Business Times: EU-S'pore FTA shows free trade is the way to go

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With the EU's market size and its growth prospects, the FTA can only benefit the region

SINGAPORE and the European Union agreed on a Free Trade Agreement (FTA) recently. Its significance in enhancing greater economic and political ties should not be underestimated. The agreement, which has been negotiated for more than two years, will bring dividends for both sides. For Singapore it will mean better access to the EU - the world's most affluent market-place with 500 million consumers. For the EU it implies easier access to the gateway to Asia and Singapore, which already hosts almost 9,000 EU companies. This should be great news for business on both sides.

Singapore and the EU are already major trading and mutual investment partners. Trade in 2011 was worth S$106 billion, making the Republic the EU's largest trading partner in Asean. The EU is Singapore's biggest export destination, ahead of China, the US and other Asean countries. The trade in goods and services grew by 40 per cent between 2009 and 2011. The EU is also a major investor in Singapore, which is Asia's second largest investor in the EU. Once in force, the FTA will enhance the mutual trade and investment even further.

This FTA is a comprehensive, state-of-the art free trade agreement which is adapted to modern service-driven economies. It covers tariff-free access for goods, improved market access for services, reinforced intellectual property protection, competition policy, technical barriers to trade and government procurement. The agreement is also the first "green FTA", especially designed to promote green growth, a must in the 21st century.

Negotiations on investment protection are not yet concluded, as they started later. However, it is expected that this will become part of the overall FTA in due course.

The deal on the FTA was reached in Singapore on the evening of Sunday Dec 16 by Singapore's Trade Minister Lim Hng Kiang and European Commissioner for Trade Karel De Gucht. Once the text has been "cleaned up", the agreement will be formally signed by both sides in spring 2013. The FTA will then have to be approved by the political authorities of both Singapore and the EU.

For the EU, the agreement, which has been negotiated by the European Commission on behalf of the European Union, has to be approved by the 27 member states in the council and the European Parliament.

Ratification of the FTA is expected to take about a year, so the FTA should come into force next year.

Complementing the FTA is a partnership and cooperation agreement (PCA), which remains under negotiation. This comprehensive agreement, which aims at strengthening the overall bilateral cooperation, is expected to be agreed in early 2013 and to be ratified at the same time as the FTA.

The FTA brings significant value to both the European Union and Singapore.

The EU-Singapore FTA is the EU's second with a key Asian trading partner, after the EU-Korea FTA, which has been in force since 2011. It is the first with an Asean country and the first of a series of agreements with the rest of the regional group. Similar agreements with Malaysia and Vietnam are already being negotiated, with hopes to start talks with Indonesia and Thailand. The EU considers the FTAs with individual Asean countries as stepping stones towards a region-to-region agreement. Such an overall agreement with Asean, a fast growing market of 600 million people moving towards the 2015 Asean Economic Community, remains the long-term objective.

For Singapore, the addition of the EU, the world's largest trading bloc of 500 million consumers, will significantly enhance its current network of FTAs covering 18 regional and bilateral agreements with 24 trading partners, including Asean, China, India, Japan, South Korea and the US.

The EU will eliminate tariffs on all imports from Singapore over five years. Eighty per cent of the tariff lines will be covered once the agreement comes into force. This will provide a major boost to Singapore's open economy, where growth has slowed down in recent years.

The EU-Singapore FTA comes amid a series of activities in Asia and elsewhere. The EU recently decided to launch negotiations on an FTA with Japan and similar talks with India have been going on since 2008. Separately, the EU is pursuing an investment agreement with China. Asean and India have agreed on a services and investment FTA. Recently, Asean and the leaders of six other countries agreed to launch the Regional Comprehensive Economic Partnership (RCEP).

In North America, an EU-Canada FTA is imminent while the US remains committed to the Trans-Pacific Partnership Agreement (TPP). With the re-election of President Barack Obama, an EU-US FTA returns to the trans-Atlantic agenda.

The year 2012 saw many visits by leaders of EU institutions and its member states to Asia. This was also in connection with the EU-Asean ministerial meeting in Brunei in April, the Asean Regional Forum in Phnom Penh in July and the Asem 9 Summit in Vientiane in November as well as separate EU-summits with China, India and South Korea. It was also the year that the EU acceded to Asean's Treaty of Amity and Cooperation.

When the presidents of the European Council and the European Commission, Herman Van Rompuy and Jose Manuel Barroso, met Singapore Prime Minister Lee Hsien Loong in the margins of the Asem 9 Summit, they emphasised the importance of the forthcoming EU-Singapore FTA. The FTA thus marks a successful end of a year of increased EU engagement in Asia.

The message from Europe is clear: Free trade is the way ahead - for economic recovery, growth, jobs and innovation. Even when Europe is affected by sovereign debt crises, there is no wish to pursue protectionism. The EU remains the world's largest market and is likely to see growth, albeit modest, in 2013-2014. For this reason also, the new FTA can only benefit Singapore and the rest of South-east Asia.

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