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EU-Singapore Free Trade Agreement a boon for Malaysia

***ASEAN's electronics, pharmaceuticals, chemicals and processed food sectors to benefit.*

***Potential to open up ASEAN supply chains to further increased European business.*

***Places ESG standards front and centre for future trade and investment activity.*

HSBC welcomes the signing of the EU-Singapore Free Trade Agreement (EUSFTA); a significant moment for the two dynamic economies and for Malaysia.

Through eliminating virtually all tariffs and lowering non-tariff barriers between Singapore and Europe, the agreement enables businesses to unlock new opportunities to further sell their goods and services. Furthermore, as the first of its kind signed between the EU and an ASEAN nation¹, the agreement sets a precedent to extend open, fair and rules-based trade policies across the two economic regions.

“The signing of the agreement presents enhanced opportunities and benefits for Malaysian companies. Malaysia is a key trading partner of Singapore and is well integrated into Singapore’s supply chain”, said Stuart Milne, CEO, HSBC Malaysia.

Pact to remove barriers to trade

Tariffs on qualifying Singapore goods exports into the EU will be steadily abolished over the course of five years, with electronics, pharmaceuticals, petrochemicals and processed food products (among the main beneficiaries) becoming more competitive in the EU as a result.² These industries collectively make up around 10% of Singapore’s GDP.³

Non-tariff barriers will also be addressed to remove burdensome administrative and double-testing procedures. For example, ensuring there are common safety and quality standards across certain sectors which will, therefore, remove the need for testing at both sides of the trade corridor⁴. This will benefit key sectors including electronics, motor vehicle and vehicle parts, pharmaceutical and medical devices.⁵

EUSFTA opens ASEAN supply chain potential

The EUSFTA will allow for some manufactured goods to have ASEAN cumulation.

This means that inputs sourced by Singapore businesses from other ASEAN member states will be considered as domestic content for the determination of the origin of the final product made in Singapore.⁶ In other words, certain inputs will come under Singapore’s zero tariff regime with Europe.

Commenting on the wider opportunity for ASEAN, Ajay Sharma, APAC Regional Head of Global Trade Receivables Finance, HSBC, said: “A high proportion of Singapore products have parts produced in other ASEAN countries. With the rule of ‘ASEAN cumulation’, more Singapore exports produced along intra-ASEAN value chains can benefit under the EUSFTA. This will have a significant impact for Singapore and for the ASEAN region - again in areas like electronics and pharmaceuticals.”

¹ [European Commission: Key elements of the EU-Singapore trade and investment agreements](#)

² [Ministry of Trade and Industry Singapore: European Union-Singapore Free Trade Agreement Fact Sheet](#)

³ Singapore Economic Development Board (EDB), HSBC

⁴ [European Commission: The EU-Singapore agreements explained](#)

⁵ [European Commission: Key elements of the EU-Singapore trade and investment agreements](#)

⁶ [European Parliament: EU-Singapore trade and investment agreements closer to conclusion](#)

ASEAN as an aggregate is the largest exporter to Singapore, with Singapore importing US\$71.06bn of goods from ASEAN in 2017.⁷ Singapore is also a major export destination for Malaysia, accounting for 14.5% of Malaysia's total exports in 2017.⁸

Electronics is one of ASEAN's most important sectors directly employing more than 2.5 million workers.⁹ According to the ASEAN Secretariat, the bulk of the world's consumer electronics comes from the ASEAN region including 80% of the world's hard drives which are produced in ASEAN countries. Singapore, Malaysia, Vietnam, Philippines, and Indonesia account for over 90% of ASEAN's industry exports.¹⁰

EUSFTA paves the way for Europe to establish FTAs with other ASEAN markets

The EUSFTA will be the first free trade agreement with a member of ASEAN and acts as a building block towards future FTAs with other ASEAN markets.¹¹

Moreover, should the EU conclude additional FTAs with other ASEAN member states, regional cumulation will likely be further facilitated under specific conditions.

Milne added: "Allowing other ASEAN countries to claim ASEAN cumulation will elevate the entire region's trade competitiveness with Europe in effect delivering a superior pan-regional supply chain."

The EU continues negotiations towards an FTA with Vietnam, Indonesia and Malaysia, and has signed a trade deal with Japan which is now awaiting ratification.¹²

EUSFTA's ESG focused-agenda – a warning signal for ASEAN corporates

The EUSFTA will be driving green activity within the corridor by removing trade and investment obstacles in green technology and removing duties on many environmental goods.

This is important in ensuring Singapore and ASEAN businesses progress further along the green agenda.

However, according to a HSBC commissioned report released earlier this year, only 24% of Asian respondents have an ESG strategy compared to 48% of corporates globally and 87% of European and UK companies.¹³

Commenting on the need for ASEAN businesses to address ESG standards in light of the EUSFTA, Milne said: "The EU bloc's willingness to ensure its trading partners raise their own ESG standards is evident in the policies contained in the EUSFTA. These guidelines serve as a benchmark for other countries in the ASEAN region to adhere to. Consequently, ASEAN enterprises will need to ramp up their sustainable development policies or risk being left behind when further FTAs come into force".

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⁷ [ASEAN International Merchandise Trade Statistics](#)

⁸ <http://www.matrade.gov.my/en/28-malaysian-exporters/trade-statistics/3791-top-10-major-export-country-2017>

⁹ According to the International Labour Office (ILO)

¹⁰ [ASEAN in Transformation. Electrical and Electronics: On and Off the Grid, International Labour Organisation, 2016](#)

¹¹ [European Commission: Countries and Regions](#)

¹² [European Commission: Overview of FTA and other Trade Negotiations](#)

¹³ [HSBC: Are ASEAN supply chains vulnerable to lag in adoption of ESG?](#)

Background to EUSFTA Announcement:

- Negotiations on the EUSFTA began in March 2010. Alongside the Free Trade Agreement, the parties have also agreed to an Investment Protection Agreement.
- In order to be able to come into full force in its present form, all 28 individual EU countries would have to ratify the agreements.
- Over 10,000 European companies operate in Singapore, many of which use Singapore as a hub – often as logistics and distribution centres for the region, and multinationals' regional headquarters.
- The agreement will be the first free trade agreement with a member of ASEAN and the second EU agreement with an Asian country after South Korea.
- The EU continues negotiations towards an FTA with Vietnam and Malaysia. The latest on these negotiations is [available here](#).
- The EU-Singapore Investment Protection Agreement encompasses investment protection and investment protection dispute resolution.

Importance of Singapore/Europe trade corridor

- The EU is Singapore's third largest trading partner.¹⁴
- Services make up a significant portion of bilateral trade – and the EU is Singapore's biggest trading partner in services. In 2016, EU-Singapore trade in goods increased by 4.5% and trade in services show a surge of 28% (2015).¹⁵
- The lower barriers resulting from the implementation of the EUSFTA will enable firms to grow their operations in both directions.
- EU FDI flows into ASEAN have more than doubled in the past decade, and its sectoral distribution has evolved from being manufacturing dominated to more finance and other services-related. This has benefitted Singapore to date, with the lion's share of the EU's FDI to ASEAN coming to Singapore.¹⁶

Importance of Europe for ASEAN

- Since 2010, the EU has become the biggest investor into ASEAN, representing 20% of all FDI flows to the region.¹⁷
- Still, FDI from the EU to ASEAN represents just 2% of total EU outward global FDI stocks, vs. 13% in Japan.¹⁸
- Yet 51% of European businesses view ASEAN as providing the best economic opportunities.¹⁹
- Two-thirds of the 100 largest EU MNEs have subsidiaries in ASEAN, and more than one-third have a presence in four or more ASEAN member states.²⁰

	Goods (2017)	Annual average growth	Services (2016)	Annual average growth
EU exports to Singapore	33.2	3.3%	22.4	6.5%
EU imports from Singapore	20.1	3.4%	22	14.5%

Source: [Eurostat](#) – all figures in € billion

	Population	GDP (current US\$) ²¹	GDP Growth (2017) ²²
EU	508 million	17 trillion	2.4%
Singapore	5.6 million	324 billion	3.6%

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¹⁴ [Ministry of Trade and Industry Singapore: European Union-Singapore Free Trade Agreement Fact Sheet](#)

¹⁵ ASEAN EU Business Council Trade and Investment Report, 2017

¹⁶ ASEAN Investment Report, ASEAN Secretariat, 2017

¹⁷ HSBC Global Research: ASEAN Perspectives, 28 August 2018

¹⁸ HSBC Global Research: ASEAN Perspectives, 28 August 2018

¹⁹ EU-ASEAN Business Sentiment Survey 2018

²⁰ HSBC Global Research: ASEAN Perspectives, 28 August 2018

²¹ [The World Bank: Data](#)

²² [The World Bank: Data](#)

About HSBC Malaysia

HSBC's presence in Malaysia dates back to 1884 when the Hongkong and Shanghai Banking Corporation Limited (a company under the HSBC Group) established its first office in the country, on the island of Penang, with permission to issue currency notes. HSBC Bank Malaysia Berhad was locally incorporated in 1984 and is a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited. In 2007, HSBC Bank Malaysia was the first locally incorporated foreign bank to be awarded an Islamic banking subsidiary licence in Malaysia, HSBC Amanah Malaysia Berhad. Today, HSBC in Malaysia has a network of 68 branches nationwide, of which 26 are HSBC Amanah Malaysia Berhad branches. HSBC Bank Malaysia offers a comprehensive range of banking and financial services including Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Islamic financial solutions. HSBC Bank Malaysia has also led innovation in Malaysia by introducing Malaysia's first ATM and Electronic Touch Banking in the early 1980s. Today, HSBC Bank Malaysia has launched innovative solutions such as HSBCnet for secure banking for businesses, Trade Transaction Tracker and Facial Recognition.

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