Chapter 10

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CHAPTER 10

The Use of Free Trade Agreements by Manufacturing and Services Firms in Singapore

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As a trade-dependent country with a small domestic market, Singapore has a policy of signing regional and bilateral free trade agreements (FTAs) with established trading partners and of opening new economic links. However, there are no official statistics regarding the utilisation of FTAs by companies in Singapore. Feedback from focus group discussions with the relevant organisations in Singapore indicates that the utilisation of FTAs is relatively low. This is in part because the majority of firms in Singapore are small and medium-sized enterprises (SMEs) and are unable to meet the rules of origin (ROO) requirements. However, FTAs are utilised by large Singapore-based firms in the wholesale and retail, chemical and pharmaceutical, and consumer electronic industries. Greater awareness may be necessary to improve the knowledge of FTA procedures and their benefits in Singapore among SMEs. From the perspective of Singaporean firms, it is also important that future FTAs of the Association of Southeast Asian Nations (ASEAN), such as the Regional Comprehensive Economic Partnership, recognise Singapore's role as a re-export centre and a base for sales agents involved in third-country invoicing.

Keywords: ASEAN, FTA, small and medium-sized enterprises (SMEs), re-exports, trade

JEL Classification: F13, F15

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1. Context

1.1. Background

Singapore's economy is one of the most trade-dependent in the world, with the total value of the republic's trade (SGD984.9 billion [US$794.9 billion]) reaching nearly three times the size of its gross domestic product (SGD 345.6 billion [US$278.9 billion]) in 2012 (Department of Statistics, 2013). The Government of Singapore has been extremely eager to sign free trade agreements (FTAs), perceiving them as superhighways that connect Singapore to major economies and new markets.

An FTA is a legally binding agreement between two or more countries designed to reduce or eliminate barriers to trade and to facilitate the cross-border movement of goods and services between the territories of the parties. Singapore has also signed economic partnership agreements and comprehensive economic cooperation agreements with its trading partners. These treaties cover the typical contents of an FTA but may also include other areas such as investment regulations and cooperation across various fields. For the purposes of this paper, the term 'FTA' is used in a general sense referring to all of Singapore's trade agreements, including economic partnership agreements and comprehensive economic cooperation agreements.

Since Singapore signed its first FTA under the Association of Southeast Asian Nations (ASEAN) Free Trade Area (AFTA) in 1993, its network of FTAs has expanded to cover 21 multilateral and bilateral agreements, either established or concluded and waiting to come into force. Singapore believes in simultaneously supporting multilateralism at the World Trade Organization (WTO) level, even as it signs regional and bilateral FTAs. Singapore's FTAs are all WTO consistent or WTO-plus (beyond what have been agreed by WTO agreements) and the country has made great efforts to reaffirm the primacy of the WTO system.

Singapore uses FTAs as instruments of foreign and economic policy to consolidate relations with selected countries and regions. FTAs are intended to open up markets for Singaporean exports, as well as attract foreign direct investment into Singapore's manufacturing sector. The domestic market is small and Singapore negotiates FTAs to ensure market access not only for Singaporean exporters but also for foreign companies based in Singapore. Singapore's FTAs reflect the country's existing trade and investment linkages with markets and demonstrate the desire of policymakers to expand trade with new markets. Singapore's approach to FTAs is partially a platform to encourage broader regional liberalisation at the ASEAN and APEC levels (Rajan, et al, 2001). In several instances, Singapore's FTAs have served as pathfinders for economies seeking to sign FTAs with ASEAN. To date, only the People's Republic of China has signed an FTA with ASEAN without first signing one with Singapore.

1.2. Questions

In principle, Singapore's FTAs have been credited with helping Singapore-based businesses strengthen cross-border trade by eliminating or reducing import tariff rates, providing preferential access to goods and services, easing investment rules, improving intellectual property regulations, and opening government procurement opportunities. However, the actual utilisation rate of Singapore's FTAs by private companies is not clear, as there are no official statistics or reports regarding the use of FTAs by firms in Singapore. The government has launched FTA outreach programmes under International Enterprise (IE) Singapore to encourage the business community to take advantage of the opportunities provided by FTAs, but it is unclear how successful these efforts have been. Many large foreign and domestic firms based in Singapore have likely benefited from various FTAs signed by Singapore and they would be expected to have a reasonable utilisation rate due to scale effect, margin effect, and rules-of-origin (ROO) effect as described by Hayakawa et al (2009). However, small and medium-sized enterprises (SMEs) would be expected to have a considerably lower utilisation rate of FTAs than large firms, as substantiated in other ASEAN countries by past studies.

This study examines the current and planned use of FTAs by Singaporean firms, and highlights the businesses' concerns regarding Singapore's FTAs, such as ROOs and the process of applying for Certificates of Origin (COOs).

In other related country studies conducted by the Economic Research Institute for ASEAN and East Asia (ERIA) and partner organisations, the manufacturing and services sectors have been analysed individually. However, the feedback from focus group discussions (FGDs) conducted by the Singapore Institute of International Affairs (SIIA) was that the situation in Singapore is distinct from other ASEAN member states. Due to

Singapore's size and land area, manufacturing is considered a key part of Singapore's economy and manufacturing firms are limited in terms of scale and source of inputs. Much of Singapore's trade in goods consists of re-exports or involvement by Singapore-based sales agents as third-country invoicing companies for trade between other economies. This could be considered to be a utilisation of FTAs by firms in the services sector, namely the wholesale and retail, as well as financial and logistics industries. This paper considers the manufacturing and services sectors in parallel, given the context of Singapore's economy. Therefore, by definition, the use of FTAs is primarily for exporting goods and may include back-to-back (B2B) COO arrangements in the logistics and financial service sectors as Singapore does not have duties for importing goods.

1.3. Objectives

There have been many studies on the economic impact of FTAs using computable general equilibrium models, as a simulation analysis to investigate the likely impacts of FTAs. These analyses are useful for formulating FTA policies but they do not discern the actual impacts of FTAs on the business practices of firms in Singapore, particularly among SMEs. From the quantitative data and qualitative information obtained from FGDs and the relevant agencies and organisations, we aim to assess the use of FTAs by Singapore-based manufacturing and services companies and provide policy recommendations.

2. Key Findings

Attempts at administering the standardised survey designed by ERIA were relatively unsuccessful. The survey was administered to three targeted industrial cluster groups by International Enterprise (IE) Singapore, the government agency responsible for FTA matters under the Ministry of Trade and Industry. We also engaged a private consulting and survey firm to approach 2,000 manufacturing and services companies. IE Singapore was not able to disclose the total number of firms approached in its cluster groups due to confidentiality reasons but indicated that it was in the thousands. Despite these efforts, only 10 companies agreed to respond to the survey, eight of which were in manufacturing. Seven respondent firms were from the groups approached by IE Singapore. The final survey compliance rate was far below original expectations, even with the backing of a major government agency and its extensive contact list.

Given the low number of survey respondents, FDGs with agencies and organisations in Singapore were conducted, including IE Singapore, Singapore Customs, chambers of commerce, and the Japan External Trade Organization (JETRO) Singapore. The aim of the FGDs was to understand the nature of business practices in Singapore and the reasons why firms may or may not make use of FTAs. These contribute to the observations and conclusions in this paper (Appendix 1).

Singapore companies that utilise FTAs tend to prefer the use of multilateral FTAs corresponding to Singapore's main trade partners, such as AFTA or ASEAN–China FTA (ACFTA). It appears that the majority of firms in Singapore (largely SMEs) do not use FTAs, a conclusion supported by studies on the issue. However, FTAs are utilised by large companies, multinational corporations (MNCs), and group companies in the wholesale and retail, chemical and pharmaceutical, and consumer electronic industries.

Despite efforts by IE Singapore to promote awareness of the benefits of FTAs, most firms do not seem to think that sufficient information is available regarding the benefits of FTAs and the proper procedures for their use.

2.1. Use of FTAs

2.1.1. Use of FTAs, by Firm Characteristics (Size, Ownership, Location, Exporting or Importing)

Singapore practices free trade in goods, with only six tariff lines imposed on alcoholic beverages, and has a policy of unrestricted imports of industrial inputs. As such, FTAs do not significantly benefit importers as goods already enter Singapore duty-free. In general, manufacturing firms must import inputs given the small size of Singapore and its lack of natural resources (only one firm surveyed stated that it does not import manufacturing inputs). The People's Republic of China was the most commonly cited source of manufacturing inputs.

Eight manufacturing firms responded to the survey. All sell to the domestic market, while six also export to other markets. Seven said they have knowledge regarding

Singapore's FTAs but only three state they utilise FTAs and COOs for exports. Two of the three are SMEs and one is a large pharmaceutical and health product firm.

All the companies listed Singapore as their main country of investment, with a majority Singaporean ownership, occupying an array of locations, from industrial zones to no specific zones. The small geographic size of Singapore may mean that location is a relatively minor factor in determining a firm's propensity to utilise FTAs.

The small number of valid respondents to this survey means that the data cannot be considered conclusive. However, previous studies have indicated that there does not appear to be a distinction between domestic and foreign ownership in determining the likelihood of a firm to use FTAs. Singaporean law makes few distinctions between domestic and foreign ownership of companies, and Singapore's trade and investment policy is intended to facilitate imports and exports by all companies regardless of ownership (Chia, 2011). Government agencies and others consulted in FGDs confirmed this characterisation of the business environment in Singapore.

2.1.2. Survey Results of the Use of FTAs, by Agreement

The small number of respondent firms means that the data regarding which FTAs are in use is not definitive: only three firms confirmed the use of FTAs—led by AFTA and ACFTA. Two firms confirm the use of AFTA while two firms utilise ACFTA. This is consistent with ASEAN and the People's Republic of China being the leading trade partners of Singapore. One firm also confirms the use of or interest in Singapore's bilateral and ASEAN-level agreements with Australia, India, and Japan. Singapore is party to both bilateral and ASEAN FTAs with each of these countries.

The FGDs confirm that AFTA and ASEAN-plus agreements are the most commonly used agreements by Singaporean companies. IE Singapore and Singapore Customs think that most companies in Singapore that utilise FTAs generally prefer to use Singapore's multilateral FTAs or bilateral FTAs rather than bilateral FTAs, as there are apparently more benefits for exporters. For instance, firms may prefer to use ACFTA rather than the China-Singapore FTA when exporting products to the People's Republic of China. However, JETRO Singapore notes that, in its experience, most Singaporean firms exporting to Japan utilise the Japan–Singapore Economic Partnership Agreement (JSEPA) rather than the ASEAN–

Japan Comprehensive Economic Partnership (AJCEP). This is because JSEPA has been in effect longer than AJCEP and covers more areas than AJCEP, so there is little incentive for firms to utilise AJCEP.

Notably, many firms in Singapore may not have a reason to utilise FTAs (such as AFTA) in trade between neighbouring countries in ASEAN, given that the tariffs for goods in many product areas are already zero or minor. The use of Form D for AFTA was reported by firms in this study and the FGD with JETRO Singapore confirmed that AFTA remains a popular FTA among companies in certain sectors, but other studies (Chia, 2011; DP Information Group, 2006) have reported a low rate of utilisation for AFTA. This may be because the margin of preference is small, although the use of Form D may become more appealing when the export volume of goods increases as a result of the ASEAN Economic Community.

In the official data on the use of FTAs over the years, there is no official report or study on the utilisation rates of Singapore's numerous FTAs. Singaporean government agencies (IE Singapore and Singapore Customs) do not release any official statistics on the use of FTAs. In ASEAN, only Thailand and Malaysia officially publicise detailed data pertaining to FTA utilisation. In Singapore, government agencies are willing to answer queries regarding FTA use but are concerned about releasing detailed information due to sensitivities or the lack of their own survey data. In the absence of official data, a comparison with previous academic and commercial studies is provided below.

Consultancy firm DP Information Group’s *SME Development Survey* has been cited by the Singapore Ministry of Trade and Industry and IE Singapore in presentations on FTA utilisation. These figures, however, are not considered ‘official’ by the Singaporean authorities, given that DP Information Group has not shared the profile and details of the surveyed firms. The *SME Development Survey 2006* states that only 11 percent of Singapore’s SMEs use FTAs. Among these SMEs, the Singapore–India Comprehensive Economic Partnership Agreement has the highest utilisation rate (68 percent), with the US–Singapore FTA having the second highest (47 percent) (DP Information Group, 2006).

An Asian Development Bank and Asian Development Bank Institute study was conducted by SIIA Senior Fellow Dr. Chia Siow Yue and published in 2011.[2] This study

[2] Dr. Chia’s 2011 study does leave out several FTAs that were in effect by 2011 as the study was initiated prior to 2011 and the data collected in 2009–2010.

covered 75 respondent firms with only 13 firms reporting the existing use of FTAs or 17.3 percent, although when utilisation is broadened to include planned utilisation, the rate rises to 28 percent (Chia, 2011). To date, this is the most comprehensive academic study on FTA utilisation in Singapore. Of the firms in this study, 52 were classified as SMEs but not as defined in Singapore. A portion of the remaining 23 firms could be considered SMEs in a Singaporean context. AFTA is the most popular FTA among firms, with seven actual and four planned utilisations. The Singapore–US FTA has the second-highest utilisation rate with a total of six actual or planned utilisations. This was followed by the Singapore–India Comprehensive Economic Cooperation Agreement, with no actual but six planned utilisations. These figures contrast with the higher utilisation rate reported for the Singapore–India Comprehensive Economic Partnership Agreement by DP Information Group, but the relatively small number of firms reporting the use or planned use of FTAs in both studies may account for the discrepancy.

Singapore's top destinations for non-oil domestic exports by export value are ASEAN (primarily Malaysia, Indonesia, and Thailand), the European Union (EU), the People's Republic of China, and the United States (US). This would suggest relatively high utilisation rates for Singapore's multilateral and bilateral FTAs with ASEAN (AFTA), the People's Republic of China (ACFTA), and the US (USSFTA). Singapore has signed an FTA with the EU but it is not due to come into force until 2015. The results of this report and other studies on FTAs utilised by firms appear broadly consistent with Singapore's chief export destinations. The one anomaly is the Singapore–India Comprehensive Economic Cooperation Agreement: at the national level, Singapore's export value to India is not high in comparison with the above countries. However, trade between Singapore and India has expanded significantly since the 1990s, which could account for the cooperation agreement being popular among exporting firms.

Table 10.1. Current and Planned Utilisation of Existing FTAs (ADB)

FTA	Number of firms currently using	Number of firms planning to use	Total current and planned	Distribution of utilisation (%)
AFTA	7	4	11	28.2
Singapore–US FTA	4	2	6	15.4
Singapore–India CEPA	0	6	6	15.4
ACFTA	2	3	5	12.8
ASEAN–Korea CECA	2	1	3	7.7
Korea–Singapore FTA	3	0	3	7.7
Japan–Singapore EPA	1	1	2	5.1
Singapore–Australia FTA	2	0	2	5.1
Singapore–Jordan FTA	0	1	1	2.6
Singapore–New Zealand CEPA	0	0	0	0.0
Transpacific Strategic EPA	0	0	0	0.0
Singapore–EFTA FTA	0	0	0	0.0
Singapore–Panama FTA	0	0	0	0.0
Total	21	18	39	100

ACFTA = ASEAN-China Free Trade Agreement, ADB = Asian Development Bank, AFTA = ASEAN Free Trade Area, CECA = comprehensive economic cooperation agreement, CEPA = comprehensive economic partnership agreement, EPA = economic partnership agreement, FTA = free trade agreement.
Note: Survey of 75 firms. Firms were allowed multiple choices.
Source: *Asia's Free Trade Agreements: How is Business Responding?*(Chia, 2011)

JETRO's annual *Survey of Japanese-Affiliated Companies in Asia and Oceania* covers Japanese-affiliated firms, which are defined as having direct or indirect Japanese investment of 10 percent or greater. In the FY2012 study (JETRO, 2012), 29.9 percent of firms (214 of 715) approached by JETRO Singapore responded to the survey. Singapore had the second-lowest response rate among the countries covered by JETRO's survey, with Malaysia having the lowest. This may reflect the tendency of Singapore-based companies, even ones with Japanese affiliation, to be more reluctant to divulge information than their counterparts in other countries.

According to the FY2012 JETRO study, 48.2 percent of respondent firms in Singapore use FTAs. Singaporean firms showed the sixth-highest utilisation rate of FTAs among the Asian and Oceanic countries or regions covered by the study, with the leading countries being the Republic of Korea, Indonesia, the Lao People's Democratic Republic, Thailand, and Sri Lanka. The leading export destination for the Singaporean firms that responded to JETRO is ASEAN, followed by Japan, the People's Republic of China, and India, with FTA-utilising firms employing AFTA, JSEPA, ACFTA, and CEPA. Although JETRO's study focused on the practices of Japanese-affiliated firms, it is likely a representation of the practices of other foreign-affiliated firms and locally owned large Singapore companies, as the results are broadly consistent with those of other studies.

Notably, of the 214 Singaporean firms that responded to JETRO's FY2012 survey, 85.5 percent are classified as services firms, covering the wholesale and retail (including trading and logistics), transport, construction, finance and insurance, communications and software, and other industries. They include the respondent firms whose parent companies are in manufacturing. Because the Singapore subsidiaries are trading firms, they should be considered non-manufacturing companies.

2.1.3. Perception of How FTAs Affect Decisions to Invest, by Firm Size

Only one firm that responded to the ERIA survey states that it considered FTAs when deciding to establish its business in Singapore. It is a large firm that utilises FTAs in its exports. The company states that it considered ACFTA when locating its business in Singapore. Another reason for this decision was taxation. The firm noted that the existence of FTAs with other ASEAN countries, as well as Singapore's FTAs with other markets such as the EU, is a factor in determining potential future overseas expansion, due to lower preferential tariffs from FTAs, good treatment of foreign investors, and strong investment protection. Follow-up discussions with the firm and FGDs with IE Singapore seem to confirm that it is primarily MNCs and large firms that consider the presence of FTAs as a leading factor when making investment decisions. While many of Singapore's SMEs are export oriented, they do not consider FTAs as a major factor in making decisions.

The two SME respondents that utilise FTAs state that FTAs were not a factor in establishing their businesses in Singapore, although lower tariffs, expanding exports, and requests from trading partners are cited as reasons why they chose to use FTAs. The two SMEs that utilise FTAs express strong interest in expanding their businesses overseas, primarily to other ASEAN and Asian markets, but this is not because of Singapore's regional and bilateral FTAs. The other SME respondent firms are also interested in expanding their business operations overseas and only one company says it is not considering overseas expansion.

However, in the FGD conducted by JETRO Singapore, it is noted that for an MNC, large, or group company, the significant number of bilateral and multilateral FTAs that Singapore is party to might constitute a significant reason for companies to establish operations in Singapore.

In Singapore, FTAs are typically used by companies for exports. They are not utilised for imports because Singapore only levies import tariffs and duties on alcoholic beverages. However, for export-oriented companies, Singapore is a compelling location for industries where tariffs commonly exist. By comparison, FTA utilisation in Taiwan is low, according to JETRO figures, as Taiwan is party to relatively few FTAs, mostly with the People's Republic of China. The majority of Taiwanese exports are semiconductors or semiconductor components, a product category covered by the Information Technology Agreement under the WTO. Semiconductors are also a staple export of Singapore and covered under the Information Technology Agreement (Hayakawa et al, 2009). However, Singapore's top exports include product categories such as chemicals and pharmaceuticals, consumer electronics, and processed foodstuffs, which are typically dutiable items in most countries. Singapore's FTAs make the country an attractive location for businesses, including foreign firms, to establish production in these sectors.

According to JETRO, the chemical and pharmaceutical industry in Singapore has benefited the most from Singapore's FTAs. Singapore is also considered an oil hub and one of the world's top three export refining centres. The oil refinery sector contributed almost five percent of Singapore's gross domestic product in 2007. It is likely that the oil sector could also be considered a major beneficiary of Singapore's FTAs. In addition, JETRO Singapore believes that Japanese-affiliated manufacturing firms in the consumer electronics and foodstuffs sectors have chosen to establish regional operations in Singapore specifically to take advantage of its FTAs. The wholesale and retail, logistics, and other related sectors are also prominent in Singapore, given the country's role as a hub for agents and re-export firms.

2.1.4. Constraints on Using FTAs, by Firm Size

In addition to being a large company under Singaporean law, the large company that responds positively to the use of FTAs is also a subsidiary of a larger Singapore MNC. It is therefore not surprising that it has greater institutional bandwidth to make use of FTAs than SMEs, along with a greater scale of business to make using FTAs an attractive proposition.

Since Singapore is an island city-state, manufacturing SMEs encounter difficulties in meeting the ROO requirements because of their high use of imported inputs. This is a common concern expressed by not only SMEs but also IE Singapore, Singapore Customs, and other organisations consulted in FGDs. SMEs also appear to face administrative challenges when applying for COOs given their relative lack of expertise and manpower (Appendix 1).

2.1.5. Perceptions of the Costs and Procedures of FTAs, by Firm Size

All three respondent firms that utilise FTAs perceive as reasonable the cost and length of time taken to acquire COOs. However, several respondent firms that do not currently use FTAs express reservations regarding the length of time required to acquire a COO.

Singapore Customs does not charge processing fees. However, the actual application for a preferential COO requires the request to be submitted via TradeNet, Singapore's electronic National Single-Window system. A processing fee of SGD 10(equivalent of USD 7.30) is paid to TradeNet's operators rather than to Singapore Customs, so the cost of acquiring a COO in Singapore is SGD 10 (equivalent to USD 7.30), which is comparable to or lower than the US$10–15 charged in most ASEAN countries. Companies' chief concern regarding applications for COOs in Singapore is not the monetary fee involved but the length of time and the procedures necessary.

The first stage of securing a COO in Singapore requires a factory and manufacturing premise to be registered with Singapore Customs, which may be made online. Singapore Customs will arrange to inspect the factory to determine if it complies with production and book records. This stage can take up to one week. Upon successful factory registration, in the second stage the company must submit a cost statement of its products to verify that they meet the ROO. This stage takes two to three days. Once verified, the cost statement is valid for one year, although any changes in sourcing patterns may require a new statement to be submitted. Finally, once the factory is registered and the cost statement verified, companies may now apply for their preferential COOs for shipments under the online TradeNet system. Singapore Customs recommends that the TradeNet application for an export be made at least one week before it is due to be shipped. However, once approved, the COO may be collected within two to four working hours of confirmation being sent. Collection is made in person from Singapore Customs.

The average length of time a new exporter would take to go through Singapore's three-step application process for the first time is estimated at two to three weeks. This period may be longer than that of other ASEAN members with shorter screening processes. In Indonesia, on-site factory tours are conducted simultaneously with the initial cost-statement screening and the process can take up to three days to complete. In the Philippines, on-site factory inspections by the Bureau of Customs are not required in all instances and are only conducted when necessary.

However, based on consultations with Singapore Customs, it appears that the maximum processing times allowed in the Singapore preferential COO process are conservative estimates to account for any potential delays. Singapore Customs has reported that the two- to three-week window reported by companies is an accurate estimate of average waiting time. However, Singapore Customs has noted that the hold-up in the process is the requirement for a factory site visit and most of the waiting time comes from having to schedule a visit by a customs officer. In some cases, Singapore Customs has been able to schedule visits within 24 hours of receiving an application, resulting in a faster overall processing time.

The above process assumes that a company has ready access to the TradeNet software and personnel familiar with its use. Most firms that import and export already use TradeNet in some capacity, but a firm that does not have the software or personnel familiar with Singapore Customs regulations may have to acquire a TradeNet software license or engage an agent to submit their COO applications, thus incurring additional third-party fees.

Concerns regarding the cost and time of applying for COOs in Singapore are prevalent among SMEs, which are not likely to have the in-house expertise to complete the process rather than the actual monetary cost or time (rather than application fees or time-consuming procedures imposed by the Customs)

Along with Brunei, Malaysia, and Thailand, Singapore Customs has been conducting the ASEAN pilot Self-Certification Scheme since November 2010 with selected companies. Under this scheme, certain exporters in Singapore are able to use commercial invoices to self-declare the country of origin for their goods instead of requesting a COO from Singapore Customs. The scheme has been deemed successful in Singapore and is expected to be extended to all ASEAN countries by 2016.

2.1.6. Main Sources of Information About FTAs

The sources of information cited by the seven manufacturing firms that stated they have knowledge of FTAs were varied. The government was the most commonly cited source, with three firms stating they received information about FTAs from the government. Business associations, trading partners, the media, and chambers of commerce were also mentioned as sources. It should be noted that in the Singaporean context, media coverage regarding the use of FTAs is often attributable to IE Singapore, a government agency. IE Singapore 'markets' Singapore's FTAs by producing brochures, organising FTA events, as well as providing web articles and online access to the legal texts of the country's FTAs.

When asked to assess whether the available information regarding FTAs is good or poor, only four firms, or 50 percent, say it is good. Despite most firms possessing some degree of knowledge about FTAs, they state that more could be done to raise awareness of FTAs and answer private sector queries about FTAs. Six firms, or 75 percent, call for more information to be made available online, such as via websites, e-mail, or other platforms. Three firms suggest that more seminars and events be organised to educate firms about FTAs, especially if they are sector-specific rather than general. Publications and a telephone hotline to answer queries are other suggestions made by firms. The fact that most companies state that improvements could be made suggests that the various outreach programmes conducted by the government and other parties could be improved, especially in informing SMEs about FTAs.

2.1.7. Other Interesting Issues that Need to be Highlighted

Perceived Issues in Using FTAs

Beyond the issues of cost and time to apply for COOs in Singapore, companies and government agencies indicate there might be potential problems on the receiving end for exports that could discourage firms from using FTAs. The feedback from companies is that, even if exported goods clear Singapore Customs quickly, there are delays in importing at the destination country when FTAs are used, e.g. Form E, F, D, etc. Attempting to bring a shipment through customs under an FTA may draw additional attention from customs officials, resulting in delays.

Due to Thai authorities performing thorough checks on imports, Thailand is perceived to be the market that presents the most problems for Singaporean companies. Thai customs officials often direct many queries to the importers and exporters instead of to the Singaporean issuing authority. Thai officials also generally request cost statements from companies, which some Singaporean firms are unwilling to share. Thus, many firms opt to pay full duties when exporting to Thailand to avoid administrative difficulties and delays. Indonesia is cited as another country where Singaporean exporters opt to pay duties instead of utilising FTAs, especially given Indonesia's anti-dumping rules and the requirement that trade go to different ports across the country. Although the imposition of anti-dumping duties is not linked with the utilisation of FTA, there is a perception among exporters that exporting to Indonesia by using preferential tariffs and to the primary seaport as Tanjung Priok (Jakarta) would be more likely to be imposed anti-dumping duties by Indonesian Customs

Although ASEAN has implemented a harmonised system of codes and tariffs, the feedback from Singapore's private sector is that different countries—or even officials at different ports within a country—may have different interpretations of the system. Some companies claim that declaring goods under an FTA results in greater customs scrutiny. Once a query is created by customs authorities, the shipment will be delayed, with extra charges involved. Therefore, many Singaporean firms opt to forgo the extra savings from using an FTA, as they would rather their goods reach the customer more quickly.

With the increase in direct FTAs between Singapore's trade partners, there is a perception among some Singaporean firms that Singapore's role of the middleman in trade is being lost. That being said, the rate of FTA utilisation in Singapore might improve when the flow and volume of trade increase because of scale effect. The margin effect could become smaller but it would be more than compensated for by an increase in the volume of trade.

FTAs Seen as Unnecessary

It appears that many companies in Singapore are already exporting to free trade zones and under special arrangements with tax benefits. In many export destinations for Singaporean firms, governments may grant exemptions and tax holiday or special status to certain industries to promote development. In ASEAN, such investment incentive schemes mean that firms do not need to use FTAs to trade at zero tariff rates. This includes export processing zones and customs bonded areas. The major sectors of intra-regional trade in ASEAN are also in industries where general tariff rates are already low (electrical machinery, for example) or in sectors where ASEAN has a major share of world trade.

ROOs and the Singapore Context

The inability of Singaporean firms to meet ROOs in exports is due to Singapore's small geographic size and because most manufacturing inputs are imported. Singapore's FTAs, especially its bilateral agreements, do utilise ROOs intended to address these concerns.

Under the outward processing rule, a product can accumulate value for manufacturing work done outside Singapore as Singaporean content, provided the final-stage processing, assembly, or testing is done in Singapore. Under the integrated sourcing initiative, certain goods not made in Singapore may be deemed of Singaporean origin if they are exported from Singapore. An example is the US–Singapore FTA, where ASEAN products are often exported to the US market through Singapore.

However, despite these provisions, many firms do not think that they are able to meet ROO requirements, as confirmed by anecdotal evidence from Singapore Customs, the agency in charge of issuing COOs to exporters and ensuring that exports comply with ROOs.

Third-Country Invoicing and the Singapore Services Sector

COOs for goods are issued by the exporting country. However, the agent for the sale is located in a third country and is responsible for determining the prices of products. Commercial flows go through the third country rather than directly between the exporting and importing country.

For instance, Company A in Thailand exports goods to Company C in Indonesia via direct consignment with the COO issued in Indonesia. However, the agent for the sale is Company B in Singapore. Company A issues the first invoice to Company B, which then issues the second invoice to the importer, Company C. Goods shipped in this fashion still qualify for preferential tariff treatment even if the sales invoice is issued by a company in a country that is not part of the FTA being used to conduct the exports and imports. Singapore commonly serves in this capacity for trade conducted under ASEAN's FTAs such as AFTA, AJCEP, ACFTA, and AKFTA (Shiino, 2012).

Third-country invoicing has several benefits for companies. MNCs and affiliated firms within a group of companies are able to concentrate commercial flows through a Singapore office, resulting in greater efficiency. Firms thus practice a ‘division of labour’, where the Singapore branch company or regional office specialises in handling sales transactions and invoicing, even though manufacturing is not in Singapore. Beyond MNCs and group companies, manufacturing firms in ASEAN countries that have less marketing and sales expertise are able to benefit by collaborating with agents in Singapore, as it may be cheaper and more efficient for firms to conduct sales through an agent.

Singapore is a popular location for MNCs to establish regional headquarters and for sales agents to be located. This in part is due to Singapore's relatively low corporate tax and income tax. Singapore has only one rate of tax imposed on companies, 17 percent, compared with other ASEAN countries where the corporate tax rate generally ranges from 20 to 30 percent. Singaporean firms or the Singapore branches of MNCs and groups are heavily involved in third-country invoicing. The FGDs held with JETRO Singapore confirm that this practice accounts for a sizable proportion of FTA utilisation in Singapore. Such firms should be considered services firms in the wholesale and retail industries. In FGDs, it was noted that it is extremely important for Singaporean firms that third-country invoicing be included in FTAs signed by Singapore and ASEAN. When ACFTA initially came into effect, third-country invoicing was not an option, although it was implemented in October 2011.

Back-to-back (B2B) COOs and Re-Exports

AFTA and ASEAN-plus FTAs allow for B2B COO arrangements. Under B2B arrangements, products are exported from one FTA member economy to an intermediate economy where it can undergo bulk breaking, packaging, and other operations before being transported to its final destination. A second COO may be issued by the intermediate country but the goods do not lose their originating status from the initial exporter despite passing through an intermediate country.

For example, Company A in Thailand exports 100 units to Company B in Singapore, which keeps the goods in stock in a warehouse. Company B in Singapore subsequently re-exports part of this stock, 30 units out of the original 100, for example, to Company C in Indonesia. As the number of units being re-exported from Singapore to Indonesia differs from the original consignment, the original COO issued in Thailand no longer matches the shipment and it cannot be considered a shipment under direct consignment rules. A second invoice and B2B COO is thus required from Singapore (Shiino, 2012).

This form of stock operation is commonly practiced among the ASEAN economies. It reduces lead time, allowing goods to be kept in inventory at a location closer to the eventual customer or closer to regional port facilities. Singapore is used for such warehousing given its strategic location as a port, its established logistics industry, and national legislation intended to facilitate re-exports from Singapore. For instance, firms may apply to have their warehouse or part of their premises to be exempt from Singapore's goods and services tax, meaning that the goods and services tax is not charged for goods stored in or sold from the warehouse, provided they are for re-export. The goods and services tax only applies if goods are removed from the warehouse for local use.

Singapore's status as a re-export and warehousing hub for regional trade within ASEAN and between ASEAN members with ASEAN-plus FTA partners means that B2B COO arrangements account for a sizable proportion of FTA utilisation in the logistics services sector in Singapore.

However, one concern raised by Singapore-based companies is the inclusion of the free-on-board price on COOs. This is not beneficial to re-exporting firms and agents as the final purchaser is able to view the original procurement price and they are able to calculate the re-exporting firm or agent's margin of profit. This may lead purchasers to renegotiate contracts or request lower prices from the re-exporter or agent. This practice is being abolished under AFTA and is effective from January 2014, but it is still required by most of ASEAN's FTAs and remains a concern for companies.

3. Key Recommendations

Although FTA utilisation among Singaporean firms does not appear to be extensive, the perception among firms is that the use of regional FTAs is preferable to bilateral FTAs for two reasons. First, there is generally a larger market space under regional FTAs for Singaporean firms to take advantage of and, second, regional FTAs are seen to have better constructed ROOs than bilateral FTAs. This bodes well for the potential utilisation of ASEAN and ASEAN-plus FTAs by Singaporean firms.

The only case where firms appear to have a distinct preference for a bilateral FTA between Singapore and the trading partner over the multilateral FTA under ASEAN is JSEPA, which has been in effect longer than AJCEP, its ASEAN-Japan counterpart. JSEPA also covers a larger range of product categories.

Indonesia has yet to ratify AJCEP, which means that Indonesian-supplied raw materials coming to Singapore do not help accumulation by firms exporting their products to Japan. Given Singapore's small size and its heavy reliance on imported inputs for manufacturing firms, accumulation and value-added rules under FTAs are crucial for allowing Singapore products to qualify under ROOs.

Companies that provided feedback to this study said they believed there is insufficient information available in Singapore on the benefits of FTAs and how firms, especially SMEs, can use them. This perception exists despite IE Singapore's extensive efforts to disseminate information regarding FTAs, such as sending representatives to local and overseas speaking events; holding free seminars and workshops, including an FTA certificate programme; offering free one-to-one consultations to companies; and collaborating with industry experts, chambers of commerce, and business associations.

IE Singapore notes that its outreach efforts are voluntary on the part of firms. The agency can only assist companies if they register for its events and request consultation. It may be that the level of resources devoted to organising government-sponsored activities is sufficient, but there is not enough media publicity and visibility given to these efforts in Singapore.

The awareness and use of FTAs in Singapore appear to be increasing but slowly. According to a senior official from Singapore Customs, the view of officers on the ground is that the situation is changing. Several years ago, only MNCs and large Singaporean firms made extensive use of FTAs. While Singapore Customs was not able to provide statistics, it did confirm that it is seeing an increasing number of SMEs approaching Singapore Customs to apply for preferential COOs, which Singapore Customs attributes to the awareness-building and outreach efforts of IE Singapore. IE Singapore has expressed some optimism that as trade volume increases in Asia and across the world, FTA utilisation in Singapore will increase correspondingly.

However, the size of firms and the sector of industry play an important role in deciding to utilise FTAs in Singapore. Meanwhile, Singaporean firms will continue to face challenges from ROO regimes. The value-added rule is simple in principle but difficult for Singaporean companies to comply with, and the administrative cost of compliance to prove the origin is high, even for firms that qualify. Singapore has been one of the world's most active countries in reaching FTAs with its trade partners, but this has resulted in multiple and overlapping FTAs, or the 'noodle bowl' syndrome.

Concern is growing in Singapore that the country's SMEs are being inadvertently 'left behind' by economic development and the push towards regional integration. Measures need to be in place to improve FTA utilisation rates among Singapore SMEs and awareness and education among Singapore's private sector could be strengthened. At the official level, the process of implementing FTAs, facilitating the movement of goods and services, and reducing the cost of doing business across borderless markets could be further improved, to meet the goals of ASEAN's regional economic integration.

From the perspective of Singapore-based MNCs, large firms, and group companies involved in regional trade, it is critical that ASEAN's trade agreements accommodate the role of re-export firms and agents located in third countries. This is a sensitive issue, as Singaporean firms cannot be seen to be unduly profiting from their trade partners and violating transfer-pricing guidelines. However, Singapore does play an important role in trade as a re-export centre and as a strategically located port with well-developed financial and logistics services sectors. This role should be acknowledged in negotiations for the Regional Comprehensive Economic Partnership and other future ASEAN-led multilateral trade agreements. With the proper provisions, Singapore, its fellow ASEAN members, and ASEAN's trading partners should mutually benefit from the grouping's current and future FTAs.

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Appendix 1: Focus Group Discussions on FTA Utilisation

IE Singapore

The Singapore Institute of International Affairs (SIIA) team began its research by approaching IE (International Enterprise) Singapore for consultations on free trade agreement (FTA) utilisation in Singapore. IE Singapore is an organisation under the Ministry of Trade and Industry and is the lead agency of the Singapore government in spearheading Singapore-based companies to export to regional and global markets. Through its divisional director and staff, IE Singapore assured the SIIA research team of its assistance whenever possible in conducting this research project.

However, the SIIA research team was also informed that IE Singapore had previously attempted its own surveys to assess and monitor the use of FTA by Singapore-based companies. The information obtained from IE Singapore's own assessments is considered strictly confidential and the information, particularly company identities and profiles, are not allowed to be published. IE Singapore confirmed there is no official report on FTA utilisation rates in Singapore.

IE Singapore also stated that the compliance rate of the Singapore private sector in submitting completed questionnaires on the subject of FTAs is extremely poor. This is based on its own experience in attempting to conduct such studies, one reason why there is no official report of the subject in Singapore. This is because surveys conducted by IE Singapore are not legally mandatory, unlike industrial surveys and census taking by the Department of Statistics. Another important reason is the perceived fear of many Singapore-based companies, particularly SMEs, of revealing their business operations to their rivals as domestic competition is so severe. Singaporean firms seem to be extremely reluctant to reveal their views via surveys, particularly ones that ask questions about their sales and future expansion strategy. Feedback from IE Singapore indicates many firms believe that revealing their strategies may harm their individual company's interests, as any revealed information may be used by competitors.

The overwhelming majority of companies in Singapore are small and medium-sized enterprises (SMEs), making up 99 percent of the total number of registered businesses in Singapore (SPRING Singapore, 2013). SMEs are defined in Singapore as having not more than 200 employees with an annual sales turnover of not more than SGD 100 million (equivalent to USD 73 million). Many SMEs may not be willing to respond to a survey given their limited manpower and resources and they, similarly, may not have much knowledge of FTAs or the organisational capacity to make use of them. Most of IE Singapore's outreach efforts regarding FTA use are directed at SMEs, with the assumption that large Singapore or foreign-owned firms and multinational corporations (MNCs) have adequate internal capability to take advantage of FTAs.

IE Singapore considers that companies may not want other companies to know they are using FTAs or that the use of FTAs is common in their sectors. The firms utilising FTAs may wish to benefit from first-mover advantage. IE Singapore has an ongoing search for 'success stories' on the use of FTAs by Singaporean firms that they could convey to the Ministry of Trade and Industry and publish publicly. So far, it has not been able to find many companies willing to serve as examples. Most success stories cited by IE Singapore and the Ministry of Trade and Industry are from government-linked companies such as Keppel Corp, or from very specific sectors such as OWL International Pte Ltd, a beverage company. IE Singapore believes companies are reluctant to share their successful formulas and are not willing to warn rivals of problems they have previously faced.

This attitude may be short-sighted on the part of firms, as first mover advantage is likely to diminish quickly regardless of their actions. Feedback from Singapore industries would make for better future FTAs and help increase the overall utilisation rate. However, IE Singapore indicates that the above reflects the general sentiment in the Singapore business community.

As this study on the use of FTAs in Singapore is in line with IE Singapore's primary objectives, IE Singapore agreed to help administer the questionnaire template designed by the Economic Research Institute for ASEAN and East Asia (ERIA) to its network of Singapore-based companies. After three rounds of distributing the survey forms to its targeted manufacturing and services cluster groups, IE Singapore received only seven completed survey forms. Due to confidentiality reason, IE Singapore could not disclose the total number of firms in its manufacturing and services clusters, but indicated that thousands of firms had been approached.

Although lacking concrete quantitative evidence to support the estimate, IE Singapore believes that more than half of the companies in Singapore think that there is no need to use FTAs at all, given the perceived minimal difference in savings or the expected administrative costs. It is not clear how extensive the remaining half might be using FTAs, and some companies that may otherwise have interest in FTAs are nonetheless unable to qualify it for their use. However, IE Singapore notes that it has had more detailed interactions with SMEs on the use of FTAs, compared to interactions with large companies, as large companies have their own research departments and are more knowledgeable on the benefits and preferences of using FTAs and thus do not need to consult IE Singapore.

Consulting and Survey Firm

To supplement the ERIA-designed survey, the SIIA research team approached a specialised survey firm recommended by IE Singapore. This survey firm approached more than 3,000 firms in manufacturing and services clusters as follows.

Five-hundred manufacturing firms were approached with number of employees between 100 and 500. The sectors included electronics (250 firms), chemicals (125 firms), furniture (58 firms), and computer and IT (65 firms). Three-hundred-and-fifty building and construction firms were approached, with number of employees between 50 and 3000. The sectors included building materials (167 firms), plumbing (46 firms), electrical (25 firms), surveyor (25 firms), and mechanical and electrical (87 firms).

Two-hundred food and beverage firms were approached, with number of employees between 50 and 300. The sectors included food (120 firms), storage (25 firms), and services (55 firms). An additional 200 firms from categories not fitting the above were approached with varied numbers of employees.

However, only three firms agreed to respond to the survey. The majority of companies approached by the survey firm were also SMEs, which may in part account for the lack of response.

Singapore Customs

The research team also held informal consultations with Singapore Customs to get further information and insight into the use of FTAs by Singapore-based companies. Singapore Customs was not able to offer support due to strict administrative and confidentiality limits. The SIIA spoke to a senior Singapore Customs official overseeing Certificate of Origin (COO) and rules of origin (ROO) matters. Unfortunately, Singapore

Customs also indicated it could not release any statistics on the profile of firms applying for COOs via Singapore Customs or the preferred FTAs of these firms.

Singapore Customs provided extensive details regarding the application process for COOs in Singapore, as well as the concerns expressed by private sector firms. In addition, Singapore Customs elaborated on their experiences administering ROOs and COOs. In the case of Singapore, many firms cannot meet the ROOs for their products. This is a common problem for all companies but especially true for SMEs. Given that Singapore is an island city-state, most raw materials and many manufacturing inputs do not come from Singapore. Many trading firms do not have significant value-add to their products. Many companies are unable to make use of FTAs despite a willingness to do so. In our consultations with Singapore Customs, it was noted that most exporters are import/export firms rather than manufacturers, considering Singapore's small size. Thus, relatively few product categories exported from Singapore would qualify under ROOs, these being mostly consumer products.

SMEs often do not use FTAs, although obtaining COOs in Singapore is relatively simple, convenient, and can be initiated electronically. In some ASEAN countries, the lack of use of FTAs may be due to cumbersome procedures in obtaining COOs. This problem does not exist in Singapore. The process is very transparent, although personal follow-up visits and inspections are required. Singapore Customs noted that the number of SMEs applying for and successfully securing COOs does appear to be on the rise. Singapore Customs confirmed that 10–15 years ago, MNCs and large companies were primarily the ones exporting goods under FTAs with very few SMEs making use of FTAs. A greater number of SMEs are now applying for COOs, a slow but rising trend. Singapore Customs attributes the increase to IE Singapore's outreach efforts.

Chambers of Commerce

The SIIA research team also held FGDs with the Singapore Chinese Chamber of Commerce and Industry, the largest in Singapore. The research team met with the staff of the department that is in charge of assisting its members to export and take advantage of the FTAs that Singapore has concluded. The information provided by the chamber of commerce is consistent with those given by IE Singapore, results from submitted questionnaires, and Singapore Customs. According to this chamber of commerce, it seems that many firms in Singapore believe they do not need to use FTAs, as margins of preference may be very narrow. If projected savings are minimal, for instance, only one to two percent of most companies would bother utilising FTAs.

JETRO Singapore

At the recommendation of ERIA, SIIA held a focus group discussion with JETRO Singapore to discuss and compare findings from the annual *Survey of Japanese-Affiliated Companies in Asia and Oceania*. JETRO Singapore was also consulted on the prevailing sentiments and feedback regarding this issue by Japanese-affiliated firms in Singapore.

In comparison to the other focus group discussions, which focused on locally owned Singaporean companies and SMEs that do not employ FTAs in their businesses, the feedback from JETRO Singapore gave insight into the perspectives of MNCs, large companies, and group companies that make significant use of FTAs. JETRO Singapore was able to highlight Singapore as an attractive investment destination for firms seeking to make use of its FTAs in product categories that typically have tariffs in most countries.

JETRO Singapore noted Singapore's unique position as a re-export and services centre, housing sales agents, logistics firms, and other companies that are heavily involved in regional trade in goods but cannot themselves be considered manufacturing firms. Most Japanese-affiliated firms in Singapore that use FTAs would qualify as services sector firms, but are linked to merchandise trade. JETRO Singapore recommended that an analysis of FTA utilisation by Singapore-based firms should not separate the manufacturing and services sectors, but rather examine them as an integrated whole. JETRO Singapore also commented on the features of Singapore and ASEAN's FTAs most relevant to firms operating in the above sectors, such as third country invoicing and Back-to-Back COOs.

Conclusion

The usage of FTAs by Singapore's SMEs is still small relative to its large companies, although some focus group discussion participants noted that utilisation by SMEs is slowly rising. The issue is not so much complicated procedures, as it is the perceived relative benefit of using various FTAs. Many expressed the view that there is ample room to implement more user-friendly rules and regulations as well as conducting a wider outreach and dissemination of information on the benefits of using FTAs. Partly due to the lack of widespread utilisation of FTAs, and the perceived trouble involved in using FTAs, many firms, particularly SMEs, have been very ambivalent and reluctant to even discuss the topic. Changing this perception will require a focused effort from Singapore government agencies, think tanks, private sector groups, and other stakeholders.

For Singaporean firms that use FTAs, it is important that future FTAs signed by Singapore and ASEAN ensure the liberalisation in key sectors such as chemicals/pharmaceuticals and take note of Singapore's role as a re-export and logistics centre for the region.