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Singapore Upgrades FTA Network – New Agreements with MERCOSUR and China

Singapore and MERCOSUR sign Free Trade Agreement

What is MCSFTA?

Singapore signed a **new Free Trade Agreement (FTA) with MERCOSUR** on 7th December 2023, at the 63rd Summit of Heads of State of MERCOSUR and Associated States in Rio de Janeiro, Brazil. MERCOSUR is an economic and political bloc in South America consisting of Argentina, Brazil, Paraguay, and Uruguay. Negotiations for the MERCOSUR-Singapore Free Trade Agreement (MCSFTA) commenced in 2018. The substantial conclusion of negotiations was announced in July 2022. The five involved nations will now start the domestic ratification process for the deal to come into force. Similar as with other MERCOSUR FTA'S, it will enter into force on a bilateral basis once it is ratified and notified by all partner countries.

The FTA with Singapore is MERCOSUR's **first with a Southeast-Asian country**.

Key Areas of the FTA

The agreement addresses areas such as trade in goods, customs procedures and trade facilitation, rules of origin, government procurement, trade in services, micro small and medium enterprises, services and investments and e-commerce in 15 chapters.

The FTA consolidates that all products MERCOSUR exports to Singapore are exempt from **tariffs and duties** immediately after the agreement comes into force. Vice versa, 95.8% of tariffs on Singaporean products exported to MERCOSUR will gradually phase out, with 25.6% of tariff lines being immediately eliminated. Other tariff lines will be gradually liberalized in equal annual stages according to the following schedule: 4 years (12.5% of TLs), 8 years (40.9%), 10 years (15.1%) and 15 years (1, 7%).

The chapter's regulatory framework aims to enhance transparency and openness in **public procurement** by establishing rules for non-discrimination of foreign suppliers and transparency obligations during bidding processes. These rules apply to covered bidding entities at various government levels, covering goods and services based on agreed thresholds that may vary between the contractual parties. **Negotiated exceptions** allow to safeguard sensitivities and utilize government purchases for strategic sectors, public policies, and initiatives such as supporting Micro and Small Enterprises, technological development, and public health. The negotiating parties aimed for the normative text to be **consistent with the WTO Government Procurement Agreement (GPA)**, while Singapore also aligned its coverage with recently negotiated agreements such as RCEP and CPTPP.

Regarding **e-commerce**, all parties made commitments to enhance cooperation in cybersecurity and promote digital trade facilitation including electronic authentication and paperless transactions. The provisions also include prohibitions of server location requirements and collecting customs duties on electronic submissions. One of the main goals is to **enhance trust in the digital economy** through stronger protection of costumers. The e-commerce chapter has been described as the **most comprehensive framework** for this modality of commerce, that MERCOSUR has established with an extra-regional partner yet.

While the treaty adopts **trade remedies** measures as provided by the WTO, it also includes some provisions that beyond the WTO framework. As such, the **bilateral safeguarding mechanism** can be used to protect against import surges with potentially negative consequences for domestic industries following the liberalization. It can be used for industrial and agricultural products during the transition period which relates to the timeframe defined in the Tariff Liberalization Schedule of the respective good plus an additional time-period of 3-5 years. A **bilateral safeguard** may be applied and enforced for **up to two years**, with gradual liberalization taking place if it is in place longer than one year. The safeguard can be renewed once.

Goals and aims

According to Singapore's Ministry of Foreign Affairs and Ministry of Trade and Industry, Dr Vivian Balakrishnan, one of the main aims of the Free Trade Agreement is to **enhance and facilitate trade between the five nations** through simplified customs procedures and increased transparency, to allow goods to be cleared more efficiently, as well as on enhancing stability and predictability to raise investor confidence. Additionally, the agreement aims to increase cooperation between the parties in areas of mutual interest such as helping small and medium-sized enterprises (SMEs) develop, competition law enforcement, e-commerce, and cybersecurity. Concrete goals for example are to engender entrepreneurship, speed up digitalisation, boost sustainable development, ensure food supply security, work to facilitate digital trade and build up trust in the digital economy with fair opportunities to all countries' citizens.

Trade between MERCOSUR and Singapore

MERCOSUR represents combined the 8th largest economy worldwide, with a combined GDP of S\$3.6 trillion. Merchandise trade between Singapore and MERCOSUR in 2022 accounts for 45% (S\$13.8 billion) of Singapore trade with the Latin American region. Singapore domestic exports to MERCOSUR represent 0.1275% of their overall domestic exports. Imports from the four MERCOSUR countries accumulate to 1.64% of total merchandise imports. Trade in services in 2021 accounted for 40% (S\$7.6 billion) of the trade with Latin American countries. Direct Investment Abroad (DIA) by Singapore in the MERCOSUR countries was S\$1.66 billion at the end of 2021.

Singapore and China sign the Free Trade Agreement Further Upgrade Protocol

Context of the CSFTA Further Upgrade Protocol

When the China-Singapore Free Trade Agreement (CSFTA) got signed in 2008, it was the first comprehensive bilateral FTA that China concluded with an Asian country. Subsequently, the CSFTA Upgrade Protocol was signed in 2018 and came into force in 2019. On 8th December 2020, the two countries announced the commencement of negotiations on further upgrading the FTA. After the negotiations had been concluded in April 2023, the two governments announced the signing of the CSFTA Further Upgrade Protocol on 7th December 2023 during the 19th Joint Council for Bilateral Cooperation (JCBC) Meeting.

Key provisions of the Further Upgrade Protocol

The Further Upgrade Protocol (FUP) introduces some major changes and liberalizations, particularly for service suppliers and investors. For **services and investments**, so far, the CSFTA applied a positive list approach. With the FUP, the positive list will be replaced with a **negative list**, meaning that all sectors and services that are not listed in the Annex of the protocol will be open by default to service suppliers and investors from the partner country under the same conditions as for domestic actors.

That is particularly noteworthy, as this will be **China's first FTA applying the negative list** approach for services and investments. The Chinese Ministry of Commerce (MOFCOM) commented, that the FUP is a first **symbolic step** for China for making negative lists an integral part of future FTAs or FTA upgrades and readying the country for a **potential accession to the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP)**. While the full list is not publicly available yet, it is expected that 22 sectors, including 1) Construction & Related Engineering Services, 2) Retailing & Wholesale, 3) Architectural & Urban Planning Services, 4) Technical Testing and Analysis Services, and 5) Renting & Leasing, will benefit from the new provisions.

As per the new provisions of the service chapter, service providers from the liberalized sectors will also **no longer be subjected to equity limits or local presence requirements**. Also, particularly for **telecommunications services**, a **new chapter** will be added that aims to provide clearer and enhanced transparency regarding telecommunications regulatory processes.

Furthermore, the **investment chapter** will introduce **new rules** that prohibit nationality-based discrimination when an investor first enters a market, performance requirements (e.g. local content requirements and technology transfer requirements), and nationality requirements on the appointment of Senior Management and Board of Directors.

Trade between China and Singapore

China has been Singapore's major trading partner for trade in goods since 2013. In 2022, the trade volume reached US\$127 bln, with Singapore achieving a trade surplus of roughly US\$1 bln. Trade with China made up 12.8% of Singapore's total trade in goods with the world in 2022. In terms of foreign direct investments, Singapore has been China's largest foreign investor since 2007, with China being Singapore's number one destination for investments since 2007.

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