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India-Singapore CECA: A good start to an enduring economic relationship

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The past decade has witnessed a significant expansion in bilateral economic relations between Singapore and India. Thus, while the total bilateral merchandise trade between the two countries trebled during 1991-2002, reaching US$4.20 billion, the bilateral services trade increased by 40% from 1998 to US $0.74 billion in 2000. These trade flows have also been accompanies by increasing volume of foreign investments, with Singapore emerging as the eighth largest foreign investors in India as of 2002. These investments have covered a wide range of sectors from telecommunications, electrical equipments, electronics, health care, real estate, to port development, trade logistics, tourism and transportation. These economic linkages have been further strengthened by the development of institutional links particularly between trade, investment, and tourism promotion agencies of the two countries.

With increasing economic linkages and institutional links between Singapore and India, it has been recognized by the policymakers from both sides that there needs to be a sustained effort to concretize this relationship. Thus, during the recent visit of PM Goh to India, a declaration of intent to conclude a Comprehensive Economic Cooperation Agreement (CECA) between India and Singapore within a time span of 12-18 months has been signed. It is important to note that the visit took place in spite of an outbreak of the Severe Acute Respiratory Syndrome (SARS) disease in several countries across Asia, signifying willingness of both countries to forge an enduring long-term relationship. It also represents another step forward in operationalizing India's Look East policy.

The CECA with India represents the first such bilateral arrangement that Singapore has entered into with a developing country. India already has a functional Free Trade Agreement (FTA) with Sri Lanka, and is negotiating such arrangements with Thailand, Brazil and Chile. But its CECA with Singapore is the first with a high-income affluent country. India's experience with such agreements with two Association of Southeast Asian Nations (ASEAN) members, Singapore and Thailand can be expected to ease negotiations for a prospective India-ASEAN Free Trade Agreement (FTA).

It has been agreed that recommendations of the Joint Study Group (JSG) Report on the CECA, released during PM Goh's visit, and available at http://www.mti.gov.sg could serve as a basis for detailed negotiations. The JSG Report has concluded that the CECA between India and Singapore would provide significant mutual economic benefits for both countries.

The report recommends that the CECA be an FTA- plus arrangement. This implies that negotiations would go beyond tariff reduction on merchandise trade into other areas of trade negotiations viz. services, investments, standards, and movement of natural persons. Specifically, the JSG has recommended that the CECA should be an integrated package of agreements comprising of five major components: FTA on merchandise and services trade: bilateral investment agreement on promotion protection and co-operation in foreign investment flows among the two countries: refining existing Double Taxation Avoidance Agreement: an agreement to liberalize Air Services, including an Open Skies Agreement for Charter Flights: and finally a work program for economic cooperation in all areas of trade and investment cooperation, including cooperation in Tourism, setting up of an India–Singapore investment fund, and a setting up of a second India Centre in Singapore to harness Singapore's strengths as a business hub for Indian companies. Singapore's Business Federation should consider reciprocating India's gesture by setting up an office in India, particularly for its SME members.

The above recommendations have the potential to expand economic space for both countries. Thus, besides efficiency gains for India by improving trade facilitation and cooperating in customs documentation and standards, both countries would be more fully able to realize gains from such services as ICT, logistics, tourism, financial, education, healthcare and retail services. As observed in the JSG report, recognition of mutual talent and lowering barriers to movement of natural persons would be key negotiating areas that can provide an important avenue for Singapore to overcome its skilled manpower requirements, while providing India with much needed project management and other skills of Singaporeans. Investment opportunities in these sectors through a bilateral investment framework and a modified double taxation agreement to facilitate flow of capital would ensure that investors have better knowledge about each other's market and are well-positioned to benefit through mutual cooperation. Singapore needs to deploy its large reserves and savings productively, while Indian companies need to diversify their capital structure. The India-Singapore investment fund could permit leveraging the inherent strengths of many SMEs in India and Singapore; and act as an additional avenue for Singapore's considerable trading and marketing skills. Singapore could consider more pro-active use of Temasek Holdings venture capital firm operating in Chennai; and consider setting up an office of the Singapore Government Investment Corporation in India.

However, the hard task of achieving the potential of the CECA still lies ahead. . This is because of several reasons. First, the two economies are significantly different, with Singapore being an affluent city-state, and India being a developing country with a large and heterogeneous population and diverse interest groups. The economic structures are also significantly different, with Singapore relying primarily on the external economy for its growth, while in India, the external economy is only beginning to be of significance. Given such differences, the diverse and complex agenda, and if Singapore's experience with other countries such as the U.S., and India's experience with Sri Lanka are any guide, negotiations on the details are likely to be prolonged and tough. The 12 to 18 month time- frame envisaged is therefore fairly realistic.

India's concern is likely to be that Singapore's entrepot role and its low tariffs on most industrial and consumer goods should not be used to sharply increase imports of sensitive items to harm existing domestic industries: and that there will be transparency and balance in application of various rules, and regulations concerning standards, recognition of professional qualifications, and related areas. Singapore's interest lies in ensuring that India continues to open up its economy, and accelerates liberalization of its trade and investment regimes. Aviation sector would be of special concern to Singapore. Both sides would be interested in establishing a mutually agreeable dispute settlement mechanism, which is transparent, accessible, and has low transaction costs.

Given the importance of this agreement, developing trust and confidence in each other is therefore going to be vital. It is thus essential that the media and elites on both sides make every effort to address the current information and perception gaps; demonstrate recognition of mutual benefits by balanced and analytically sound discussion of the relevant issues involved not only in CECA, but also in other areas. It should be stressed that economic and political aspects cannot be separated if the objective is to build enduring bilateral relationship. Each side therefore would need to ensure that core national interests of the other are respected. The proposed Asian Business Fellowship mooted in the JSG Report, and more intensive interactions between public officials of two countries could also assist in this effort.

In conclusion, the CECA represents an important opportunity for both sides as its successful implementation could be a vital element in their strategies to meet challenges of globalization and finding new growth niches.

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