Financial Services Chapter applies to the provision of banking and financial services, including those that require a commercial presence. Disputes that emerge under this chapter, however, are subject to the provisions of the investor-state disputes resolution procedures of the Investment Chapter, though the scope of disputes subject to these procedures is narrower than in the case of other investments.