

AGREEMENT BETWEEN NEW ZEALAND AND SINGAPORE ON A CLOSER ECONOMIC PARTNERSHIP

NATIONAL INTEREST ANALYSIS

Date of Proposed Binding Treaty Action

It is proposed that New Zealand and Singapore would formally ratify the CEP Agreement by exchange of notes to bring the Agreement into force by 1 January 2001 or as soon as possible thereafter.

Scope

The Agreement is comprehensive, covering goods, services, investment and technical barriers to trade in goods. It complies fully with WTO requirements for establishment of a free trade area and goes significantly beyond WTO provisions by, *inter alia*, eliminating all tariffs, prohibiting export subsidies for all goods, including agricultural products, and expanding services commitments.

The CEP is a bilateral agreement between New Zealand and Singapore. Further such agreements which New Zealand might seek to conclude with other trading partners would need to be negotiated separately.

Reasons for New Zealand to Become Party to the Treaty

There are two compelling arguments supporting the Agreement:

- At the bilateral level, the Agreement provides clear reciprocal benefits for New Zealand and Singapore. This is consistent with the Government's policy to advance trade liberalisation within a framework that provides for direct reciprocal benefits. It will enhance our bilateral trade, economic and investment relationship with a key trading partner and one of the fastest growing economies in South East Asia, and provide for more secure and open access for New Zealand exports of goods and services to that market. It provides a mechanism for on-going Ministerial attention to enhancing the economic and broader relationship between the two countries.
- The Agreement also serves New Zealand's broader strategic trade and economic interests. It will encourage improved and closer trade and economic linkages between New Zealand and ASEAN generally. (New Zealand exports to ASEAN are worth

approximately NZ\$1.7 billion pa). It provides a momentum towards the achievement of the APEC vision of free and open trade and investment in the APEC region by 2010 for developed members and 2020 for developing members (the 'Bogor' goals). It will provide a clear signal to international markets of New Zealand's commitment to integrate into the regional and global economy.

The Agreement will have a dynamic impact over time on growth and job creation in our economy. New Zealand exporters, businesses and investors view the Asian markets as offering exciting potential. They appreciate both the direct and strategic benefits of the Agreement. They have made clear that they want the Government to address impediments to our trade through the reduction and elimination of the tariff, technical, regulatory or other barriers they face in these markets. The Agreement with Singapore represents a tangible response to those concerns. This is a unique opportunity to send a signal, especially to our Asian trading partners, of our willingness to engage with them.

Impacts on New Zealand of the Treaty Entering into Force

Key impacts associated with the Agreement are:

- Improved access to Singapore's services market. The export of services is an increasingly important dimension of NZ's international trade profile. Singapore provides a strategic vantage point for NZ to sell its services further abroad. Under the Agreement both sides have agreed on a progressive opening to each other of their **services** markets. Initial commitments by each country are set out in Annex 2 to the Agreement. (Singapore has scheduled these commitments using the WTO format, while New Zealand has adopted a more "user friendly" plain language approach).

There will be improved access for NZ services exporters to a wide range of Singapore's services sectors including: telecommunications, financial, educational, environmental services, engineering and architecture services. This will give New Zealand services exporters better access and more certainty in the Singapore market. A process has also been put in place to recognise New Zealand services suppliers' qualifications.

In return, New Zealand has listed commitments in sectors such as engineering services, computer and related services, transport services, dental services, environmental services and some business sectors (e.g. market research, management consulting) and has agreed to a narrower range of agricultural exclusions in some areas (e.g. transport) than under the WTO (with no implications for existing Producer Board powers). The Agreement does not require New Zealand to go beyond its existing WTO commitments on education services.

These service commitments will be added to progressively at least every two years which will provide new opportunities for NZ services exporters. The initial commitments do not require substantive changes to New Zealand's current regulatory settings, apart from the removal of the residency requirement for registration of engineers. Accordingly, few adjustment implications are expected. The achievement of full liberalisation of services over time will, however, require regulatory changes. Both sides have agreed to meet by 1 January 2008 to draw up a list of those services sectors and measures which remain to be liberalised by 2010.

- All remaining **tariffs** on imports from Singapore, including plastics, cocoa preparations, electrical machinery, textiles, clothing and footwear, will be eliminated. To the extent that Singapore products in these areas will become more competitive on the NZ market, there will be some effect on NZ industry. Given the tariff levels and the volumes of Singapore trade in these areas, however, it is not expected that the economic effects on NZ business will be great. The value of trade with Singapore in protected sectors is low (67% of imports from Singapore in 1999/00 was in machinery which attracted an average duty rate of 0.05%). In the textiles, clothing and footwear (TCF) sector, Singapore accounted for only 0.29% of our global TCF imports in 1999. TCF imports from Singapore for 1999 amounted to NZ\$4.5 million, but not all would necessarily qualify as Singapore origin, so not all would benefit from the tariff preferences under the Agreement. New Zealand beer and stout exporters will gain preferential access to the Singaporean market, providing them with the opportunity to establish a competitive presence.
- The **Rules of Origin (ROO)** in the Agreement reflect a balance between supporting importer and exporter interests. Cheaper imports will be obtained while some New Zealand manufacturers will face greater competition from overseas suppliers. Together with the verification provisions, they ensure that only those entitled to preferences enjoy them, and that the possibilities of diversion of trade through Singapore are minimised. There are recognised challenges for enforcement. Customs New Zealand is putting in place benchmarks to track any unexpected trade responses. The Agreement also promotes cooperation between our respective Customs authorities to reduce costs to business.

The innovative dimensions of the ROO under the Agreement recognise that in the face of increasing competitive pressures, manufacturers today are seeking to specialise as much as possible, draw on input materials from the most cost effective sources and locate aspects of their business in different places. These features often make it difficult for exports to qualify under traditional ROO.

The ROO include a "wholly produced or obtained" category which aims to reflect international best practice. For "partly manufactured" goods, they include a 40% ex factory cost threshold and a requirement that the last process of manufacture be performed in the territory of the exporting Party. They introduce new provisions for

recognition of genuine area (Singapore or NZ) content throughout intermediate stages of production which may take place in a third party. Providing certain threshold conditions are met, the ROO also recognise quality control and testing activity as a qualifying last process of manufacture, except for textiles, clothing and footwear.

The CEP ROO will provide a new basis for consideration of preferential ROO in current and future agreements.

- The Agreement includes a focus on improving the **competitive environment** for New Zealand and Singaporean exporters in each other's markets. This is important to New Zealand for two reasons:
 - It underscores that New Zealand businesses operating in Singapore should be able to do so in an environment where regulation supports rather than hinders their ability to compete. The Agreement provides a vehicle to promote more transparency and discipline to the distortions to competition that exist in some of Singapore's services sectors and the range of domestic subsidies that they employ.
 - It sets a useful precedent internationally for competition concerns to inform trade, subsidy and regulatory policies, which adversely affect New Zealand exporter interests.

The approach to competition under the CEP does not cut across the ability of New Zealand to implement policies suited to our specific needs.

- The Agreement provides for anti-dumping measures which will protect New Zealand industry from dumped imports. It does not provide for safeguard action, consistent with the approach under CER. Singapore and New Zealand have moved beyond WTO **anti -dumping** provisions by raising the threshold at which the level of dumping is seen as *de minimis*, raising the threshold at which dumped imports would normally be determined negligible, and reducing the period for review and/or termination of anti-dumping duties. New Zealand's cumulation threshold remains at 7% to ensure that no third party enjoys any additional scope to dump in the NZ market.
- New Zealand depends on foreign capital to fund **investment** for economic growth. New Zealand businesses are also substantial investors off-shore. Singapore is an important financial centre in the region and a potential source of increased investment resources for New Zealand. The agreement provides increased certainty in respect of the access to each other's markets for Singapore and New Zealand investors. Each side will bind its existing investment regimes. For New Zealand, this means the Overseas Investment Commission (OIC) thresholds will be bound and cannot be lowered for Singapore. The national interest screening criteria can still be

modified by law, regulation or policy setting. Application of the criteria will not be subject to the dispute settlement provisions of the Agreement.

- Singapore has inscribed a services and investment limitation for its **government-linked corporations** (GLCs). The limitation is confined to equity investment in these companies, and to the appointment of directors, management and executive staff. The limitation does not in any other way preclude New Zealand services exporters from accessing the Singapore market, either directly or via joint venture arrangements, in those service sectors where Singapore has undertaken commitments. Nor would it serve to deny New Zealand companies the benefit of national treatment in those sectors. Singapore has included a provision elsewhere in the Agreement making it clear that it does not discriminate in favour of its GLCs in respect of government procurement of services.
- The Agreement provides ways to reduce compliance costs for New Zealand businesses exporting to Singapore associated with the need to meet different technical, **sanitary and phytosanitary regulatory requirements**. These costs can be substantial. New Zealand exporters of manufactured products and food and beverages continue to report such barriers in Asian markets. A mutual recognition conformity assessment agreement covering electrical and electronic equipment will come into effect with the Agreement. This will allow NZ products to be tested in NZ to meet Singapore requirements and thereby remove the need and cost of further testing in Singapore. The agreement provides for early discussions in other areas including telecommunications equipment, electromagnetic compatibility, chemicals and food.
- Both Singapore and New Zealand have relatively open **government procurement** regimes that support cost effective and efficient government purchasing. The Singapore government procurement market offers potentially large opportunities for NZ suppliers. The Agreement provides for certainty of access to each other's government procurement markets for all contracts over SDR 50,000 (Special Drawing Rights, IMF terminology, equal to approx NZ\$125,000), and in respect of services, is consistent with our respective services schedules. The CEP binds a preferred position for NZ suppliers
- In binding our current government procurement regime with Singapore, New Zealand will not be able to discriminate against Singapore in favour of domestic industry. (We are already obliged to treat Australian suppliers as "domestic" under CER.)

Obligations

Singapore and New Zealand will be accepting an obligation to work together to implement the provisions of this Agreement, including through customs cooperation, a work programme to reduce technical and regulatory barriers to trade, progressive expansion of trade in services and reduction and removal over time of other barriers to trade and investment. The Agreement requires Ministers to meet every two years to review the operation of the Agreement, with a full review after five years. The Agreement contains certain notification, transparency and consultation provisions. There is a standard provision to address investment disputes and any government to government disputes which may arise regarding implementation or interpretation of provisions of the Agreement.

Upon entry into force, Singapore and New Zealand would need to notify the Agreement to the World Trade Organisation as a free trade area within the meaning of GATT Article XXIV (goods) and GATS Article V (services).

Economic, Social, Cultural and Environmental Effects

The Agreement is intended to expand trade, raise living standards and create new employment opportunities. No negative social, cultural or environmental effects are foreseen.

The CEP Agreement does not prevent New Zealand from taking measures it deems necessary to fulfil its obligations to Maori, including under the Treaty of Waitangi and to take action to “Close the Gaps” between Maori and other New Zealanders.

Summarised Benefits and Costs

Benefits

Access to the Singapore market for all goods and many services will improve. For the first time, many New Zealand providers of services will be able to compete on equal terms with local firms in Singapore. Regular reviews will ensure that this access improves in the future.

Access will be further assisted by new provisions to address technical, sanitary and phytosanitary barriers to New Zealand’s exports to Singapore and by changes to the rules governing government procurement.

Prices for some goods imported from Singapore will fall.

New Zealand producers will continue to be protected by provisions on anti-dumping.

Costs

The elimination of remaining tariffs on Singapore's exports to New Zealand will reduce Crown Revenue by \$0.5 million in 2000/1 and by \$1million each year in 2002/03 and in 2002/03. Other costs of this Agreement, including implementing the programmes of cooperation in the agreed areas, customs enforcement and travel associated with the biennial reviews can be met from existing base lines.

Dynamic and Other Costs

Against the longer term dynamic benefits, there will be some short/medium term adjustment costs for some New Zealand manufacturers. Given the existing tariff protection, which is relatively low, and the narrow range of products affected, these adjustment costs can be expected to be relatively small for the economy.

New Zealand manufacturers of textiles, clothing and footwear will be exposed to greater competition from exports originating in Singapore. Customs New Zealand will closely monitor imports from Singapore to ensure third countries do not derive any unintended benefits from the removal of tariffs on goods of Singapore origin.

Core labour and environment standards are not specifically mentioned in the CEP Agreement. The Preamble to the Agreement makes clear, however, that it is intended to raise the standard of living and create new employment opportunities.

New Zealand is open to foreign investment and the CEP Agreement reflects this. The Agreement means however that it will not be possible to lower the investment thresholds from current levels for Singaporean investors.

Singapore operates a system of subsidies granted to domestic industry. This may place Singaporean companies at an advantage over importers into the Singaporean market. They may also be used as a means of cross-subsidising Singaporean businesses competing with New Zealand firms for international business.

Future Protocols

While no protocols are envisaged at this point, it is intended that the Agreement will be amended by the addition of product chapters covering specific product areas to Annex 4 on Technical, Sanitary and Phytosanitary Regulations and Standards, and by the further removal of limitations in the Services and Investment Annexes (Annexes 2 and 3).

Implementation

The legislative changes required to give effect to the Agreement are of a relatively minor nature. As both Parties have agreed to remove all tariffs on a reciprocal basis, an amendment to the **Tariff Act 1988** will be required. Sections of the **Dumping and Countervailing Duties Act 1988** will require amendment, as Singapore and New Zealand have moved beyond WTO anti-dumping provisions by raising the threshold at which the level of dumping is seen as *de minimis*, raising the threshold at which dumped imports would normally be determined negligible, and reducing the period for review and/or termination of anti-dumping duties. The **Engineers Registration Act 1924** will require amendment to remove the current requirement that only registered engineers, resident in New Zealand, can perform maintenance and repair work in fairgrounds. The parties have also negotiated specific rules of origin, which will need to be reflected in the **Customs and Excise Regulations 1996**.

Consultation

Nation-wide, there have been consultations on the Agreement involving Maori, unions, civil society and business groups. Officials from the Ministry of Foreign Affairs and Trade, Economic Development, Treasury, Customs and Te Puni Kokiri have been involved in the consultation programme.

There have also been one on one consultations with other groups and organisations which have indicated an interest in the Agreement.

Two information papers have been released publicly at key stages of the negotiation to keep interested parties informed of developments.

A number of letters from members of the public, Parliamentary questions, Official Information Act requests and press releases have also contributed to public consultation on the draft Agreement.

Withdrawal or Denunciation

The Agreement may be terminated by either Party on giving 180 days written notice to the other Party.