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NOTES

THE COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT—THE STRATEGIC IMPERATIVES

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The slow progress of World Trade Organisation (WTO) trade negotiations has led to an increase in regional trading agreements (R.T.As) for the purpose of gaining immediate market access. Economic considerations aside, R.T.As are also driven by geo-political and strategic considerations. In this context, both India and Singapore look at the Comprehensive Economic Cooperation Agreement (C.E.C.A.) which was concluded on 29 June 2005 as an important step in enhancing India's engagement in Southeast Asia leading to an eventual free trade area in Asia. The C.E.C.A. also serves as a template for India in its F.T.A. negotiations with other countries. Given the constraints of coalition politics, there is the challenge of including in any F.T.A. the rather weak and protected Indian farm sector whose large rural vote can only be disregarded by the government at its own peril.

I. WHY FREE TRADE AGREEMENTS?

The obvious answer is that multilateral trade negotiations under the World Trade Organisation (WTO) have been too slow. One recourse is to negotiate bilateral or plurilateral free trade agreements (F.T.As) in order to secure immediate market access.

Ironically, even though some 40% of global trade takes place among developing countries, there have been no serious efforts to negotiate trade liberalisation among the developing countries in a multilateral forum. The only feeble attempt was the General System of Trade Preferences (GSTP), launched under the auspices of the United Nations Conference on Trade and Development (UNTACD), but the offers made were meagre and symbolic. This could be explained by the tradition, rightly or wrongly, among the developing countries that they should not demand and negotiate market access among themselves in order to preserve a semblance of G77 solidarity. One way out is therefore to choose a special trading partner and negotiating a regional trading agreement (R.T.A.)[1] either bilaterally or among a group of developing countries. It is therefore no coincidence that there has been a dramatic rise in the number of R.T.As since the Uruguay Round. As of January 2005, notification of 312 R.T.As has been made to the WTO. They are driven as much by perceived economic benefits of regional integration as by strategic and political calculations, if not more.[2]

As Singapore is already a very open economy with virtually zero-duty tariffs, securing market access through the F.T.A. route obviously makes much practical sense. Thus far, Singapore has concluded F.T.As with New Zealand, Japan, the European Free Trade Association (EFTA), Australia, the USA, Jordan, India, Korea, Panama, and the TPSEPA (Trans-Pacific Strategic Economic Partnership Agreement) among Brunei Darussalam, Chile,

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1 Types of R.T.As include the Economic Union, Common Market, Customs Union, Free Trade Area, Partial Scope. The most common is the Free Trade Agreement (F.T.A.).

2 See Chak Mun "FTAs: An Economic Reality for Multilateral Trade" *The Financial Express* (22 June 2004).

New Zealand and Singapore. Several more F.T.As are in the pipeline. The objective goes beyond economic and trade gains such as Singapore's F.T.A. with the USA. Singapore's chief negotiator of the US-Singapore F.T.A. Ambassador Tommy Koh stated thus:

> Singapore's interest in the US, however, transcends business and economics. Singapore wishes to entrench the presence of the US in the region because it underpins the security of the whole Asia-Pacific region. Singapore regards the US-Singapore FTA as a symbol of continued US commitment to the region. Therefore, for Singapore, the USSFTA is not just about securing tariff-free entry for Singapore's exports to the US market. It is not just about attracting more Foreign Direct Investment (FDI) to Singapore. It is also about enhancing the prospects of peace and stability in the region.[3]

In a similar vein, Singapore views the C.E.C.A., together with India's F.T.A. with Thailand and with the Association of Southeast Asian Nations (ASEAN), as important steps in enhancing India's engagement with Southeast Asia, and strategically linking South Asia with Southeast Asia. Spelling out his long-term vision for Asia, Senior Minister Goh said:

> In time, these FTAs would form the stepping stones for an Asian economic community, which will bring together South Asia, Southeast Asia and Northeast Asia .... Such a community will result in a strong and prosperous Asia, with India as one of the key pillars.[4]

II. India's Position

Initially, India had subscribed to a purist view of F.T.As at the General Agreement on Tariffs and Trade (GATT)/WTO. It took the position that trade negotiations should only be conducted at the multilateral level, with special and differential (S & D) treatment for the developing countries. Developing countries had to be allowed space to protect their infant industries even if they were to enter into regional trade arrangements; and the development dimension should therefore be accorded overall priority. In a communication to the WTO Negotiating Group on Rules,[5] India stated as follows:

> The development dimension of the Enabling Clause is that while developing countries seek greater economic integration with other countries, they also need to have enough policy space to be able to adjust to greater competition in the domestic markets or to calibrate their market liberalisation to their individual level of development. It also provides them flexibility in making structural adjustments, a mechanism to build public consensus for trade liberalisation-led reforms and also a laboratory to learn the lessons of market opening without paying a prohibitive price in terms of social and economic upheavals, that may, at times, be paid when such an opening up is at the multilateral level.

However, India's position began to shift during the tenure of the Vajpayee government. The apparent isolation of India at the WTO Ministerial meeting at Doha in November 2001 must have given the Indian negotiators a jolt. It swiftly prompted a review of the need to form alliances with regional groupings as well as to secure market access through the conclusion of strategic F.T.As. This was underscored in the Commerce Ministry's report on its Medium Term Export Strategy 2002-07 (MTES) published in January 2003. Thus a process of F.T.As/Preference Trade Agreements (P.T.As) negotiations began in all earnestness with

[3] Tommy Koh & Chan Li Lin, eds., *The United States-Singapore Free Trade Agreement—Highlight and Insight* (Singapore: Institute of Policy Studies and World Scientific Press, 2004) at 8.

[4] Then Prime Minister of Singapore Mr. Goh Chok Tong, Acceptance address for the Jawaharlal Nehru Award for International Understanding (New Delhi, 9 July 2004).

[5] Communication from India, "Discussion Paper on Regional Trading Arrangements", *WTO Negotiating Group on Rules, TN/RL/W/114* (dated 6 June 2003).

Sri Lanka, MERCOSUR, Egypt, Thailand, ASEAN, Singapore, Afghanistan, Bangladesh, Myanmar, South Africa and the Gulf Cooperation Council (GCC). In the view of journalist Sanjaya Baru, "By signing up so many F.T.As, India is not only ensuring market access in a clutch of developing country markets but is also reaching out to other regional groups like ASEAN, Mercosur, Sadec and so on".[6]

While the pursuance of F.T.As has the objective of forcing domestic industries to restructure themselves and become more internationally competitive, some Indian economists have argued that it would be more economically sound to cut tariffs across the board on a Most Favoured Nation (M.F.N.) basis instead. F.T.As were difficult to administer and they tended to fragment the world trading system. Nevertheless, there was a large measure of consensus that F.T.As with Asian countries had an overriding strategic intent, and as such, were acceptable. There was anxiety that with the proposal to form an East Asian Economic Community (comprising ASEAN, China, the Republic of Korea and Japan), India would be the only major economy in the world which is not part of any major trade bloc.[7]

Hence economic considerations aside, these F.T.A. initiatives are driven as much by strategic considerations within the ambit of India's "Look East" policy. India would have to engage itself and expand its economic presence in East and Southeast Asia where there is already an interlocking matrix of F.T.As including Asia Pacific Economic Cooperation (APEC). Otherwise, it would have to be contented with being confined to the South Asian Association for Regional Cooperation (SAARC) region. It was in this context that the former Prime Minister of India Mr. A B Vajpayee proposed at the 2nd India-ASEAN Summit in Bali, October 2003, the establishment of an Asian Economic Community where India could stake its legitimate interest directly.

The United Progressive Alliance (UPA) coalition government under Prime Minister Manmohan Singh which came to power in May 2004 is equally aware of the strategic and political dimensions of F.T.As. In his address to the Indo-American Chamber of Commerce on 13 August 2004, Union Minister of Commerce and Industry Mr. Kamal Nath said:

> As far as India is concerned, we have always stood for an open, equitable, practicable, non-discriminatory and rule-based international trading system. It is our belief that our endeavours at creating regional economic spaces are not derogatory to the creation of uniform economic space at the multilateral level. It is also a fact that R.T.As consolidate peace and regional security, and also confer greater bargaining power in multilateral negotiations by tying in partner countries through regional commitments. With the above objectives in mind, India has engaged in a number of bilateral and regional initiatives.

III. The C.E.C.A. Negotiations

Singapore took the initiative in January 2000 when Prime Minister Goh Chok Tong visited Delhi. An agreement was reached to set up a Task Force on Bilateral Economic Cooperation to study how Singapore could act as the catalyst for India's economic reforms and development, including the possibility of concluding a F.T.A. A Memorandum of Understanding (M.O.U.) on economic cooperation was subsequently signed during President Narayanan's state visit to Singapore the following November. However, very little progress took place as there was, seemingly, a lack of enthusiasm among the Indian officialdom for a F.T.A. Instead, the Indian side proposed an Economic Partnership Agreement (E.P.A.) which would encompass a limited F.T.A. as well as cooperation in non-trade fields.

[6] Sanjaya Baru "India Launches FTA Spree Before Cancun" *The Financial Express* (20 June 2003). He is currently the media advisor to Indian Prime Minister Dr. Manmohan Singh.

[7] Nagesh Kumar "Strategic Options on Regional Trade Pacts" *The Financial Express* (24 July 2004).

Rather unexpectedly, when Prime Minister Vajpayee visited Singapore in April 2002, he told Prime Minister Goh that instead of merely constituting a Joint Task Force to recommend measures for expansion of trade and cooperation in the economic and financial sector, India and Singapore could go a step further and examine a Comprehensive Economic Cooperation Agreement (C.E.C.A.) which would engage both sides over a broader economic spectrum including trade liberalisation and facilitation, customs cooperation, intellectual property, financial sectors collaboration *etc*. Prime Minister Vajpayee also proposed the formation of a Joint Study Group including representatives of government, business, industry and academia to submit recommendations with a view of launching the C.E.C.A. within a year.[8] In the same afternoon, Prime Minister Vajpayee announced this publicly in his address to a Singapore-India Business Forum.

Prime Minister Vajpayee accepted the persuasion that an F.T.A. with Singapore would give an impetus to India's "Look East" policy as part of India's active engagement with Southeast Asia. Forging a deeper and strategic partnership with ASEAN was obviously very much on the mind of Vajpayee as this was the main theme of his Singapore Lecture where he referred to India's close civilisational links with ASEAN, the sharing of land and maritime borders with some of the ASEAN countries and the desire of India to integrate its strengths in various social, scientific, and economic sectors into the relevant ASEAN processes. Vajpayee added, "India looks forward to the India-ASEAN Summit with this perspective. We value Singapore's identity of views with us on this and deeply appreciate its energetic espousal of the India-ASEAN dialogue".

IV. Joint Study Group

The Joint Study Group (J.S.G.) met under the co-chairmanship of Dr. Rakesh Mohan, Deputy Governor of the Reserve Bank of India and Mr. Lim Chin Beng, former Singapore's Ambassador to Japan (who was actively involved in the Japan-Singapore F.T.A. negotiations). The J.S.G. submitted its report in March 2003, and recommended that the C.E.C.A. would be structured as an integrated package of agreements between India and Singapore, including:

(a) a Free Trade Agreement, which would include, *inter alia*, trade in goods and services, and investment;
(b) a bilateral agreement on investment promotion, protection and cooperation;
(c) an improved Double Taxation Avoidance Agreement (D.T.A.A.);
(d) a more liberal Air Services Agreement, and Open Skies for Charter Flights; and
(e) a work program for economic cooperation covering areas outlined in the Joint Study report, including, *inter alia*, the creation of the India-Singapore Fund, the setting up of a second India Centre in Singapore, and Tourism Cooperation.

Not all the J.S.G. recommendations were accepted during the actual C.E.C.A. negotiations. It was agreed that air services negotiations should be best left to the civil aviation officials. The proposed US$1 billion India-Singapore investment fund was aborted as the Indian negotiators felt that accepting such a fund might oblige them to offer liberal investment incentives to Singapore than what their industries were prepared to accept. Finally, the proposed investment agreement was incorporated into the investment charter of the C.E.C.A.

The C.E.C.A. negotiations were formally launched by Prime Minister Goh and Prime Minister Vajpayee during the former's visit to India in April 2003.

[8] Apparently, it was the accompanying Disinvestment Minister Arun Shourie who finally persuaded Prime Minister Vajpayee to agree to the formation of the Joint Study Group.

V. The Perceptions and Impediments

The negotiations took much longer than expected.[9] The delay was partly due to a change in the Indian government after the general election held in May 2004. The National Democratic Alliance (NDA) government was replaced by the United Progressive Alliance (UPA) coalition government under Prime Minister Dr Manmohan Singh. The Indian bureaucracy had to await policy directives from a new government which needed some time to settle down.

Privately, Indian officials acknowledged that they faced several handicaps. Firstly, unlike Singapore which had already acquired considerable experience in negotiating F.T.As, it was the first time that Indian officials had to negotiate a comprehensive F.T.A. which not only included both trade in goods and services but also non-trade areas like investment, taxation and intellectual property. Past F.T.A. negotiations with countries like Nepal and Sri Lanka were a much simpler task as they dealt with trade in goods only. Secondly, they had to hold wide consultations among Indian industries and interested groups to gauge the reactions and demands of the business community. Thirdly, the Commerce Ministry had to co-ordinate the positions of other ministries and agencies concerned in formulating their negotiating package. At times, other ministries may revert with different positions from what had been resolved *ad referendum* at the negotiating table.

Negotiations were quickly bogged down by India's insistence on a set of stringent Rules of Origin (R.O.O.) which would include a 40% local content/value-added requirement, a change in tariff headings at 4-digit level, together with some minimum product transformation.[10] In trade in services, India demanded that service providers based in Singapore should be majority-owned and controlled by Singaporeans, which was far more restrictive than what the WTO rules required.[11]

It also became apparent that both sides were approaching the C.E.C.A. negotiations from rather different perspectives. As Singapore is virtually import-duty free, Singapore negotiators saw the C.E.C.A.'s role as facilitating a conducive business environment and bringing about greater flows of trade and investment between India and Singapore, as well as attracting more multinational corporations (M.N.Cs) to base their operations in Singapore. The Indian negotiators placed more emphasis on reciprocity and economic benefits that could be realised within a short time frame. For example, in return for the elimination of Indian tariffs, they expected a greater flow of investments from Singapore, as well as Indian professionals being allowed to work in Singapore based on mutual recognition of professional standards and degrees. In this respect, Singapore was viewed as largely a small domestic market with zero-duty tariffs, which in reciprocal terms offered relatively little direct trade benefits to India. Moreover, since Singapore did not possess a large manufacturing industry, prevention of possible misuse by unscrupulous traders and potential dumping of products by third countries seemed to rank high on India's priorities. Anecdotes were cited about India's past experience in the implementation of F.T.As with neighbouring countries like Nepal and Sri Lanka, including a graphic example of painted copper rods being declared as copper wires, imported into India, and then re-melted into copper ingots in order to circumvent the high Indian custom duties on copper. Questions were also raised about possible

[9] Anticipating an early general election, former External Affairs Minister Yashwant Sinha had in fact suggested that the C.E.C.A. negotiations be completed by February 2004, *i.e.*, 2 months well ahead of the original target date of April 2004.

[10] The final agreement reached was 40% local content/value-added plus change in tariff headings at 4-digit level as well as product-specific R.O.Os.

[11] WTO rules only require substantial business operations regardless of ownership or control. Singapore eventually conceded to India's demand that under the C.E.C.A., for Singapore companies wishing to supply services in India in four sectors, viz audio-visual, educational, financial and telecommunications, they would need to be at least 50% owned or controlled by Singapore nationals.

custom duties evasion through false declaration of invoices, hence custom co-operation was included as part of the C.E.C.A. Finally, there was some apprehension on the Indian side about whether bilateral concessions granted to Singapore under the C.E.C.A. would undermine India's bargaining position at the WTO negotiations.

VI. Private Industry Views

Indian private sector concerns were highlighted in an editorial in *The Financial Express* on 8 November 2004:

> Indian industry, obviously, is concerned that the 4,000 plus MNCs present in Singapore can potentially misuse the FTA-plus agreement and use it as a staging ground for cheaper exports to India. Considering the handicaps Indian industry faces domestically with poor infrastructure and high tax levels, its worried stiff over cheaper goods being dumped here. The auto industry has estimated that the cost disadvantage for manufacturing in India when compared to ASEAN nations is 12.5% to 17%. In these circumstances, CECA negotiations must address these concerns of India Inc before the government makes it a reality.

This anxiety was even shared among some members of the academia. In a debate column on F.T.As, Professor Vijaya Katti of the Indian Institute of Foreign Trade (IIFT) in Delhi was more explicit:

> A number of countries with whom India proposes to sign FTAs have surplus capacity in certain commodities. Inflow of such items may threaten our domestic manufacturers. FTAs with Thailand or Singapore may have adverse impact on sectors like automobile, textiles and chemicals, as Indian manufacturers are not equally competitive. Goods manufactured in China, South Korea or third countries may come into India through Thailand or Singapore acting as transit countries. China's FTA with ASEAN may also create problems for India as China does not produce all items by itself. It has become the global platform for assembly operations, with Southeast Asia as its support.[12]

Following the same strand of argument, the President of the Indian Chemical Manufacturers Association told the press:

> if the proposed FTA (CECA) is signed, then the domestic industry would face severe threat of dumping from Singapore which may even force many local chemical manufacturers to shut shops.[13]

In the banking sector, one former Chairman and Managing Director (CMD) of public banks argued that until reforms in terms of draconic administrative controls between the Indian public banks and the government were sorted out, opening the banking sector to Singapore would not reflect commercial demands. Flabbergasted by what he perceived as clearly an imposition from the Union government on the banking sector, he wrote:

> Countries that protect their institutions and stand firm on national pride have earned more respect from the world than those who have meekly surrendered. China, Israel and even Pakistan have managed to get more concessions from the world than a country like India which has shown a tendency to buckle under pressure and accommodate.[14]

[12] Vijaya Katti "Does India Need to Revisit FTAs? They Threaten India's Domestic Market." *The Economic Times* (16 June 2004) 4.

[13] Vijay Trivedi "Chemicals Industry Sees Red in FTA with Singapore" *The Financial Express* (25 June 2003) 12.

[14] K.V. Krishnamurthy "Is a preferential Singapore treaty a good idea?" *Business Standard* (1 June 2005) 8.

Others took a positive view. Key business chambers like the Confederation of Indian Industry (CII), the Federation of Indian Chambers of Commerce and Industry (FICCI) and the Associated Chambers of Commerce and Industry of India (ASSOCHAM) were supportive of the C.E.C.A. and F.T.As in general as they could bring significant economic benefits for India by intensifying trade and investments in foreign markets, provided there should be effective R.O.Os to prevent circumvention, and provided that there should be significant non-reciprocal gains for India in services and investment. FICCI had projected that with the C.E.C.A., bilateral trade between India and Singapore would increase from US$4 billion in 2004 to US$10 billion within 3 years.[15] Moreover, in the views of Mr Tarun Das, Director-General of CII, India's F.T.A with Thailand and Singapore would not only give an impetus to India's "Look East Policy", but also send the "right signal to the global business fraternity that India is not a closed or a protectionist economy, but is willing to negotiate to open its markets for a two-way flow of goods from other countries."[16] While opponents to foreign direct investment (F.D.I.) in the retail sector would argue that it would kill the unorganised and the small traders sector, Commerce Minister Kamal Nath was prepared to take a more incremental approach in opening up the retail sector to foreign investments.[17] He also publicly commented that as Singapore was a known trading hub, the C.E.C.A. would help develop supply chains from India as well as facilitate entry of Indian professionals into Singapore, for which mutual recognition agreements would be worked out. Similarly, in the real estate sector, Indian developers were quite happy for foreign investors to bring in funds and expertise for construction of better quality. In fact, the Confederation of Indian Industry was pushing for the minimum area for F.D.I. in housing projects to be reduced to 3-5 acres from the current 100 acres.[18]

There were expectations that the C.E.C.A. would bring a flood of fresh investments into India. Acknowledging that India could leverage on Singapore's position as a financial and trading hub to raise capital and attract investments into India, it was commented in a Times of India editorial that "It is a good idea for India to open up to Singapore as a conduit for global finance capital."[19]

In fact, the debate on the C.E.C.A. was a mirror reflection of the wider public debate among Indian industries, academia as well as within the government itself with regard to the pace and extent of the current economic reforms taking place in India. The dynamics seemed to go beyond just the C.E.C.A. negotiations, and to some extent, they generated a catalytic effect on the pace of reforms in certain areas such as real estate, F.D.I. in telecommunications as well as in the banking sector.[20] As it is, the Indian government has already announced a policy objective of reducing India's import tariff rates to those of ASEAN.

VII. The Negotiations

The actual C.E.C.A. negotiations comprised 13 rounds of discussion with inter-sessional meetings held in between these rounds. Considerable time and effort was required to explain and to understand each other's negotiating demands, as well as the rules and administrative practices of the other country. For some product items, specific product rules of origin

[15] See article by Amit Mitra, Secretary General of FICCI "Attractive partner, but look before the plunge" *The Financial Express* (17 November 2004).

[16] Tarun Das "Should India go the FTA way?" *The Business Standard* (22 October 2003).

[17] Press report on a keynote address by Commerce Minister Kamal Nath at Images Fashion Forum 2005 held in Mumbai *The Financial Express* (20 January 2005) 14.

[18] "Foreign developers eye India's real estate market" *Business Standard* (21 September 2004) 4.

[19] Editorial, *The Times of India* (18 May 2005).

[20] The Indian government decided to reduce the minimum acreage for foreign investors in real estate from 100 acres to 25 acres; the F.D.I. ceiling on the telecoms sector was raised to 74%; and a roadmap was announced in February 2005 to liberalise the banking sector for foreign banks in India.

(P.S.R.) were necessary, as for example, chemicals/petrochemical products manufactured in Singapore would not comply with the 40% local content criterion because of the fluctuations in the price of imported crude oil.

The more difficult task seemed to be co-ordinating with other Ministries and agencies and resolving internal differences; and this primary responsibility fell on the two chief negotiators on both sides.[21] Whereas the Singapore side had already acquired considerable experience from past F.T.A. negotiations such as with Australia and the USA, Indian Commerce officials admitted that it was a new experience for them having to coordinate positions with a large number of ministries and agencies and on a wide range of subject matters from goods and services sectors to customs, taxation, investment, intellectual property, and mutual recognition.[22] For example, Indian finance officials would see tariff eliminations and reductions in terms of revenue loss and custom duty evasion; or whether less than stringent requirement of ownership and majority control would provide loopholes for third country service providers to benefit from the C.E.C.A. These and other concerns were raised at the negotiations, and Singapore had to address them and convince India of the larger economic benefits for the Indian industry as a whole. For example, most of the Indian tariff offers to Singapore consisted of electronic components and other intermediate products. While tariff elimination on these product items might affect some segments of the Indian industry, they would nevertheless reduce input costs, and therefore help raise competitiveness for the Indian industry as a whole.

As a result of the protracted negotiations, the deadline of concluding the C.E.C.A. by the ASEAN/Indian Summit in Vientiane in November 2004 was missed. When Prime Minister Dr Manmohan Singh and Prime Minister Lee Hsien Loong met in Bandung during a commemorative Asian-African conference in April 2005, they agreed to instruct the two negotiating teams to conclude the C.E.C.A. within a month. To speed up the process on the Indian side, Cabinet Secretary B K Chaturvedi was tasked to chair a committee of Secretaries to sort out their different positions, and a Ministerial Task Force was appointed by Prime Minister Dr. Manmohan Singh to oversee negotiations of the C.E.C.A. and other future F.T.As.

The C.E.C.A. was finally signed on 29 June 2005 between Prime Minister Dr. Manmohan Singh and Prime Minister Lee Hsien Loong in Delhi. It came into force on 1 August 2005.[23] Its main elements are:

(a) in trade in goods, an immediate tariff elimination for 506 products; a phased elimination or reduction list by 1 April 2009, and a negative list of 6,551 products;
(b) mutual recognition of technical standards for food products, telecommunications equipment, electrical and electronic equipment;
(c) a protocol amending the existing D.T.A.A. which grants Singapore the so-called Mauritius status which refers to the exemption from Indian capital gains tax in certain areas and subject to conditions;[24]
(d) an investment chapter which commits both sides to protection from expropriation, and investment dispute settlement;
(e) a chapter in trade in services which lists the schedule of service sectors offered and the conditions attached;

[21] The chief negotiator on the Indian side was Commerce Secretary Dipak Chatterjee and his successor Mr. S. N. Menon. On the Singapore side was Mr. Heng Swee Keat, Permanent Secretary, Ministry of Trade and Industry.

[22] At any one time, there were no fewer than 12 negotiating sub-groups.

[23] The text of the C.E.C.A and its annexes are available on the Singapore Ministry of Trade and Industry's website <www.fta.gov.sg>.

[24] To prevent shell companies from benefiting from this Protocol, exemption is subject to certain conditions like minimum business operating expenditure of S$200,000 in the immediate 24-month period. Even though the protocol also refers to reciprocity, Singapore does not impose a tax on capital gains.

(f) facilitation on movement of natural persons such as short-term service suppliers, and intra-corporate employees; and
(g) co-operation in intellectual property rights, science and technology, education and media.

Given the negotiation deadline, the resistance from some segments of the Indian industry as well as the political constraints of coalition politics in India, the C.E.C.A. package thus concluded represented the best that could be achieved under the prevailing circumstances.[25] Nevertheless, both India and Singapore also agreed to review the implementation of the C.E.C.A. periodically with the view of improving its provisions and further liberalising bilateral trade between the two countries.

At a seminar on the C.E.C.A. in July 2005, Minister for Trade & Industry Mr. Lim Hng Kiang summarised the benefits of the C.E.C.A. to the Singapore business community as follows:

(a) The C.E.C.A. improves the investment regime significantly. It levels the playing field between Indian and Singapore investors; both will be treated equally in each other's countries. Qualifying companies will be able to enjoy tax exemption on the capital gains from the investments in India. India has also agreed to bind its new liberalised rules for real estate and joint ventures for Singapore investors. This lends greater certainty and will boost investor confidence. And Singaporean investors will be able to take disputes with the Indian government to an international arbitration tribunal.
(b) The C.E.C.A. will make Singapore imports into India more cost competitive. The tariffs on approximately 75% of Singapore's domestic exports will be eliminated or substantially reduced over 5 years. This includes important sectors such as electrical and electronics, instrumentation, pharmaceuticals and plastics.
(c) The C.E.C.A. will help to cut cost and time-to-market for certain products through Mutual Recognition Agreements (M.R.As). These M.R.As will eliminate the need for products which have been tested and certified in Singapore, to be re-tested for entry into the Indian market. To begin with, we have agreed to conclude M.R.As in electrical and electronic products, and telecommunication equipment.
(d) The C.E.C.A. will boost trade in services. In general, service suppliers from Singapore are guaranteed access into India's market, and will be treated on par with domestic suppliers. India has also made specific commitments in financial and telecommunications services, from which Singapore companies stand to gain. Under the C.E.C.A., both countries have also committed to negotiating M.R.As for 5 key professions—accounting and auditing, architecture, medicine, dentistry and nursing. Once completed, qualified professionals in these areas will be able to move more freely between Singapore and India.

VIII. Conclusion

The conclusion of the C.E.C.A. represented a landmark achievement for both countries. For Singapore, it was a F.T.A. with a major developing country. For India, it was the first time that it had concluded a comprehensive F.T.A. which included non-trade areas like investment, taxation *etc*. India would even use the C.E.C.A., if not the report of the Joint Study Group, as a template for its other F.T.A. negotiations such as with Sri Lanka, Malaysia *etc*.

Speaking at the Asian Development Bank's annual meeting on 5 May 2006, Prime Minister Dr. Manmohan Singh announced that India was working on F.T.As with China, Japan

[25] For example, the Leftist parties whose support is important to the UPA coalition government have opposed privatisation of airports, telecoms and financial sectors.

and South Korea. Describing these F.T.As as an important part of India's "Look East Policy", he said that such "web of engagements may herald an eventual free trade area in Asia covering all major Asian economies and possibly extending to Australia and New Zealand."

While such F.T.As would fulfil India's political objective in enmeshing itself with East and Southeast Asia, they would also serve the dual purpose of compelling the Indian industries to restructure and to become internationally competitive. Hopefully, together with the new Special Economic Zones (S.E.Zs) Act of May 2005 that has now come into play, they would provide both the external economic compulsion as well as private enterprise initiatives to force the Indian economy to open up further without being hampered by the constraints of coalition politics and resistance from the Left to privatisation. The other challenge is, of course, how to deal with a weak and protected Indian farm sector which carries a large rural vote which any government in India can only disregard at its own peril. It is here where economics, domestic politics and geo-political considerations would get entangled, and how they are going to be resolved may require strong political consensus at the helm of the UPA government.