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INDIA-SINGAPORE TRADE RELATIONS: MULTIPLE AGREEMENTS & TRADERS' DILEMMA

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ABSTRACT

International trade and Commerce plays a vital role in growth and development of an economy India-Singapore trade relations were developed since the announcement of "Look East policy". During the early 1990s, South-East Asian states were experiencing rapid and sustained economic growth and India too was entering into Economic reforms. Being geographically closer and reaping benefits of economic and political ties, India-Singapore signed a 'Comprehensive Economic Cooperation Agreement' (CECA) in the year 2003. Further, the relation has taken another form of 'ASEAN-India Free Trade Agreement' (AIFTA) in 2009, which got implemented in 2011. The paper analyse, the dilemma for traders to follow which agreement especially when negotiating trade with Singapore. The impact of CECA and AIFTA on traders provides different framework in terms of tariff savings and relevant rules of origin. Every trader is concerned with tariffs and relevant rules of origin in respective commodities. Therefore, the paper is an attempt to study the selective commodities (goods) in which India-Singapore largely trade and calculate the cost in terms of Tariff savings. Also, it aims at highlighting complicacies that arose in the minds of Indian traders while trading with Singapore, the costs involved in administration and hence effective tariff and non-tariff relaxations. The study gives suggestions to the policy makers to make it convenient and practical for the traders.

KEYWORDS
Indian trade, multiple agreements, Singapore, tariffs, traders.

1. INTRODUCTION

International trade and Commerce plays a vital role in growth and development of an economy. Since the latter half of 1980s, trade has assumed its importance, specifically in developing countries like India. The new era took its ultimate shape in our country with implementation of New Economic Policy (NEP' 1991) comprising of three major elements viz. Liberalization, Privatization and Globalization. Trade relations between countries reflect the purpose of raising standards of living, ensuring full employment, large and steadily growing volume of real income and effective demand and expanding the production of and trade in goods, services and investment.

India-Singapore trade relations were developed since the announcement of "Look East policy". During the early 1990s, South-East Asian states were experiencing rapid and sustained economic growth and India too was entering into Economic reforms. Being geographically closer and reaping benefits of economic and political ties, India-Singapore signed a 'Comprehensive Economic Cooperation Agreement' (CECA) in the year 2003. Further, the relation has taken another form of 'ASEAN-India Free Trade Agreement' (AIFTA) in 2009, which got implemented in 2011.

The paper analyse, the dilemma for traders to follow which agreement especially when negotiating trade with Singapore. The impact of CECA and AIFTA on traders provides different framework in terms of tariff savings and relevant rules of origin. Every trader is concerned with tariffs and relevant rules of origin in respective commodities. Therefore, the paper is an attempt to study the selective commodities (goods) in which India-Singapore largely trade and calculate the cost in terms of Tariff savings. Also, it aims at highlighting complicacies that arose in the minds of Indian traders while trading with Singapore, the costs involved in administration and hence effective tariff and non-tariff relaxations. The study gives suggestions to the policy makers to make it convenient and practical for the traders.

2. LITERATURE REVIEW

2.1 FACTORS INFLUENCING TRADE

As per the report of World Trade Organization (2013) states very clearly the factors influencing trade between two countries are demography, investment, technology, energy and other natural resources, transportation costs and institutional framework. An empirical study done by Baldwin and Lopez-Gonzalez (2012), Kimura (2012) indicates a minimum level of investment on infrastructure plays an important role in reducing trade costs at regional level. Grossman and Helpman (2005) study production networks, low costs and secure transmission of information like high quality of telecommunication system is essential to build trade on infrastructure. Nordas and Piermartini (2004) estimated that doubling the kilometres of paved roads per 100 square kilometres of territory of a country boosts trade by 14%. Helpman (1984) viewed strong relationship between foreign direct investment (FDI) and trade. Further various studies developed on horizontal and vertical FDI and its relation with trade promotion.

Technology also plays a vital role in determining trade. Krugman (1991, 1998), Head and Mayer (2010), WTO study (2013) etc have given additional insights into the way technology diffusion has an impact on production and trade patterns. Sadorsky (2012) studied changes in the cost of energy can alter the commodity composition of a country's export and import depending on their energy intensity.

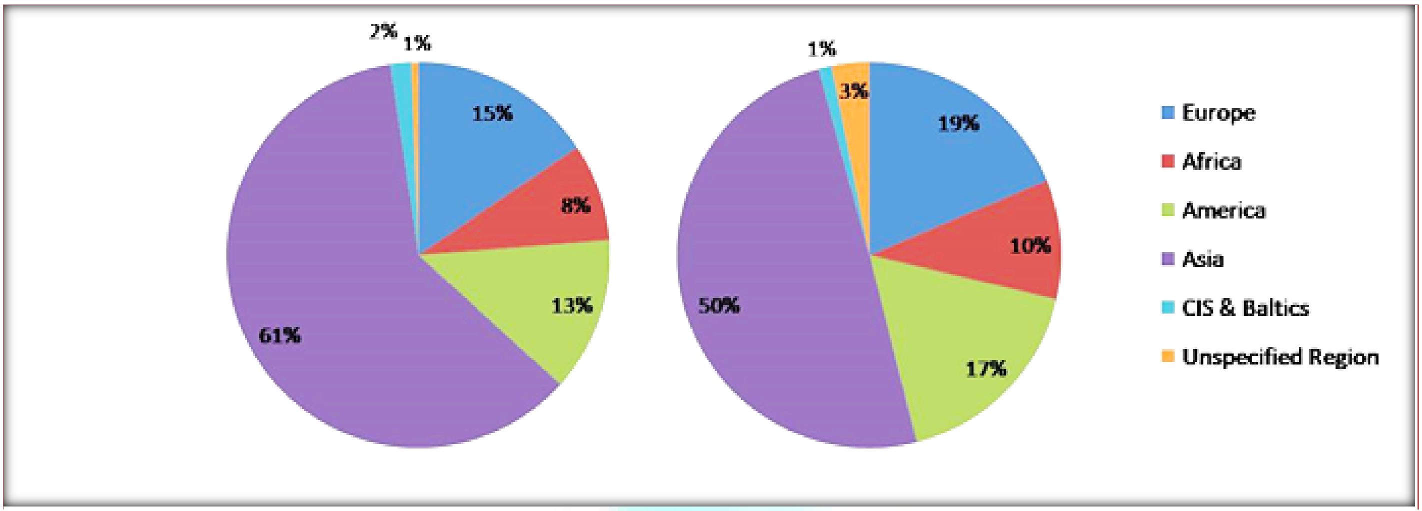
Anderson and van Wincoop (2004) had done a comprehensive survey of trade costs in which the importance of transportation costs is similar to protectionist policy measures. The tariff barriers are studied by McGowan and Milner (2011) The study by Paul Krugman on gravity model also mentions the importance of distance in trade.

But there are a few studies discussing how multiple agreements affect actual traders and this dilemma needs to be considered. This paper tries to focus on it.

2.2 BACKGROUND: INDIA-SINGAPORE TRADE RELATIONS

This paper considers India-Singapore trade relations specifically to understand that which country from ASEAN have higher level of trade with India. As per Department of Commerce statistics of 2014, India total exports in share percentage to ASEAN is 9.94, out of that India exports to Singapore is 3.17%. On the other hand, India imports from ASEAN 9.17 % out of which 1.51% comes from Singapore. The figure 1 below shows that the large portion of Indian trade is with the Asian countries. The left panel shows 61 percent of Indian imports are coming from Asia and right panel shows 50 percent of Indian exports are going to Asian countries.

FIGURE 1: REGION WISE SHARE OF INDIA'S IMPORTS AND EXPORTS (2013-14)



Note: Left panel data shows India's imports and right panel shows India's exports

Source: Compiled from Export-Import data bank (Ministry of Commerce and Industry, India)

2.2.1 COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT (CECA)

India- Singapore CECA launched in 27th May 2003. The trade encompasses trade in goods, trade in services, investment protections and other features. This landmark agreement is India's first ever CECA and is also the first comprehensive economic pact between Singapore and a South Asian country. This agreement is a strategic compact between the two countries that will further enhance bilateral ties by improving already growing flows of trade, investment, ideas and people. The Trade in goods provides tariff concessions that will make Singapore more competitive vis-à-vis other foreign imports into India.

TABLE 2: COMPREHENSIVE ECONOMIC COOPERATION AGREEMENT (CECA) AT GLANCE

Topics	Facts	Benefits to importers
Goods coverage	Tariff reduction/elimination for 82% of Singapore's exports	Tariff free or reduced tariff importing
Tariff elimination schedule	Import duty reduction/staged elimination from 1st August 2005 • Immediate tariff elimination for 506 goods under the Early harvest program (EHP) • Phased tariff elimination for more than 2600 tariff lines by 2015 • Phased tariff elimination for more than 2500 tariff lines from 2005 to 2015	Imports of products such as personal computers, cellular phones, and un-defused silicon wafers have been duty free since 1st August 2005 Imports of products such as car and motorcycle tyres, ships and live ornamental fish have been duty free since 1st April 2009
Rules of origin	40% local value-add based on FOB price and change in tariff heading Product specific rules may apply	Access to wide range of products eligible for preferential tariff treatment
Mutual recognition agreements	Concluded MRAs: Electrical and electronic equipment Telecommunications equipment	Avoids duplication of testing Reduces the cost to imports Cuts down the time to market
Customs procedures	Advance ruling on tariff concession eligibility available upon request	Provides advance confirmation of how imports will be treated by customs Allows importers to budget for import duties, if any

Source: www.iesingapore.com

2.2.2 ASEAN-INDIA FREE TRADE AGREEMENT (AIFTA)

On 13 August 2009, the Trade in Goods Agreement under the ASEAN-India Free Trade Area was signed, forming the first substantive pillar of the ASEAN-India Free Trade Area (AIFTA). The Trade in Goods Agreement came into force on 1 January 2010. As compared to CECA, the AIFTA offers more flexible rules of origin criteria and ASEAN accumulation provides manufacturers a larger sourcing base of ASEAN-originating raw materials.

TABLE 3: ASEAN-INDIA FREE TRADE AGREEMENT (AIFTA) AT GLANCE

Topics	Facts	Benefits to importers
Goods coverage	The AIFTA covers approximately 90% of the tariff lines traded between ASEAN and India	Tariff-free or reduced-tariff importing
Tariff elimination schedule	Approximately 90% of India's tariff lines fall under the normal and sensitive tracks	Tariff elimination for products under the normal track by 2016, and tariff reduction for products under the sensitive track to no more than 5%by 2016
Rule of origin	35% of regional value content based on FOB price and change in tariff subheading	Access to wide range of ASEAN- originating products eligible for preferential tariff treatment under the AIFTA
Customs procedures	Back to back certificate of origin Third party invoicing	Preferential tariffs for imports importing products of ASEAN origin Originating products still qualify for preferential treatment even if the invoices for these goods were issued in third countries.

Source: www.iesingapore.com

AIFTA has 4 tracks Normal track 1, Normal track 2, Sensitive track and special products which are reflected in Table 4. Approximately 90% of India's tariff lines falls under NT-1, NT-2 and sensitive track. NT-1 and NT- 2 cover 80% of tariff lines where tariffs are to be completely eliminated for goods. The sensitive track covers 10% of tariff lines and tariffs under this track are to be reduced to 5%. This means that tariff rates for these products will be no more than 5% by 2016. There is also provision in the TIG Agreement for a special track for tariff reduction for 5 products which are the key exports of some ASEAN members.

TABLE 4: UNDER THE AIFTA, TARIFF ELIMINATION AND REDUCTION HAS BEEN COMMITTED AS FOLLOWS

Category	India, Singapore, Brunei, Indonesia, Malaysia & Thailand	India & Philippines	India, Cambodia, Laos, Myanmar & Viet Nam
Normal Track 1	0% by 2013	0% by 2018	India: 0% by 2013 CLMV: 0% by 2018
Normal Track 2	0% by 2016	0% by 2019	India: 0% by 2016 CLMV: 0% by 2021
Sensitive Track	No more than 5% by 2016	No more than 5% by 2019	India: No more than 5% by 2016 CLMV: No more than 5% by 2021
Special Products	Reduced to 37.5% for crude palm oil, 50% for pepper & 45% for the rest by 31 Dec 2019	Reduced to 37.5% for crude palm oil, 50% for pepper & 45% for the rest by 31 Dec 2019	Reduced to 37.5% for crude palm oil, 50% for pepper & 45% for the rest by 31 Dec 2019
Exclusion List	Products will be subject to annual tariff review with a view to improving market access	Products will be subject to annual tariff review with a view to improving market access	Products will be subject to annual tariff review with a view to improving market access.

Source: Department of Commerce, India

2.4 ISSUES AND PROBLEMS: INDIA-SINGAPORE TRADE

The study finds a gap in which various agreements are being signed and committed. Various agreements have been signed with the objective of tariff reduction, trade facilitation, common external tariff, promotion of industrialization, tariff savings for traders and strategic alliances which force countries to join regional agreements. But a few study has been empirically prove that out of all agreements, which agreement has been followed for trade and how much tariff has been saved by the traders with same country. It puts a dilemma in the traders mind as to which agreement to be followed and how much tariffs will be reduced in future for them. As per the experts[1] opinions mostly trade happens without these agreements. As these agreements required more documents in terms of rules of origin, different tariff calculations as per agreements and complex customs procedures which undermine traders to go via preferential route. As per experts, 30% of total trade in India happens via rules of origin. Therefore this paper tries to fill a gap by providing some suggestions to policymakers and raise up these concerns for traders. Otherwise these agreements are only on the paper but not on the ground.

ILLUSTRATION

For this purpose, paper has considered India-Singapore trade in the years of 2012-13 and 2013-14. The data has been collected from department of Commerce, Export-Import data bank version 7.2. The data consists with Export-Import country-wise all commodities between India-Singapore. The data compiled and sorted as export and import. Further segregates into top traded exports from India to Singapore and imports from Singapore and then calculated tariff savings and relevant rules of origin.

The study has taken HS code at 4 and 8 digit levels to understand the pattern of trade between India-Singapore. To calculate the tariff savings 1000 units have been assumed to be given in the study for every commodity. Study has considered few commodities to understand the difference in different agreements in terms of calculating tariff savings and relevant rules of origin.

3. ANALYSIS

DATA INTERPRETATIONS

The table 5 below shows tariff savings under CECA and AIFTA and relevant rules of origin. The study indicates India-Singapore trade through these commodity descriptions and HS code at 4 and 8 digit levels. These commodities been chosen on the basis of their share in total trade between India-Singapore in the year of 2013-14.

TABLE 5: TARIFF SAVINGS UNDER CECA AND AIFTA AND RELEVANT RULES OF ORIGIN BETWEEN INDIA-SINGAPORE

HS CODE 4 DIGIT	COMMODITY DESCRIPTION	HS CODE 8 DIGIT	COMMODITY DESCRIPTION	Year	Total Value ($)	MFN Rate (%)	CECA Pref Rate (%)	AIFTA Pref Rate (%)	Potential Tariff Savings under CECA ($)	Potential Tariff Savings under AIFTA ($)
8905	LIGHT-VSSLS,FIRE-FLOATS,DREDGERS,FLOATING OTHR SMLR VSSLS WHRE NAVGABLTY IS SBSDRY TO THR MN FNCTN;FLTNG DOCKS;FLTNG PL	89059010	Floating docks	2011	1000	10	0	5	100	50
8901	CRUISE SHIPS, EXCURSION BOATS , FERRY-BOATS, CARGO SHIPS, BARGES AND SIMILAR VESSELS FOR THE TRANSPORT OF PERSONS	89011010	Ships	2011	1000	10	0	5	100	50
8906	OTHER VESSELS, INCLUDING WARSHIPS AND LIFEBOATS OTHER THAN ROWING BOATS	89061000	Warships	2011	1000	10	0	5	100	50
7113	ARTCLS OF JEWELLERY AND PRTS THEREOF; OF PRCS MTL/OF MTL CLD WTH PRECIOUS METAL	71131910	Of gold, unstudded	2011	1000	10	0	5	100	50
7502	UNWROUGHT NICKEL	75021000	Nickel, t alloyed	2011	1000	5	0	2	50	30
7102	DIAMONDS, WHETHER OR NOT WORKED, BUT NOT MOUNTED OR SET	71023910	Diamond, cut or otherwise worked but t mounted or set	2011	1000	10	0	5	100	50
8802	OTHER AIRCRAFT (FOR EXAMPLE, HELICOPTERS, AEROPLANES); SPACECRAFT (INCLUDING SATELLITES) AND SUBORBITAL AND SPACE	88022000	Of an unladen weight t exceeding 2000 kg	2011	1000	3	0	2	30	10
8904	TUGS AND PUSHER CRAFT	89040000	TUGS AND PUSHER CRAFT.	2011	1000	10	0	5	100	50
8803	PRTS OF GOODS OF HDG NO.8801 OR 8802	88033000	Other parts of Aeroplanes or Helicopters	2011	1000	3	0	2	30	10
8001	UNWROUGHT TIN	80011010	Block tin	2011	1000	5	0	2	50	30

Note: Relevant rules of origin:

[1] Experts from IIFT – Centre for WTO studies

CECA Rule of Origin: General rule of Change in HS classification on the 4-digit level and regional value-added content of no less than 40%
AIFTA Rule of Origin: General rule of a change in HS classification on the 6-digit level and regional value content of no less than 35%
Source: Computed by Author.

It is seen from the above Table that-

- Through these commodities, it reflects clearly that tariff savings is different in MFN route, CECA route and AIFTA route.
- A trader will benefit more, if CECA route has been adopted than AIFTA.
- Potential tariff savings are more in CECA than AIFTA in every given commodity.
- It puts dilemma in the minds of traders, if rules of origin are considered. In the case of CECA, change in HS classification on the 4-digit level and regional value-added content of no less than 40% and in AIFTA, change in HS classification on the 6-digit level and regional value content of no less than 35%.
- Therefore much trade between India-Singapore happens via MFN route than any other preferential route.

Every trader avoids using preferential route due to rules of origin and many customs procedure. No doubt, when countries seek "Trade Facilitation" as one of the solution to avoid such hassles and do trade through regionalism than multilateralism or any otherway.

4. CONCLUSION

Countries are signing these agreements to facilitate their traders by providing better opportunities and market access through these agreements. The Multiple agreements for the same trade area creates dilemma in the trade .This confusion in empirical sense needs to be mitigated. It is found that benefits of trade have reflected on the paper or agreement but not on the ground for traders. Tariff savings and easier procedures allow traders to do more trade with countries, otherwise it become barriers for trade.

5. SUGGESTIONS

The suggestion for the government and policy makers is to make customs procedure easier and provide guidelines to traders to follow the same rules under different agreements.

These agreements should motivate traders by conducting technical sessions for traders on agreements by the Ministry and discuss the benefits of these agreements under preferential route, so to increase overall trade under these agreements.

Policymakers should also provide data on preferential trade agreement. Whether, the trade happens via MFN route or preferential route. The data should provide on the basis of different trade routes, to understand the impact of these agreements for traders.

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