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How to boost Spain's business presence in Singapore: opportunities in the wake of the Free Trade Agreement with the EU

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Theme

This study examines the prospects for increasing Spain's business presence in Singapore, with a particular focus on the improvements foreseen in the Free Trade Agreement that the Asian city-state has signed with the EU.

Summary

The recently signed Free Trade Agreement between the EU and Singapore opens up new business opportunities for Spanish companies on the island, which is already Spain's top trading partner in South-East Asia. One highlight of the accord is the elimination of restrictions on the percentage of foreign investment in financial services and sectors such telecommunications, engineering and shipping. At the same time, the possibility of being able to bid on more government contracts can help companies involved in environmental protection and construction firms. The food industry will benefit from the novel creation of a registry of geographical indications.

Analysis

Introduction

The economy of the Republic of Singapore has traditionally been considered one of the most open in the world, making it an exception in its region.[1] International rankings place the young country among the world's most open economies and most attractive overall investment destinations. Neither its economic structure nor its trade profile are typical of South-East Asia. So it should come as no surprise that Singapore is the first member of the Association of South-East Asian Nations (ASEAN) to sign a free trade agreement with the EU. The deal is comparable in scope to that already signed with South Korea. So the tiny but stunningly successful republic deserves special attention in our series of ARIs on the prospects for

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Spanish companies to do business in South-East Asia.

Singapore and its trade relations with Spain and the EU

Singapore has more free trade agreements –be they planned, under negotiation or signed, sealed and in force– than any other Asian country. Its trade ties with the EU are nothing short of excellent. In the past few years Singapore's rank as a trading partner of the EU has ranged from 12th to 14th, while the EU is Singapore's second most important trading partner. The volume of bilateral trade in goods totalled €51.8 billion in 2012, up 12% from the previous year. As for trade in services, Singapore is even more important to the EU, as it is the bloc's seventh-largest partner. Trade volume in services totalled €27.6 billion in 2011. Among the member states of ASEAN, Singapore is the EU's top trading partner: a third of the trade in goods and half the trade in services between the EU and ASEAN is carried out with Singapore. The situation with regard to investment is similar. The EU is the top investor on the island, while Singapore is the fifth-ranked investor in the EU and its second-biggest Asian investor after Japan. Singapore is known for its business-friendly environment as stated by several agencies including the *Economist Intelligence Unit*. Singapore also ranks high on the list of the world's least corrupt countries as published by *Transparency International*, easily beating its fellow ASEAN members. As shown later in this paper, the free trade agreement reached last year, which is still pending ratification, will increase trade considerably. European Commission forecasts are that European exports to Singapore will grow by €140 billion over the next decade, while Singapore's exports will rise by €350 billion during the same period.

Spanish trade and investment in Singapore

According to data from the Spanish Economic and Trade office in Singapore, Spanish exports to Singapore totalled €838.8 million in 2012 and €791.81 million in 2013, while Spain imported goods from Singapore to the tune of €381.5 million in 2012 and €405 million. In 2013 the main export category was mineral fuels, mineral oil and derivatives, for a total of €150 million. Next come air navigation, machinery, plastics and goods made from them as well as electrical material and video and audio players, all of which exceeded €50 million. In the case of foundries, iron and steel and goods manufactured from them, exports totalled around €45 million each, while essential oils, resinoids and cosmetics recorded a total volume of €35 million. As for goods imported into Spain, the biggest category was machinery with €101 million, followed closely by organic chemicals.

Of the five original ASEAN members, Singapore takes in the largest volume of Spanish exports. In 2012 Spain's exports to Singapore accounted for a third of all of its exports to South-East Asia. That is double the volume of exports to Thailand, Spain's second-largest trading partner in the region, which accounts for 16.6% of the total. Malaysia, Indonesia and the Philippines received less in exports from Spain; in the case of Indonesia and Malaysia the figure was around €380 million. The export volume to Singapore was three times that of the Philippines. The latter posted the smallest volume, at €274 million, or 11% of the total in the region, despite having historical links with its former colonial ruler.

Spanish companies account for just a small percentage of the more than 9,000 European companies that have set up shop in Singapore: only 76 Spanish companies have a physical presence there, and Spain's market share is only 0.29%. To some extent this scant presence stems from limited affinity between the countries' economic sectors. But the psychological and cultural distance that exists with East Asia hinders Spanish entrepreneurs' search for business opportunities. Traditionally, Spanish businesses are more inclined towards Latin America or West Africa.

Investment flows are relatively modest. According to data from 2010, Singapore was the 73rd biggest investor in Spain, while it was 37th in terms of Spain's overseas investment. Foreign direct investment by Singapore in Spain is concentrated in civil engineering, which accounts for 70% of the total, while the rest is divided up among wholesale and retail trade and programming. But Spanish investment flows to Singapore have been aimed mainly at shipping and real estate, according to the Spanish Economic and Trade Office in Singapore. In both directions the investment flows tend to be on the decline, although they are subject to significant ups and downs.

The Spanish secretariat of trade has already proposed a market-developing strategy for Singapore, and it was unveiled in 2013. The goals of the strategy are to raise Spain's market share in Singapore, increase the number of Spanish companies with a physical presence on the island, establish business alliances with Singaporean companies so as to undertake joint projects in other Asian markets, and encourage the channelling of Singaporean financial resources towards Spanish assets. Visits by several government ministers have been arranged as displays of institutional support. Finance Minister Luis de Guindos and Foreign Minister José Manuel García-Margallo visited Singapore in 2012, while Jaime García-Legaz, the Secretary of State for Trade, travelled to the island in both 2012 and 2013. In May 2013 Spain welcomed Grace Fu, who is Deputy Minister of Foreign Affairs and Deputy Minister of the Environment and Water Resources. Spain's market-developing strategy singles out cooperation in naval engineering and ship-building, as well as high-end consumer products and food, as promising sectors. Since Singapore's railway network is scheduled to add 180km of line through 2021, Spain's approach also focuses on railway and signalling equipment as well as train facilities. The infrastructure, urban planning and construction material sectors are deemed to be promising because of planned works in Singapore for it to keep up with its growing population. These include the construction of 200,000 new homes in the period 2013–16. As for investment, according to the priorities set out by the *Economic Development Board*, highlights again include the transport sector (logistics, maritime and port services), chemicals (petrochemicals, special chemicals and those used in food production and cosmetics), biomedical applications, and, finally, electronics, precision engineering and information technology.

Opportunities opened up by the Free Trade Agreement between the EU and Singapore

The goal of the Free Trade Agreement between the EU and Singapore is to facilitate and increase trade in both goods and services, as well as investment flows between the two countries. The accord was signed on 20 September 2013. The European Parliament is expected to ratify the agreement by the end of 2014. From that point on, the accord will be applied on a provisional basis until the national parliaments of the 28 EU member states give it the green light. This process is expected to be smooth, as Singapore traditionally is excellent when it comes to implementing all of its international agreements swiftly and efficiently and the European Parliament has never blocked the ratification of a bilateral trade deal. Judging from the make-up of the new European Parliament, there is no suggestion this practice is going to change.

The accord with Singapore is part of a new generation of free-trade agreements undertaken by the EU under its 'Global Europe' trade policy launched in 2006, in which such accords are to be used as a tool to open up growing Asian markets to European competition. The free-trade accords with South Korea and Singapore, negotiations with India, Vietnam, Malaysia, Thailand and Japan, and an investment agreement with China are the EU's priorities in Asia.

The new-generation free-trade agreements stand out because they involve a much greater degree of market openness than those already in force or being negotiated under the aegis of the World Trade Organisation (WTO). To wit, these new accords feature liberalisation of service sectors, opening up the market for bidding on government contracts to foreign companies, competition policy, laws protecting intellectual property rights, designations of origin and other geographic indicators –in other words, those aspects that were of interest to the US and the EU and abandoned during the Doha Round of WTO trade talks–.

The free-trade accord with Singapore features a series of special characteristics that we analyse here:

- First agreement with an ASEAN member: it is the first free-trade accord between the EU and a member of ASEAN. At first, the EU embarked on negotiations with ASEAN to try to reach a deal between the two regions. But the differing levels of development of the ASEAN members, and thus their divergent interests, made such an accord impossible. In 2010 those negotiations were replaced by bilateral ones. First they began between the EU and Singapore, and later with Vietnam, Malaysia and Thailand, although talks with these countries are going very slowly. There are also plans to negotiate agreements with the Philippines, Indonesia and Brunei. With the least-developed countries of the region –Laos, Cambodia and Myanmar– it was decided to continue with the generalised scheme of preferences. All that said, the fact that the EU is negotiating bilateral accords does not mean it has given up on it original plan to conclude an agreement between the two regions, as senior European Commission officials have stated repeatedly. The agreement with Singapore was intentionally designed to facilitate its integration with similar, future deals with other ASEAN members, thus achieving an inter-regional accord by combining the various bilateral free trade agreements. This same procedure is being used in negotiations towards the *Regional Comprehensive Economic Partnership* in the Asia-Pacific region, which aims to make compatible the series of free-trade accords that ASEAN has signed with China, South Korea, Japan, India, Australia and New Zealand.

- Changes in rules of origin: regional production chains in Southeast Asia are highly integrated. As it strives to create a single market ASEAN has made progress in the 'accumulation' of rules of origin, thus allowing the application of advantages inherent in the free trade accord to certain products which are made with parts from other countries in the region. This makes it easier for production chains to work more smoothly. The free-trade accord with the EU includes the possibility of applying advantageous tariffs to certain goods exported to Europe from Singapore, excluding meat and other foodstuffs, as well other products that have not been sufficiently processed in Singapore.

- Reduction of non-tariff trade barriers on electronics, vehicles, energy equipment and pharmaceuticals: of special importance is the reduction in the number of electronic products that require outside testing and certification. Singapore commits to reviewing the list of products and to keep reducing it, so that European electronics manufacturers can self-certify their compliance with safety rules under ISO/IEC 17050, with no need for external testing and administrative costs which could reach €3,200 per product. Singapore will also accept European safety standards for vehicles and parts, as well as European technical standards for generators and renewable sources of energy.

- First 'green' agreement: the free-trade accord with Singapore includes for the first time a chapter dedicated specifically to trade in environmental goods and services. The accord does away with rules governing the percentage of locally made content that green technology goods must contain, such as wind turbines and solar panels and equipment, thus eliminating non-tariff trade restrictions. This opens up even more opportunities for cutting-edge Spanish solar energy companies which have already done well elsewhere in the world.

The free-trade accord opens up the markets of the EU and Singapore to companies offering environmental services such as treatment and recovery of water or waste treatment. In Asia the demand for such services is forecast to rise significantly due to the region's swelling population and the growth of its cities. These mean higher levels of pollution and growing popular demand for government action to combat it. So companies in this sector could benefit from the opening up of the Singaporean market. Companies that establish an office in the city-state could use it as a staging post for trying to gain a foothold in other markets in the region. This is particularly appealing since negotiations started recently at the WTO to reach an agreement on trade in 'green' goods and services, and China is taking part in those talks.

These days much of the Singaporean market for environmental services such as recycling and waste treatment is controlled by the French multinational firm Veolia, which has been operating in Singapore since it acquired part of the waste treatment company Purechem Onyx in 2006, and by local companies of medium size. Over the past decade, Singapore has undertaken the privatisation of the energy market and begun to seek private investment in the water and waste treatment sector. In a small city-state like Singapore water is a very scarce resource. Consider this as a good example of how important water is: the ministry charged with environmental issues is called the Ministry of the Environment and Water Resources. In fact, Singapore is the only country in South-East Asia that cannot meet its own water needs. It is dependent on Malaysia, and this has caused tension at times with its neighbour and prompted the authorities in Singapore to try to lessen that dependency. Part of the strategy to gain water self-sufficiency is based on increasing the amount of water obtained from desalination plants from the current 10% of total consumption to 30%, and increasing the re-use of water. With this in mind the government will invest in new infrastructure. These plans will offer opportunities to Spanish companies that are positioning themselves as world leaders in the field of desalination equipment. As explained below, the terms of the free-trade agreement with the EU with regard to providing services and bidding on government contracts will improve European companies' access to such contracts.

- Opening up the service sector: the accord will make it easier for European companies to export all kinds of services, regardless of whether the service is provided from the country of origin or from within Singapore itself. The agreement eliminates many of the restrictions that exist on the number of offices and percentage of foreign investment in financial services, telecommunications, engineering, the environment, architecture, computers, shipping and postal services. Under the agreement, both sides will urge their professional associations to work together to develop recommendations for a future agreement for mutual recognition of qualifications in order to favour the provision of services.

- Greater coverage in bidding for government contracts: besides allowing for more service providers, the accord increases the percentage of government contracts that are open to European companies. As it includes bids from agencies exempt from the commitments called for by the WTO in its Agreement on Government Procurement, such as the Public Utilities Board, the National Environment Agency and the Energy Market Authority, the free trade accord with Singapore will give European companies operating in the environmental, energy and utility sectors the opportunity to bid on government contracts. This includes public works contracts for ports, highways, subways and tunnels and infrastructure so long as the contracts exceed 500,000 Singapore dollars, and service contracts in excess of 50,000 Singapore dollars. European companies will be particularly well positioned with respect to competitors from other countries, as this is the first time that Singapore has included such companies in an international agreement.

- Creation of a regime for a registry of Geographical Indications (GI): unlike other free-trade accords the EU has signed, the one with Singapore does not feature a list of geographic indications that are to be protected. Singapore already has a GI protection regime based on the US model of patented brands. Still, at the insistence of the EU, Singapore will create its own GI registry. In April 2014, Parliament passed a law creating the new GI registry system. To a large extent the registry and the process of registering a GI will be based on the European system; to this end Brussels has organised several visits to the EU for the Singaporean officials that will design the registry, although the authorities have also studied the registries of nearby countries such as Thailand. The EU has given Singapore a list with 196 priority GIs, 45 of them Spanish, and these are already being studied by the Singaporeans. However, the system will only be applied once the free-trade accord has been ratified and implemented. Other GIs may be added to the registry once the system is activated. But a request to include a GI in the registry does not guarantee it will be protected; there will be a period of time for other companies operating in Singapore to object to the inclusion of a GI that they consider generic or that they use under a trademark. But the main obstacles involve mainly products of non-Spanish origin. So the new system will encourage export growth for wine and food products with a Spanish designation of origin. The Spanish designations of origin on the list of 196 that the EU has presented to Singapore are these: Málaga, Rioja, Jerez-Xeres-Sherry, La Mancha, Cava, Navarra, Valencia, Somontano, Ribera del Duero, Penedés, Bierzo, Empordá, Priorat, Rueda, Rias Baixas, Jumilla, Toro, Valdepeñas, Cataluña, Alicante, Utiel-Requena; brandy from Jerez, 'pacharán' from Navarra; Mahón-Menorca, Manchego cheese, salt-cured ham from Huelva, salt-cured ham from Teruel, Guijuelo, 'salchichón' (similar to salami) from Vic, 'llonganissa' (a kind of sausage) from Vic, Baena, Sierra Mágina, Oli del Baix Ebre-Montsia, olive oil from Bajo Aragón, Antequera, Priego de Córdoba, Sierra de Cádiz, Sierra de Segura, Sierra de Cazorla, Siurano, olive oil from Terra Alta, Les Garrigues, Estepa and saffron from La Mancha.

- Simplification of non-tariff barriers and sanitary and plant-protection protocols in food products: Singapore will replace its current system of individual authorizations for companies seeking to export to the island with a system of assessing national inspection and certification regimes in EU member states. This will lower costs and waiting times for European exporters. Since Singapore began allowing imports of Spanish salt-cured ham in 2008, consumption of high-end Spanish ham has risen. A total of 27 brands now export to Singapore, including some of the biggest and best known ones. By changing its inspection system, Singapore will make it easier for other companies in the sector to enter the market.

On the downside one can only point to the growing cost of land and rising price of remuneration packages for ex-pat employees. These could water down the incentive for Spanish companies to set up a physical presence in Singpore. It is worth noting that some degree of offshoring is taking place: together, Singapore and Malaysia are developing the Iskandar business complex in Johor Bahru, the area of Malaysia that borders on Singapore. Many Singaporean companies have moved to Iskandar their lesser value-added activities such as manufacturing, storage and inventory, so as to take advantage of big tax breaks, the low cost of land and manpower and the absence of restrictions on hiring. But they have chosen not to move headquarters and high value-added processes, which have remained in Singapore.

Political situation and its implications for the foreign business community

Thank to uninterrupted government by the People's Action Party (PAP), the political situation in Singapore sets it apart from the volatility that is characteristic of other countries of the region. In recent years respect for individual liberties has improved somewhat. In the prestigious index published by Freedom House, the values corresponding to Singapore place it in the category of 'partially free' as of 2012.

Elections held in 2011 marked a political milestone for Singapore. Although the PAP won, its margin was much smaller than in previous elections. Unlike in European countries, voter dissatisfaction did not stem from a decline in the country's level of prosperity, since the economy continues to grow at robust pace. GDP has grown in a sustained fashion: in 2009 it was €139.2 billion; the following year it was €163.8 billion and the year of the elections in 2011 it hit €176 billion. The fall in support for the only party ever to have been in power in Singapore seems to have derived from a deeper social inequality. Closely linked to this is the perception that the significant opening of the Singaporean market benefits foreign professionals more than it does local ones. Traditionally, it was government policy to allow the generous hiring of foreign professionals. Initially conceived as a way to stimulate the economy and attract foreign companies, another motivation was added: easing the demographic deficit caused by a birth rate that is far below what is needed for a generation to replace itself: at 1.28%, it is comparable to Spain's. But the publication of plans to increase immigration levels with the goal of reaching a population of 6.9 million people in 2030, up from 5.4 million now, triggered controversy and became a key issue in the electoral debate. So the government has gradually toughened legislation on employing foreigners. Although it has drawn criticism from small-and medium-sized companies, the government refuses to ease the limitations. This toughening is already having negative consequences for Spanish professionals seeking opportunities in Singapore. Nonetheless, it should be noted that the Spanish community in Singapore has grown from 500 in 2008 to around 1,500 in 2014. Foreign companies with a physical presence on the island are also seeing their flexibility limited when it comes to hiring, particularly in middle management and jobs requiring lower skills. In fact, small- and medium-sized Spanish companies have expressed discontent with the new restrictions on hiring foreign staff in their units in Singapore. The free-trade agreement counters this problem to some extent: the chapter on services, establishment and e-trade allows companies to use ex-pats as executives, managers or specialists for a maximum of five years. It also allows the use of interns with university degrees for one year, while professionals offering services are allowed to set up shop for up to a year. These terms, which do not place limits on the number of foreign employees in the allowed categories, exclude audiovisual services, maritime cabotage and air transport. Meanwhile, altercations staged by foreign workers in December 2013 caused deep concern in a government that is not used to that kind of problem. It has postponed 2 billion Singapore dollars in infrastructure works in order to avoid a greater concentration of foreign labour on the island.

Conclusions

With the free trade accord with Singapore about to take effect, we make the following recommendations to encourage Spanish companies to take full advantage of business opportunities being opened up by the agreement.

Recommendations for companies

(1) Use the information resources made available by the EU. Specifically, the following sources are quite useful:

- *Business Avenues to South-East Asia* is an EU project designed to advise European businesses, particularly small- and medium-sized ones, that are interested in doing business in Singapore, Vietnam, Malaysia and Thailand. Over the course of 2014 and 2015 visits to Singapore will be arranged for companies that work in environmental services and interior decorating: **www.businessavenues.eu**.
- *ASEAN IPR Helpdesk* advises small- and medium-sized companies as to how to protect their intellectual property in the ASEAN countries: **www.asean-iprhelpdesk.eu**.
- The EU market access database contains information on tariffs, rules and processes for exporting from the EU: **http://madb.europa.eu/madb/indexPubli.htm**.
- The text of the free trade agreement, which will be translated into all the official languages of the EU, can be viewed in English on the web site of the European Commission's Directorate-General for Trade: **http://trade.ec.europa.eu/doclib/press/index.cfm?id=961**.
- The portal that announces government contracts up for bidding is: **www.gebiz.gov.sg**.

(2) Companies in the wine-making and food sector will enjoy greater protection and differentiation in the market through the registry of designations of origin. But those companies that are not included in the list of geographical indications that

the EU has handed over to Singapore will have to go through the necessary procedures to register them.

(3) For companies that work in environmental products and services, the free-trade accord opens up highly attractive possibilities because the agreement eliminates many of the protectionist measures that exist in this sector.

(4) The use of English as the first official language in Singapore can facilitate and reduce the costs of a company's first experience in Southeast Asia, be it in exports or services. And this experience can serve as a first step toward a deeper penetration in the regional market.

Recommendations for the Spanish authorities

(1) In order to facilitate food exports, the Spanish authorities should ensure that officials from Singapore visit Spain and approve the Spanish systems for inspecting and certifying food production. This should be done as soon as the free-trade accord comes into effect because for logistic reasons, as Singaporean officials will take some time in inspecting such arrangements in each of the EU member countries.

(2) Keep Spanish companies up to date on the restrictions that exist in Singapore. Because of the political situation, greater restrictions on foreigners gaining access to the labour market can be expected. This would limit companies' flexibility in hiring.

(3) It would also be a good idea to boost the transparency of and public access to the Tourism Office and the Trade Office, without hindering data-protection for the companies involved, although the latter of the two offices does provide ample information at the link: **www.oficinascomerciales.es.**

(4) Enhance institutional support for small- and medium-sized companies, as they have fewer resources than large firms. What is more, in this sector there are many managers without much international experience and only a limited command of English. Promoting exports from this kind of companies to Singapore requires an additional effort. According to EUROSTAT, small- and medium-sized companies make up 99.9% of all firms in Spain and account for 74.9% of all jobs in Spain, which is above the European average. It is estimated that 63.4% of Spanish firms with a presence in Singapore are small- and medium-sized companies.

(5) It would be a good idea to enhance the projection of 'Brand Spain' in Singapore by bringing together official Spanish representatives in Singapore, the business community, parts of civil society that are linked to Span, in particular in the areas of education, research and science. One thing worth noting is the culinary sector, especially the high profile achieved by successful Spanish chefs in

Singapore. Strategic partnership with members of civil society that share goals of Spanish overseas action –such as promoting tourism, trade and the Spanish language– would strengthen the effects of the brand-building thrust. Official Spanish representatives tend to place their trust in civil-society initiatives, which for the most part is unaware of the possibilities there are for cooperation. Here, a more pro-active approach is called for, that involves advising and encouraging strategic sectors of civil society to cooperate with Spanish officials present in Singapore.

(6) The drive to promote 'Brand Spain' should go hand-in-hand with efforts to forge the cooperation between companies operating in the region, so that their collective weight allows them to act as a lobby with the Singaporean authorities.

(7) The policy of promoting Spanish language and culture should be in line with the country's economic and trade interests. For now, Spain's cultural presence in South-East Asia is concentrated mainly in the Philippines, even though trade with that country is modest, while presence is limited in the main trading partner, Singapore. Promoting the Spanish language holds great promise in Singapore, whose population is one of the most highly educated anywhere in the world. Such a campaign would help spread the word about 'Brand Spain'.