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The EU-Singapore Free Trade Agreement heralds a commitment on both sides to continue building trade opportunities and to keep trade flowing and growing, says SMU's Locknie Hsu.



Pioneering British engineer and founder of the Dyson company, James Dyson, plans to start building electric cars at a plant in Singapore. (Photo: AFP/Christophe ARCHAMBAULT)

SINGAPORE: Trade is very much in the news these days, mostly because of the ongoing trade war between the United States and China.

In the face of this and other challenges, many businesses must make risk assessments and operational adjustments to take in the new, volatile economic and political landscape.

Against this backdrop, the recently inked EU-Singapore Free Trade Agreement (EUSFTA) stands out and is significant for a few reasons.

ENCOURAGING TRADE BETWEEN SINGAPORE AND THE EU

First, it provides businesses of Singapore and the EU countries better access to each other's markets.

For Singapore small- and medium-sized enterprises making goods ranging from samosas and belacan chilli to electrical equipment, the agreement will potentially open doors to the EU market by removing or reducing barriers which may otherwise hinder or delay trade. Similarly, EU suppliers of goods and services will enjoy greater access to the Singapore market.

Second, the EUSFTA joins a number of other recently concluded bilateral and regional agreements (including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or the CPTPP Agreement) which continue to promote trade liberalisation, the streamlining of rules and the reduction of red tape.

Although broader trade negotiations at the World Trade Organisation have stalled, agreements such as the EUSFTA allow countries to continue to work with trade partners to open up their markets.

Such agreements provide concrete and legally binding commitments by countries to enhance market access for a wide range of goods and services, which is a welcome assurance and friendly signal to businesses.

PRE-CURSOR TO A WIDER FTA

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Third, the EUSFTA will be a useful pathway to explore a wider trade arrangement between the EU and ASEAN as a whole.

Fourth, when the United Kingdom exits the EU in March 2019, the EUSFTA can serve as a convenient reference for negotiations between Singapore and the UK, should they wish to form a bilateral free trade agreement fairly quickly.

Fifth, for Singapore, the EUSFTA provides another reason for businesses to consider it as a base for business activities, as Singapore's various trade agreements allow goods made in the nation-state to enjoy preferential access in a large number of markets.

This is bolstered by Singapore's strong trade infrastructure and connectivity, which help goods move more efficiently from its factories to overseas markets.

This, in turn, can help such goods to better compete in global markets. Importantly, the concept of "ASEAN cumulation" found in the EUSFTA opens the possibility for various products to be considered as being made-in-Singapore (to qualify for the FTA's benefits), even if some of their components are sourced from the ASEAN region.

MAKING SINGAPORE AN ATTRACTIVE BASE FOR BUSINESS

Finally, while goods made in other ASEAN countries, such as Malaysia and Vietnam, also enjoy preferences in their own FTA partner countries, Singapore is presently the only ASEAN country which simultaneously has preferential trade agreements with its ASEAN neighbours, China, India, Japan, Korea, Australia, New Zealand, the US, and possibly soon, the EU, and CPTPP countries such as Chile, Mexico and Peru as well.

Singapore manufacturers would therefore be able export to such destinations while taking advantage of the various trade benefits offered by these agreements.

Taking the recent announcement by Dyson as an example, its electric cars to be made in Singapore will enjoy various preferences when those cars are exported to the countries with which Singapore has FTAs.

More significantly, this means that Dyson – a British company – may have preferential access for its Singapore-made products in many markets, including the EU's, subject to the terms of the EUSFTA, despite Brexit.

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Better access to the EU market also awaits those who provide financial, e-commerce and other services.

STRENGTHENING TRADE AND INVESTMENT TIES BETWEEN SINGAPORE AND THE EU

The EU-Singapore relationship is not only being strengthened in the area of trade but also in the area of cross-border investment.

The EUSFTA met a speed bump in May 2017 when the European Court of Justice ruled that its investment protection provisions (including those on investor-state dispute settlement) were matters which had to be approved by each EU member state.

Undeterred, the EU and Singapore reworked the EUSFTA, removing and reworking its investment provisions. The new investment provisions are now housed in a separate agreement, the EU-Singapore Investment Protection Agreement (EUSIPA).

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The EUSFTA can now proceed for approval by the European Parliament, while the EUSIPA awaits individual EU members' approval. This way, the EUSFTA benefits can become available sooner for EU and Singapore businesses.

Should the EUSIPA receive the requisite EU members' approval, Singapore and EU investors will then additionally also enjoy investment protection benefits – such as certain guarantees as to how Singapore investors - who, for example, acquire or set up businesses in the EU - will be treated in the EU, and vice versa.

Against a global backdrop of the US-China trade war and growing protectionism, the EUSFTA heralds a refreshing commitment between Singapore and the EU to continue building trade opportunities and to keep trade flowing and growing.

Locknie Hsu is Professor at the School of Law at the Singapore Management University.

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