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An Upgrade in Free Trade – China-Singapore Free Trade Agreement Upgrade Protocol Comes into Force

Introduction

The China-Singapore Free Trade Agreement (“**CSFTA**”) Upgrade Protocol has come into force on 16 October 2019 (except for the articles relating to Rules of Origin, which will come into force from 1 January 2020) (the “**Upgrade Protocol**”). The Upgrade Protocol seeks to enhance the trade and investment linkages between the two countries.

The Upgrade Protocol enhances numerous areas of trade and investment between China and Singapore, including trade in goods and services, investment and customs. It also introduces new chapters on competition, environment and e-commerce.

In this Client Update, we look at the key features of the Upgrade Protocol and its potential impact on trade and business between the two countries.

The CSFTA

The CSFTA first entered into force on 1 January 2009, and was China’s first comprehensive bilateral FTA with an Asian country. Subsequently, after multiple rounds of negotiations, the CSFTA Upgrade Protocol was signed on 12 November 2018.

On 15 October 2019, at the 15th Joint Council for Bilateral Cooperation Meeting in Chongqing, China, Deputy Prime Minister Heng Swee Keat and People’s Republic of China Vice Premier Han Zheng announced the entry into force of the Upgrade Protocol, which has since come into operation on 16 October 2019.

The CSFTA has had a greatly positive impact on trading relations between the two countries. Bilateral merchandise trade grew at 6.6% and investments grew at 11.9% per year on average. China remains Singapore’s largest trading partner, while Singapore has been China’s largest foreign investor since 2013. Further, in 2018, total bilateral trade between Singapore and China reached S\$135 billion.

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Key Features of the Upgrade Protocol

The CSFTA Upgrade Protocol introduces a number of enhancements across various areas of trade and investment. The key areas of development are highlighted below.

Trade in goods

The improved Rules of Origin seek to enhance market access for goods. One of the key improvements is that more petrochemical exports from Singapore will qualify for preferential treatment when imported into China. This will take effect from 1 January 2020.

An Electronic Origin Data Exchange System (“**EODES**”) between Singapore and China will be implemented from 1 November 2019. The EODES will allow traders to transmit relevant documents and avoid the need to submit the Certificate of Origin issued by Singapore Customs in hardcopy to China.

Trade in Services

Apart from trade in goods, the Upgrade Protocol seeks to improve Singapore companies' access into certain service sectors:

- (i) **Legal** – Singapore law firms with offices in the Shanghai Free Trade Zone (“**FTZ**”) are permitted to form commercial associations with Chinese law firms in the Shanghai FTZ, which can offer Chinese domestic and international legal services to clients in China.
- (ii) **Maritime** – Singapore shipping companies and ship management companies can take on majority owned and form wholly foreign-owned enterprises respectively in China's major port cities.
- (iii) **Construction** – Singapore construction companies established in the Shanghai FTZ, China-Singapore Suzhou Industrial Park, Sino-Singapore Tianjin Eco-city, or the China-Singapore (Chongqing) Demonstration Initiative on Strategic Connectivity can undertake joint construction projects in the respective cities, and will be exempted from China's foreign investment ratio requirement.

On Singapore's part, moves will be made to liberalise certain sectors to Chinese companies.

- (i) **Air transport** – The sub-sector of Computer Reservation System services will be opened to Chinese companies.
- (ii) **Courier** – Chinese companies can deliver documents and parcels in Singapore (excluding letters which weigh 500 grams or less, and postcards).
- (iii) **Environment** – Chinese companies can provide refuse collection, refuse disposal and waste management services.
- (iv) **Finance** – Qualifying Full Bank privileges will be granted to one additional Chinese bank.

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Investment

The Investment Chapter is a vital part of the CSFTA as it caters for the protection of foreign investors. In keeping with this, the Upgrade Protocol enhances protection for Singapore investors in China. This includes:

- (i) A more robust Investor-State Dispute Settlement mechanism;
- (ii) Most-Favoured-Nation treatment
- (iii) A Work Programme to allow more investment opportunities for investors in both countries.

Customs

The Customs Procedures and Trade Facilitation Chapter of the CSFTA has also been enhanced to create greater efficiency. In particular, China has agreed to:

- (i) Issue advance rulings for the origin of goods, tariff classification and customs valuation method within 60 days of application. The validity period of such rulings has been increased from two years to three years;
- (ii) Release all goods within 48 hours of arrival; and
- (iii) Release express shipments within six hours, where possible, after the goods arrive.

Economic cooperation

In the upgraded Economic Cooperation Chapter, Singapore and China have committed to strengthen cooperation under the Belt and Road Initiative through infrastructure connectivity, financial connectivity and third-party cooperation.

New chapters

The Upgrade Protocol introduces certain new chapters to the CSFTA. These include:

- (i) **Competition Chapter** – This chapter requires the parties to adhere to principles of transparency, non-discrimination and procedural fairness in competition law enforcement.
- (ii) **Environment Chapter** – Parties will be required to take into consideration environmental protection and sustainable development in their promotion of economic and trade development.
- (iii) **E-commerce Chapter** – This chapter facilitates e-commerce for businesses. It also seeks to protect consumers through improved commitments in online consumer and personal information protection.

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Concluding Words

The Upgrade Protocol of the CSFTA marks another stage in the development of bilateral ties between China and Singapore. As close trading partners, the enhancements will serve to facilitate even greater trade and investment between the two countries.

Parties with trade links in Singapore or China should be aware of the new protections and allowances granted under the Upgrade Protocol, and of how they may benefit from the introduction of these new measures.

For further queries, please feel free to contact our team below.

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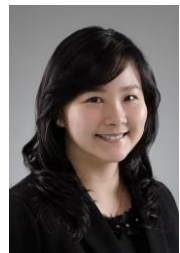
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