

Singapore's Bilateral Free Trade Agreements: Institutional and Architectural Issues

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Concluded bilateral FTAs

- Agreement between New Zealand and Singapore on a Closer Economic Partnership (ANZSCEP)
- Agreement between Japan and the Republic of Singapore for a New-Age Economic Partnership (JSEPA)
- EFTA-Singapore FTA
- US-Singapore FTA
- Singapore-Australia Free Trade Agreement (SAFTA)

General principles

- Flexibility, variations, choice
- Implementation, administrative documentation
- Creative, innovation for nature & structure
- Domestic interests balanced with regional and multilateral protocols
- Satisfy individual FTA partners
- FTAs with developed industrial OECD economies set principles
- US competitive liberalisation policy
- Singapore as firstmover sets template?
- Competitive global political economy

Rules of origin

- Only goods originating from parties of a FTA can benefit
- ROOs determine nationality of product
- To qualify as originating, product must either be wholly obtained, or for manufactured products, have undergone "substantial transformation"
- Main principle of ROO for manufactured products is country of origin is last country where a substantial transformation took place

Rules of origin

- Three main criteria of "substantial transformation"
 - change in tariff classification (CTC)
 - value added rule (VA), ie, local content rule
 - process rule
- Each rule applied in isolation, in alternative or in tandem
- Applied as a general rule to all products, appearing in main text, eg ANZSCEP
- Or as product specific rules in annex, listing all products covered, eg US-Singapore FTA

Change in tariff classification (CTC)

- Eg: Beer under 2203
- Focus on transformation of imported or nonoriginating inputs into finished product
- Substantial transformation occurred with change in tariff classification
- Water + Malt (imported) + Other inputs (imported) --> Beer
- 11 + 25, 32 --> 2203
- (11, 24, 32, 2203 represent tariff classifications under the Harmonised System Nomenclature)
- Imported or nonoriginating inputs undergo requisite CTC rule
- Final product (beer) is substantially transformed in Singapore, is a Singaporean good
- Harmonised System of Classification categorises products into chapters (2-digit), headings, (4 -digit) and subheadings (6-digit); chapter change requires change at 2-digit level, a heading change, at 4-digit and subheading change, at 6-digit

Process rule

- Eg any good as a product of a chemical reaction considered to be an originating good if chemical reaction occurred in territory of parties
- Rule occasionally applied to chemicals and petrochemical products
- Product has to undergo specific production process in Singapore
- Hydration, dissolution, crystallisation and other simple chemical processes are generally not origin-conferring

Variations from conventional ROOs

- Variations from last country of substantial transformation occurs 2 ways
 - outward processing (OP)
 - integrated sourcing initiative (ISI)
- Outward processing (OP) is unique production pattern for Singapore
- Part of manufacturing process (lower VA or labour-intensive) outsourced
- Stage 1 Stage 2 Stage 3
- Singapore ---> Foreign Country ---> Singapore ---> Exported
- Conventional ROO --> Stage 3 = Local Content
- Recognition of OP --> Stage 1 + Stage 3 = Local Content
- Thus, conventional ROO does not allow activities in Singapore prior to outward processing to be counted towards local content
- Under OP concept, such activities counted towards local content
- NB: only products with VA rule can recognise OP
- Recognition of OP leads to recognition of various stages of manufacturing chain as a Singapore group
- Encourages higher value activities to be retained, outsourcing labour-intensive, low VA processes
- OP important, entrenched in every single concluded Singapore FTA

Integrated Sourcing Initiative (ISI)

- 2nd variation ISI in US-Singapore FTA
- ISI for nonsensitive, globalised sector, eg IT
- Certain IT components & medical devices not subject to ROOs when shipped from either of parties
- ISI reflects economic reality of global distributed production
- Encourage US MNCs to take advantage of ASEAN country's relative comparative adv

2 categories of products for ROO

- Wholly obtained products, eg orchids grown in Singapore, automatically accepted as originating in Singapore
- Manufactured products are made
 - from exclusively Singaporean or respective FTA partner's materials
 - products made from Singaporean, respective FTA partner's
 - from imported materials
 - or a combination of any materials from these sources
- Most of exported products belong to this category, ie, products manufactured in Spore from materials, components or parts
- Eg: petroleum refined in Spore from imported crude oil, electric smoothing irons assembled in Spore from both imported/nonoriginating and locally produced components
- These products considered originating in Singapore if they meet following product-specific rules in respective FTAs

JSEPA

- Each product has at least one corresponding specific ROO
- Substantial transformation occurred if CTC rule is met
- Final product undergone change in tariff heading (CTH; a different 4-digit heading) from materials used in production
- Singapore obtained additional flexibility for 264 products of interest to Singapore, with provision of 2 alternative specific rules
- Each of 264 products qualify for preferential tariff treatment if it has undergone requisite change in tariff heading, or its Spore content is at least 60% of selling (free-on-board, fob) price
- Manufacturers that source inputs from overseas can include Japan or Singapore component of these inputs towards 60%
- Concept of OP is recognised in JSEPA

EFTA-Singapore FTA

- Each product has at least one corresponding specific ROO
- Like JSEPA, substantial transformation occurred if final product underwent change in tariff heading (CTH, a different 4-digit heading) from materials used in its production
- For some products, VA rule provided for in ROO
- Under VA rule, products qualify for preferential tariff treatment if Singaporean content meets specified percentage of ex-works price
- Manufacturers that source inputs from overseas can include EFTA or Singapore component of inputs toward specified percentage
- Depending on product, specified local content ranges from 40% to 80% ex-works price
- For some chemicals/petrochemical products, a process definition is provided for in ROO
- Under this rule, products which undergo the specified manufacturing process or processes in Singapore will be considered Singapore origin
- Concept of OP is recognised in this agreement

Singapore-Australia FTA

- All products need only fulfil a general rule of specified threshold of local value content of either 30% or 50%
- Generally, ROO requires Singaporean content is at least 50% of cost price
- For selected products important to Singapore, listed in annex, threshold of content is lower, at 30% of cost price
- Singapore manufacturers that source inputs from overseas can include Australian component of these inputs as part of Singapore content
- Concept of OP is recognised

US-Singapore FTA

- Each product has at least one corresponding specific ROO
- ROO for certain products requires that imported inputs used in manufacture of final product within Spore are classified under different tariff classification from final product
- For some electronic products, VA rule of 30–60% must be satisfied
- For certain chemicals/petrochemical products, specified process must occur in Spore, eg specific chemical reaction
- Concepts of OP and ISI are recognised in US-Singapore FTA

Other lessons

- Like-minded politicians and bureaucrats
- Small, soft power, by its reputation and credibility
- Spaghetti bowl effect in ROO variations among various FTA partners is tradeoff for flexibility and adjusting to different demands
- In any case, different regimes in terms of regulatory, legal and other standards are realistically as prevalent and difficult
- Hub-and-spoke effect depends on bilateral FTAs revolving around US, EU and Japan
- Even if exemplary, Singapore is price-taker
- Deal with all levels of constituencies, NGOs, political economy, ASEAN as a soft skill in bilateral FTAs