

In this issue, KPMG Tax Services highlights the impact of Free Trade Agreements (FTAs) to your business, particularly the ASEAN-India FTA and the ASEAN-China FTA.

This past year has been a challenging time where businesses have to deal with the aftermath of the global financial crisis by actively seeking ways to maintain sustainability.

The global financial crisis also amplified the customs-related challenges multinational businesses face as governments adopted various measures to protect their national economies. This has translated into the recent slew of safeguard tariffs and anti-dumping duties that have been announced by major world economies such as China and the United States.

It is widely recognised that trade protectionism will become an impediment to global economy growth. Hence, one of the agenda of the recent Asia-Pacific Economic Cooperation (APEC) meeting held in Singapore was to discuss ways to rebuild and grow the global economy. This included simplifying documentation and procedures relating to rules of origin. Documentation requirements and rules of origin are common concepts contained in FTAs.

#### **What is an FTA?**

An FTA is a legally binding agreement between two or more countries to reduce or eliminate barriers to trade, and facilitate cross border movement of goods and services between the territories of the parties.

Singapore currently has 16 FTAs in force with major trading partners in the region and worldwide. Recently concluded FTAs include the ASEAN-India FTA and ASEAN-China investment agreement.

Understanding and applying the FTAs correctly are beneficial to your business as certain goods originating in Singapore or ASEAN will be subject to eliminated or reduced tariff rate in the importing countries. This can greatly lower your business costs when you operate in a foreign country and also, improve your competitive edge over your competitors when you export goods from Singapore. This is particularly important when your business is using Singapore as a manufacturing and export hub.

#### ASEAN-India FTA

The ASEAN-India FTA will kick-in on 1 January 2010 and it covers 90 percent of the total types of products traded between ASEAN and India. Under the ASEAN-India FTA, products will be considered "originating" if the regional content of the product is at least 35 percent, the product has undergone a change in tariff subheading and satisfies certain product specific rules.

#### ASEAN-China FTA

The Agreement on Trade in Goods was signed in 2004 and implemented in 1 July 2005 by the ASEAN countries and 20 July 2005 by China. The recently-inked ASEAN-China investment agreement completes the ASEAN-China FTA. Generally, products are considered "originating" under the ASEAN-China FTA if the regional content is at least 40 percent. However, there are certain products that are subject to product-specific rules. For example, sports footwear that is of an HS Code 6403.19 would be considered originating if there is a change of subheading. Consequently, the tariff rate imposed on originating sports footwear that are exported from Singapore to China will be five percent instead of ten percent.

#### How KPMG can help

We can help you assess the potential FTA benefits that your business is entitled to. Our FTA specialists can assist you in analysing the various benefits and requirements under the various Singapore FTAs that are most relevant to your transaction/business model. This can help you identify the most appropriate FTAs that your business can tap on in order to reduce the administrative costs in applying the FTAs and at the same time, enhance the potential FTA benefits.

Please do not hesitate to contact us if you would like to know more about how to leverage FTAs to enhance the benefits that your business can derive.

#### Contact us

**Lam Kok Shang**  
Executive Director  
Tel: +65 6213 2596  
kokshanglam@kpmg.com.sg

**KPMG Tax Services**  
16 Raffles Quay #22-00  
Hong Leong Building  
Singapore 048581  
Tel: +65 6213 3388  
Fax: +65 6224 1345

KPMG's Tax Alert highlights the latest tax developments, impending change to laws or regulations, current practices and potential problem areas that may have an impact on your business. As certain issues discussed herein are time sensitive, it is advisable to make plans accordingly.

Tax Alert is issued exclusively for the information of clients and staff of KPMG Tax Services and should not be used or relied upon as a substitute for detailed advice or a basis for formulating business decisions.

© 2009 KPMG Tax Services Pte Ltd (Registration No: 200003956G), a Singapore incorporated company and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. All rights reserved. Printed in Singapore.