



Free Trade Agreement (Services)
Guide for SMEs



Introduction

A Free Trade Agreement (FTA) is a legally binding agreement between two or more countries to liberalise trade and bring about closer economic integration. It aims to remove the barriers to trade in goods, services and investment through preferential market access.

FTAs present business opportunities for SMEs to enhance their market access. SPRING Singapore is reaching out to SMEs to help them understand FTA rules and acquire the know-how to comply with the FTA requirements.

This guide provides some basic information on Trade in Services and aims to help service suppliers understand and benefit from FTAs.

Singapore's FTA Network



▲ Concluded

- Australia
- European Free Trade Association (EFTA comprise Switzerland, Iceland, Liechtenstein and Norway)
- Hashemite Kingdom of Jordan
- Japan
- New Zealand
- United States
- ASEAN & People's Republic of China (Goods)

● On-going / Upcoming

- Bahrain
- Canada
- Egypt
- India
- Republic of Korea
- Mexico
- Pacific Three (New Zealand, Chile, Singapore)
- Panama
- Sri Lanka
- Qatar
- Kuwait
- Peru
- China
- Pakistan
- ASEAN & People's Republic of China (Services / Investment)
- ASEAN & Japan
- ASEAN & Republic of Korea

Framework of an FTA

Typically an FTA would cover three main areas: trade in goods, trade in services and investments. In addition, FTAs may cover protection of intellectual property rights, government procurement and dispute settlement.

FTA Framework		
Trade in Goods <ul style="list-style-type: none"> • Remove tariffs • Remove non-tariff barriers 	Trade in Services <ul style="list-style-type: none"> • Market access • National Treatment 	Investments <ul style="list-style-type: none"> • Protect & promote investments
Government Procurement		
Intellectual Property		
Dispute Settlement		

What Is Trade In Services?

A service is traded when the supplier and the customer are from different countries, regardless of the location of the transaction.

- The World Trade Organisation

There are four modes of supply in the Trade in Services.

Modes Of Supply For Trade In Services

Mode	Description	Example
Mode 1: Cross-Border	Only the service crosses the border	Telecommunications, postal, tele-medicine, distant-learning, e-banking
Mode 2: Consumption Abroad	Consumer crosses the border and consumes the service in the service supplier s country	Tourism, hotel & restaurant services, training programmes for foreign students; also covered is the movement of consumer s property (eg sending a ship or other equipment abroad for repair)
Mode 3: Commercial Presence	Supplier of a service is a locally established affiliate, subsidiary, representative office, or branch of a foreign service supplier.	Local branch or subsidiary of multinational companies, tourism, hotel and restaurant branches
Mode 4: Movement of Natural Persons	Supplier is in the country on a temporary basis and is a non-resident	Independent service suppliers eg consultants, professionals, foreign construction workers

Source: *The World Trade Organisation* , 2002

Example

ABC Education Centre is a local private education centre, providing training in secretarial courses. It has several possible options when considering providing its educational services overseas.

Mode	Example
Mode 1: Cross-Border	ABC Education Centre offers distance learning Programme to another country via the Internet.
Mode 2: Consumption Abroad	Foreign students come to Singapore to attend lessons offered at ABC Education Centre.
Mode 3: Commercial Presence	ABC Education Centre sets up a physical branch in another country.
Mode 4: Movement of Natural Persons	ABC Education Centre sends local lecturers to conduct training for a period of time in another country.

It is important to know the mode of service you are supplying because commitments made in the FTAs may be specific to a mode of supply.

What is in the Services Chapter of an FTA

- Framework Text
- Annex of Reservations (negative list), or
- Schedules of Commitments (positive list)

In general, the services chapter in Singapore's FTAs covers four basic areas of liberalisation.

Four Basic Areas Of Liberalisation In Services

Liberalisation Principle	Description
Market Access	Not putting road blocks in the way, such as limitations in six main areas: <ul style="list-style-type: none">• Total Number of service suppliers• Total Value of service transaction or assets• Total number of service operations or quantity services output• Total number of natural persons• The type of legal entity or joint venture• Participation of foreign capital
National Treatment	Being treated like a local service supplier.
Domestic Regulation	All measures or policies affecting services trade will be applied in a fair and objective manner.
Transparency	All relevant measures affecting the services trade must be made known to the FTA partner within a reasonable period of time, including through prompt publication, maintenance of enquiry points, and fair judicial review.

Together, these basic provisions ensure that Singapore-based service suppliers will enjoy easier entry into our FTA markets, a level playing field, and a more predictable investment regime.

Steps To Verify If You Benefit From FTAs (For Trade In Services)

STEP 1: What kind of service are you supplying or are intending to supply?

Eg. Advertising services



STEP 2: What is the Central Product Classification (CPC) code of that service?

Eg. 871



STEP 4: Is that country currently one of Singapore's FTA partners?

Eg. Yes Japan is one of Singapore's FTA partners



STEP 3: Which is the country to which you plan to export your service?

Eg. Japan



STEP 5: What is the mode of the service provided?

Eg. Mode 1 (Cross-border Supply)



STEP 6: For the particular FTA partner to whom you wish to export, are commitments listed in the positive or negative list format?

Eg. Japan is on the Positive List



Positive Format	Negative Format
<p>FTAs with ASEAN, New Zealand, EFTA, and Japan, Hashemite Kingdom of Jordan</p> <ul style="list-style-type: none"> Items listed are commitments made by our FTA partners. If the service you are supplying is not found in the schedule, that means your service has not been committed and will not benefit from the FTA. 	<p>FTAs with US and Australia</p> <ul style="list-style-type: none"> Items listed are exceptions to commitments made by FTA partners. If the service you are supplying is not found on the list, that means your service has been fully committed and will benefit from the FTA.

In short, it is good news when you can locate your service in a positive list schedule, and when you cannot locate your service in a negative list schedule.

Reading A Positive List Schedule

There are basically two sections in the positive list schedule

Section I — Horizontal Section

Here you will find a list of HORIZONTAL COMMITMENTS and LIMITATIONS that are applicable to the rest of the schedule.

Section II — Schedules For Specific Sectors

A positive list schedule contains four columns of information:

- Description of sector or sub-sector committed
- Limitations to Market Access
- Limitations to National Treatment
- Additional commitments other than Market Access and National Treatment

The schedule is a detailed grid of information with sectors listed on the vertical axis and broad categories of commitment on the horizontal axis.

Here are three steps to help you read the schedule correctly:

Three Steps To Read The Positive Schedule

Modes of supply: 1) Cross-border supply 2) Consumption abroad 3) Commercial presence 4) Presence of natural persons			
Sector or sub sector	Limitations on market access	Limitations on national treatment	Additional commitments
II. SECTOR-SPECIFIC COMMITMENTS			
Advertising services (871)	1) None 2) None 3) None	1) None 2) None 3) None except as indicated in HORIZONTAL COMMITMENTS 4) Unbound except as indicated in HORIZONTAL COMMITMENTS	

Example: In the Advertising services sector, there are no limitations in terms of market access and no limitations except those highlighted in the HORIZONTAL COMMITMENTS for National Treatment. There are no other additional commitments applicable to this sector.

There are five levels of commitments stated for every sector / sub-sector and within each column of commitment and mode of supply.

Five Levels Of Commitments

When you see this in the schedule	Levels of Commitment	What it means to you, the service provider
None	Full Commitment	No limitation in the sector/sub sector.
None except as indicated in horizontal commitments	Commitment with Limitations	No other limitations except those in the horizontal section.
Unbound	a) No Commitment b) Not Technically Feasible	a)The Government has the right to maintain existing limitations and restrictions or make them more severe. The sector will not benefit under the FTA. b) It is technically not possible to supply the service in the particular mode, eg. hairstyling via Mode 1.
Unbound except as indicated in horizontal commitments	Commitment with Limitations	No other commitment made except those in the horizontal section.
Others	Case by case	Need to examine the specific commitments or limitations.

Reading A Negative List Schedule

The Negative List Schedule contains exceptions to the commitments made in the services chapter. This means all other services are committed fully unless found in the Negative List Schedule. There are two Annexes in most Negative List Schedules.

Annex I — refers to **Stand-still** reservations. It covers partially closed sectors where the level of restriction will not worsen over time and can only get less restrictive over time.

Annex Of Reservation (Annex I)

Sector	Business Services
Sub-Sector	Financial Auditing services
Industry Classification	CPC 86211 Financial auditing services
Type of Reservation	Market Access National Treatment
Source of Measure	Accountants Act, Cap. 2, 2001 Revised Edition
Description of Reservation	Only service suppliers who are registered with the Institute of Certified Public Accountants of Singapore (ICPAS) and the Public Accountants Board (PAB) and/or their successor bodies and resident in Singapore shall be appointed as an approved company auditor. At least one of the partners of the firm shall be effectively resident in Singapore.

Annex II — covers sectors in which the Government retains full regulatory authority. The level of restriction can be more severe over time. Sectors covered under this annex tend to be highly sensitive.

Annex Of Reservation (Annex II)

Sector	Business services
Sub-Sector	Betting and Gambling Services
Industry Classification	-
Type of Reservation	Market Access National Treatment
Description of Reservation	Singapore reserves the right to maintain or adopt any measure affecting the supply of betting and gambling services.
Existing Measures	Betting Act, Cap. 21, 1985 Revised Edition Common Gaming Houses Act, Cap. 49, 1985 Revised Edition

Encountered difficulties? Road Blocks? Doubts?

If your business has met with any road blocks, encountered some difficulties or if you simply have some doubts about how to make use of the FTAs to enter new markets, drop us a note. It is important to provide good feedback which can be used at future negotiations.

Guide to Giving Feedback

WHERE	were you intending to do your business? <i>Eg. Any of our FTA partners or non-FTA partners?</i>
WHAT	business are you in? service(s) is / are your business providing? <i>Eg. Accounting, medical, telecommunication services?</i> were you trying to do when you encountered difficulty? <i>Eg. Offering your service overseas, setting up a facility overseas, or sending professionals and expertise overseas to provide the service?</i> laws / restrictions did you encounter? <i>Eg. Limitations in any of the areas such as the number of service suppliers, the value of the transactions, the number of operations, the number of professionals, foreign investments, on the type of legal entity that can be formed?</i>
WHEN	did you encounter this difficulty?
WHO	imposed the restrictive conditions on your business? <i>Eg. Customs? Regulatory bodies?</i> did you approach for assistance?
HOW	did the restrictions / treatment made it more difficult for you to conduct business? <i>Eg. Difficulties in applying for licenses, difficulties in getting a location, disadvantaged at government procurement, etc</i> did you overcome these restrictions / treatment, if you did? <i>Eg. Any action taken either on your own or offered by partner country?</i>
WHICH	other areas did you encounter difficulty in? Or have doubts about? <i>Eg. In the areas of protecting intellectual property, or in securing government contracts, or investments conditions that have been imposed?</i>



FTA Information

Where to look for specifics

FTA texts and guides

<http://www.fta.gov.sg>

CPC codes

<http://wto.org>

General FTA enquiries

MTI_FTA@mti.gov.sg

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SME First Stop Hotline: 68981800

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