Trade deals offer limited value to Singapore manufacturing firms: study

Many businesses do not qualify as they fall short of minimum export value requirements

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LOCAL manufacturing firms are not fully utilising Singapore's extensive network of free trade agreements (FTAs), citing a lack of applicable agreements for their traded goods and export volumes that are too small to meet requirements.

This is according to a study by a group of researchers led by the National University of Singapore (NUS) released on Tuesday (Jul 22).

The study surveyed 2,356 firms across seven Asean countries for their sentiments on four areas: regulation and governance; automation and digitalisation; sustainability; and regional outlook.

Sentiments on FTAs were gathered as part of issues under regulation and governance.

The survey found that just 29.7 per cent of Singapore firms surveyed have secured a rules-of-origin (ROO) certificate under at least one trade agreement.

Information gap

An ROO certificate is a document that verifies a product's origin, determining whether it qualifies for preferential tariffs under an FTA.

Another 40.5 per cent of firms reported not knowing whether they have the certificate, while the remaining one-third of firms do not have a ROO certificate.

This suggests there is an information gap that may suppress effective FTA usage, said the survey authors. Singapore has a network of 28 implemented FTAs.

In contrast, the uptake rate was higher among manufacturing firms in Laos (49.2 per cent), Indonesia (47.8 per cent) and the Philippines (58 per cent). Meanwhile no Cambodian companies reported having an ROO certificate.

Kim Soo Yeon, the study's principal investigator, suggested raising the minimum threshold requirements as well as consolidating trade agreements to encourage higher FTA utilisation.

Singapore firms which did not pursue ROO certification identified a lack of relevant FTAs for their goods as the primary barrier. "This is particularly salient for firms in the tertiary and quaternary sectors, where existing FTAs may not apply or are perceived to offer limited value," said the researchers.

Export volumes falling short of minimum thresholds emerged as the second most significant obstacle to ROO certification. The Asean Free Trade Area requires a minimum export value of US$200, while the Comprehensive and Progressive Agreement for Trans-Pacific Partnership sets the bar at US$1,000.

Additional deterrents included insufficient client demand for FTA benefits, uncertainty surrounding application procedures, and concerns about procedural complexity and costs.

The challenges facing Singapore companies mirror those experienced elsewhere in the region, though with varying degrees of emphasis, said the researchers.

Indonesian and Vietnamese firms, for instance, were worried about complicated procedures and low export volumes.

Firms were also asked about their experience with the Asean Economic Community (AEC), a 2015 initiative aimed at creating a single integrated market across the bloc's member states.

While respondents generally reported positive outcomes from the AEC, they called for reforms to keep the framework relevant in today's rapidly evolving economic landscape.

Singapore firms were the most vocal among companies across seven countries in suggesting that the AEC better address private-sector needs, with 89 per cent agreeing that this reform is needed.

Other suggestions included additional tax incentives for regional trade, greater opportunities for collaboration between firms within the same industry or of similar scale, and improved mobility for skilled workers across the region.

On automation and digitalisation, the study found that "the integration of automation is widespread but remains largely low-level" in Singapore.

Digital adoption

A majority of Singapore firms have automated just a quarter of their business processes, while none have achieved full automation.

Most firms across other Asean countries similarly automated less than half of their business processes. Indonesia stands out as an outlier, boasting both the region's highest proportion of fully automated companies (13.1 per cent) and the largest share operating without any automation (36.2 per cent).

On the digital front, just over half of Singapore companies have embraced digitalised service delivery through mobile applications, online ordering platforms and similar technologies. This reflects a "clear preference for customer-facing technological upgrades", the authors observed.

The challenges facing Singapore companies mirror those experienced elsewhere in the region, say a group of researchers led by NUS. PHOTO: ST

The pattern holds across the region, with Vietnam recording a 50.5 per cent adoption rate for digitalised services and Malaysia close behind, at 47 per cent.

Advanced technologies such as robotics and artificial intelligence (AI) see more cautious uptake. Around 21 per cent of Singapore firms deploy industrial robots, while 19 per cent have adopted AI or machine learning tools – but both figures still lead the regional pack.

When it comes to sustainability initiatives, the study revealed that regulatory requirements and customer demands drive Singapore companies more than civil society pressure to adopt green practices.

This trend appears consistent regionwide, with government-led regulation emerging as the most trusted and effective catalyst for promoting sustainable business practices.

Singapore Manufacturing Federation president Lennon Tan noted that having a "queen bee" customer – a major or influential client – is a significant motivation for companies to adopt environment, social and governance practices.