Overseas Market Information

India-Singapore
Comprehensive Economic Cooperation Agreement

Negotiations for the India - Singapore Comprehensive Economic Cooperation Agreement (CECA) were launched on 27th May, 2003 in New Delhi. The launch of negotiations followed the signing of the Declaration of Intent on 8th April, 2003 by BG (NS) Mr. George Yeo, then Minister for Trade and Industry, and Mr. Arun Jaitley, then Minister for Commerce and Industry, India. The signing of the Declaration of Intent was witnessed by then Prime Minister Mr. Goh Chok Tong, and then Prime Minister of India, Mr. Atal Bihari Vajpayee.

The Declaration of Intent followed the completion of the Joint Study Group[1] (Report on the CECA. This report was presented to both then Prime Minister Mr. Goh and then Prime Minister Mr. Vajpayee before the signing of the Declaration. In the Declaration, the Ministers agreed that the Joint Study Group Report on the CECA would serve as a framework for subsequent negotiations.

The ambitious and comprehensive nature of this endeavour was reflected in the multi-faceted and well-represented inter-ministry teams from both sides. India's team was initially led by Mr. Deepak Chatterjee, then Secretary, Department of Commerce and subsequently by Mr. S. N. Menon, Secretary, Department of Commerce. Singapore's team was led by Mr. Heng Swee Keat, then Permanent Secretary for Trade and Industry and currently the Managing Director, Monetary Authority of Singapore. During the course of the negotiations, Minister Mr. Kamal Nath assumed India's Commerce and Industry portfolio and Minister Mr. Lim Hng Kiang assumed Singapore's Trade and Industry portfolio. The continued progress towards a substantive CECA is a sign of the strong commitment by India and Singapore to deepening bilateral ties and to economic progress.

After 13 formal rounds of negotiations, India and Singapore have successfully concluded the CECA. The Agreement encompasses trade in goods, trade in services, investment protections and other features. Mutual Recognition Agreements will eliminate duplicative testing and certification of products in specific sectors, and cooperation chapters will encourage and facilitate bilateral cooperation in several sectors. The CECA process has also encompassed a review of the existing Avoidance of Double Taxation Agreement between India and Singapore.

This landmark agreement is India's first ever CECA and is also the first comprehensive economic pact between Singapore and a South Asian country. The Agreement is a strategic compact between the two countries that will further enhance bilateral ties by catalysing the already growing flows of trade, investment, ideas and people[2].

The India-Singapore CECA was signed on 29th June, 2005, during Prime Minister Mr. Lee Hsien Loong's State Visit to India. The Agreement will come into force on 1st August, 2005.

Key Features of CECA

Improved Avoidance Of Double Taxation Agreement

An Avoidance of Double Taxation Agreement ("DTA") provides for avoidance of double taxation of income earned in one Contracting State by a resident of the other and makes clear the taxing rights between the two Contracting States on all forms of income from cross-border economic activities between the two Contracting States. The DTA thus helps to facilitate the flow of trade, investment, technical know-how and expertise between the two Contracting States by eliminating double taxation of income.

Singapore and India have agreed on a protocol to improve the existing DTA, which was signed in January 1994. The main improvement to the DTA is that tax residents will enjoy capital gains tax exemption on investments in India. However, a tax resident will not be entitled to the capital gains exemption if its affairs are arranged primarily to take advantage of the benefits of the DTA. In addition, a shell/conduit company with negligible or nil business operations or with no real and continuous business activities in Singapore is disallowed from enjoying the capital gains exemption.

For the purposes of the capital gains tax exemption, a company is not a shell company if :

- It is listed on recognised stock exchanges of the Contracting State
- Its total annual expenditure on operations in the residence State is equal to or more than S$ 200,000 or Indian Rs. 50,00,000 in the respective Contracting State as the case may be, in the immediately preceding period of 24 months from the date the gains arise.

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1 The Joint Study Group (JSG) was formed after then Prime Minister Mr. Goh and then Prime Minister Mr. Vajpayee met in Singapore on 8th April, 2002 and agreed that the group be established to study the benefits of a CECA. The Group was co-chaired by Mr. Lim Chin Beng, Member of the Public Service Commission, and Dr. Rakesh Mohan, then Deputy Governor of the Reserve Bank of India. The JSG concluded that the CECA between India and Singapore would provide significant benefits for both countries, in terms of the potential for increased trade and investment, and through economic cooperation.

2 India was Singapore's 14th largest trading partner in 2004 and bilateral trade has nearly tripled within the past decade, from S$ 4 billion in 1995 to S$ 11.8 billion in 2004. Over the last year, while negotiations were ongoing, bilateral trade with India increased by almost half, from S$ 7.8 billion in 2003, making India our fastest growing trading partner among the major economies.

The capital gains tax exemption regime of a country is an important consideration for investors and this exemption, which was previously only available to Mauritius, will help promote greater investment flows between Singapore and India.

Trade in Goods

The Trade in Goods Chapter provides for tariff concessions that will make Singapore goods more competitive vis-à-vis other foreign imports into India. Tariffs on approximately 75% of Singapore's domestic exports[3] will be eliminated or substantially reduced within 5 years. The sectors benefiting includes electrical and electronics, instrumentation, pharmaceuticals, and plastics.

For Singaporean goods entering India, those that qualify for tariff concessions are classified into one of the following categories : immediate elimination, phased elimination and phased reduction. Goods in the immediate elimination category will have tariffs on them eliminated completely when CECA comes into effect. For goods in the phased elimination and phased reduction categories, the reduction to the final tariffs will be phased in over 5 years and the percentage reduction is expressed as a margin of preference over the Most Favoured Nation (MFN) applied rates. This is shown in the table below :

Timeline for the Phased Tariff Concessions

	Tariff reduction by date CECA enters into force (1.8.2005)	*Tariff reduction by 1.4.2006*	*Tariff reduction by 1.4.2007*	*Tariff reduction by 1.4.2008*	*Tariff reduction by 1.4.2009*
Goods qualifying for Phased Tariff Elimination	10%	25%	50%	75%	100%
Goods qualifying for Phased Tariff Reduction	5%	10%	20%	35%	50%

To illustrate phased tariff concessions, we can use an Indian HS tariff line as an example. If the tariff line has an MFN rate of 10% in May 2009, a 50% reduction under Phased Tariff Reduction means that an import duty of 5% would be imposed on the Singapore-originating good entering India.

For Indian goods entering Singapore, Singapore has committed to grant zero-tariff treatment on all imports from India as of entry into force of the Agreement. For example, tariffs on Indian beer entering Singapore will be eliminated.

Rules of Origin

Rules of Origin (ROO) identify the "nationality" of a good. They ensure that only Singaporean or Indian goods enjoy the tariff concessions under CECA.

The general rule of origin is a combination of 40% local content and a change in tariff classification at the 4-digit level. CECA also takes into consideration the unique production pattern of Singapore and provides for a list of products that are exempt from the general rule. For each of these products, a specific rule of origin (eg, change in tariff classification only) has been crafted.

Customs

Good Customs procedures are necessary to ensure the free movement of goods traded between both countries. The lack of such procedures can increase compliance costs and diminish the benefits that result from tariff reduction.

Under CECA, the Customs authorities from India and Singapore will :

- Provide an advance ruling on the eligibility of originating goods for preferential tariffs and tariff classification, upon the request of the trader. This will provide traders with greater certainty on the status of their goods at the country of import.
- Enhance the application of risk management to focus on high-risk goods and facilitate the clearance of low risk consignments. Both authorities will also enhance transparency in regulations so that traders would be fully aware of the requirements and procedures in the respective countries.

Standards and Technical Regulations, Sanitary and Phytosanitary Measures

CECA provides a framework for concluding Mutual Recognition Agreements (MRAs) to eliminate duplicative testing and certification of products to facilitate entry of goods for sale in the respective markets. These sectoral MRAs serve to reduce costs and shorten time to market especially useful for products with short life cycle.

Two sectoral annexes for trade in electrical and electronic products, and telecommunication equipment were concluded under the framework chapter. For products in these two sectors, testing and certification to Indian standards and technical regulations can be done at source. They do not have to be further tested or re-certified on arrival in the market.

The potential benefits are reduction in cost due to elimination of duplicative testing and reduction in time to market for these products to enter the Indian or Singapore market. As most of these products have relatively short life cycles, the result is a reduction in relative cost and improved time-to-market competitiveness of Singapore certified products entering the Indian market and vice versa. India is expected to make the necessary amendments to its legislation to implement these MRA arrangements. This may take another 12 - 18 months. Singapore will also be providing technical training for Indian standards bodies so as to enable them to implement the MRA.

Of immediate benefit is the food sectoral annex where Singapore has facilitated the import of egg products, dairy products and packaged drinking water from India. This will widen the sources of supply for these food products in Singapore.

(Source : Internet)

(To be continued at next issue)

[3] Estimated trade coverage is based on 2003 figures from International Enterprise Singapore.