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## **INDIA-SINGAPORE CECA: A STEP TOWARDS ASIAN INTEGRATION?**

**Jayan Jose Thomas<sup>i</sup>**

### **Summary**

This paper argues that the Comprehensive Economic Cooperation Agreement (CECA) signed between India and Singapore appears to be part of a larger process of Asian integration.

Singapore, along with many other East Asian countries, has achieved spectacular levels of economic development over the past half-century. Singapore's strategy of development relied heavily on foreign direct investment and international trade. Development strategy of post-independent India focused on building self reliance, especially in the areas of science and technology, through import substitution industrialization. After decades of unimpressive growth, India's economy is today on a high growth path. Given its success in knowledge-intensive sectors, particularly information technology, there is widespread optimism that India will soon emerge as a major economic power. In this context, it is in the interests of the Association of Southeast Asian Nations (ASEAN), Singapore in particular, as much as in the interests of India, to build closer economic ties with each other.

And indeed this is happening. Relations between ASEAN and India have been strained for long due to ASEAN's concerns over external security, which could not accept India's close relations with Soviet Union or its recognition of Vietnam-backed

government in Cambodia in 1980. A change, however, occurred, slowly from 1985, and at a faster pace after 1991, when India initiated 'Vision East' policy in its foreign relations. India is today a full dialogue partner of ASEAN and a member of ASEAN regional forum. It also holds annual summit level interactions with ASEAN. A free trade agreement between India and ASEAN is likely to come into force in less than 10 years. Singapore has played a major role in building bridges between India and ASEAN.

With India-Singapore CECA coming into effect, tariff barriers between India and Singapore on a wide range of goods will be eliminated or reduced substantially. Investors and service suppliers will receive national treatment in each other's country. Standards and technical regulations in the two countries will be mutually recognised. Three Singaporean banks will be allowed to operate in India almost like any Indian bank. These measures are expected to expand the volume of India-Singapore trade and cause large investments to flow between the two countries. India welcomes Singaporean investment in several areas, including, importantly, infrastructure and also small and medium industries. The two countries will cooperate with each other in knowledge-intensive industries, science and technology and education. India will also be able to meet, to a large extent, the demand for technically qualified professionals in Singapore.

In the context of India-Singapore CECA, it is important to recognize that regional trading agreements have been on the rise in the 1990s, particularly in Asia. The rise of regionalism in Asia is in part necessitated by the current pattern of global trade and investment, which – despite the claims of globalization – is largely confined within the developed economies of North America and Europe. There is also a view that regionalism in Asia is in response to the East Asian financial crisis, as an initiative by East Asian countries to guard their interests in the face of pressures from the United States and international financial institutions.

ASEAN, and Singapore in particular, has been successfully playing the role of a go-between in the task of bringing Asian countries together. It appears that with the economic rise of India and China, East Asia and South Asia will not remain distinct entities, as they used to be earlier. Improvement in relations between India and China,

and between India and Pakistan, will go a long way towards a more unified Asia. Improved India-Pakistan relations, in particular, open up the possibility of energy cooperation between the energy surplus regions of West and Central Asia and the energy deficient regions of South and East Asia. There are, however, several obstacles to the goal of greater regional cooperation in Asia, the principal ones being the opposition to such cooperation from the US and the divisions within the Asian region, particularly between China and Japan.

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The visiting Singapore Prime Minister, Mr Lee Hsien Loong, signed the Comprehensive Economic Cooperation Agreement (CECA) with his Indian counterpart, Dr Manmohan Singh, in New Delhi on 29 June this year. The CECA, which came into effect from 1<sup>st</sup> August 2005, envisages free trade in goods and services and promotion of bilateral investment between Singapore and India. There are also agreements on avoidance of double taxation and for cooperation in science and technology and education between the two countries. This article argues that the India-Singapore CECA is a step in the direction of increasing economic integration among Asian countries. Singapore has played an active role in bringing India closer to the Association of Southeast Asian Nations (ASEAN); the country is today seeking new allies in South Asia and the Middle East. It is recognised that with the economic rise of China and India, greater economic linkages between East Asia and the rest of Asia will benefit all in the region.

**Development Trajectories: Singapore and India**

In 1965, Singapore became an independent country -- a small island state in Southeast Asia, comprising a total surface area of 1,000 sq km and having a population of 4 million people (in 2002). With independence, Singapore was politically separated

from the Malaysian mainland, and was left with a small domestic market and very little natural resources. Over the past four decades, Singapore's strategy of development relied heavily on foreign direct investment (FDI) and international trade. The country benefited enormously as multi-national companies (MNCs) shifted their manufacturing operations to cheaper wage locations across Asia. Huff (1995) shows that between 1980 and 1990, Singapore received the largest chunk, in absolute terms, of FDI in less-developed countries. In 1992, wholly-and majority-owned foreign companies accounted for 74.2 per cent of manufacturing output and 84.5 per cent of direct manufacturing exports of Singapore (Huff, 1995, p. 1426).

Singapore has also been upgrading itself, slowly climbing the technology ladder, and today, the country is poised to become a 'knowledge economy'. Gourevitch *et al.* (2000) show how Singapore moved up the value chain in the hard disk drive industry, in response to rising labour costs -- from assembly of low-end drives to media fabrication, assembly of high-end drives and semiconductor wafer fabrication. While electronics, precision engineering and chemicals have traditionally been the pillars of Singapore's manufacturing strength, the country now strives to emerge as a global leader in biomedical research (Burton, 2005). Singapore is developing One-North, a 200-hectare area, into a world-class knowledge hub. The One-North area comprises Biopolis, a research and development hub in biomedical sciences, and Central Exchange, a development hub in information and communication technology (ICT) and media industries. Propelled by its high domestic savings, Singapore is also a major investor, mainly in the Southeast Asian countries, and is now looking for newer investment opportunities.

The state played a very significant role at each stage of Singapore's development. According to Huff (1995), government policies in Singapore helped to maintain a high savings rate and macro-economic stability, and also ensured that wages did not rise faster than productivity. State-owned enterprises invested in strategic sectors including communications, airlines and shipping (Huff, 1995). Government and its agencies have been highly committed to economic growth in Singapore. Gourevitch *et al.* (2000) point out that the promotional measures of the Economic Development Board in Singapore, which include its highly efficient regulatory process, have been an important factor that contributed to hard disc drive companies locating their

manufacturing operations in Singapore. Parayil (2005) argues that in Singapore's foray into biotechnology, the state, universities and industry are interacting with each other in a triple helix model of innovation.

Compared to Singapore, India is much bigger, but also economically less-developed. India's surface area is 3,287 times and population is 262 times that of Singapore (all figures for 2002). At the same time, in 2002, India's per capita gross national income of US\$470 was only a small fraction of the corresponding figure for Singapore, which was US\$20,690 (World Bank, 2004). The developmental path followed by India has been vastly different from that of Singapore. While, as in Singapore, the role of state has been significant, trade played a substantially less important role in India's import-substitution industrialization strategies. In India, great emphasis was laid on building self reliance, especially in the areas of science and technology, through public investment. At the same time, the country's policy makers have not been very optimistic about the prospects for India's export growth. In the early 1990s, combined imports and exports as a proportion of gross domestic product (GDP) hovered around 17 per cent in India, whereas the corresponding proportion for Singapore was well over 200 per cent (Chortareas and Pelagidis, 2004).

Large sections of Indians still suffer from age-old problems of poverty, illiteracy, and social exclusion. In 2001, as per India's decadal census, literacy rate among females (aged 7 and above) was only 54 per cent. These problems notwithstanding, India's economy has been growing fast in recent years. Srinivasan (2004) notes that India (growth of 6 per cent) and China (growth of 10 per cent) were the "star performers" with respect to average annual growth of GDP during the period from 1980 to 2001. The period from the mid-1980s and more specifically after 1991 was one in which India initiated wide ranging measures for liberalizing its economy. Many observers attribute the new dynamism in India's economy to the reform process.

Since the 1990s, India has been a major exporter of software and information-technology enabled services. India's software industry grew at average annual rates of over 50 per cent between 1992-93 and 2001-02. By 2008, exports by the information technology (IT) industry in India are expected to reach US \$ 50 billions, which will then account for 6 per cent of the total global IT exports (cited in Thomas, 2005).

India is progressing well in other knowledge-intensive sectors as well, notably pharmaceuticals, biotechnology and space research. India's great advantage in knowledge-based industries is its large army of English-speaking, technically qualified professionals – which, in fact, is a creation of public investment in the country in higher education and technology from the 1950s. In the words of Mr Lee Kuan Yew, the first Prime Minister and now Minister Mentor of Singapore, “India is the outsourcing service centre [of the world], first in call centres and now moving to more sophisticated business process operations and clinical research activities of global corporations.”<sup>ii</sup> India is expected to emerge as the third largest economy in the world, behind China and the United States, in the next 30 years.<sup>iii</sup> India, along with China and the United States, is today rated to be among the top three ‘hot’ destinations for FDI in the world.<sup>iv</sup>

### **ASEAN, India and Singapore: Changing Relations**

Relations between India and ASEAN – which includes Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand (ASEAN-6), and Cambodia, Laos, Myanmar and Vietnam (ASEAN-4) -- have undergone several transformations over the past four decades. Some authors argue that India's foreign policy towards ASEAN in the earlier decades was characterised by ‘benign neglect’ (Tan, 1997), and by “inconstancy and some ambiguity” (Sridharan, 1996, p.225). At the same time, India, which was seeking export markets for its industrial goods in ASEAN member countries, was an ardent supporter of the proposals for regional economic cooperation in Asia in the 1950s and 1960s. India backed the proposals for the Asia Clearing Union, regional trade liberalization and the Asia Reserve Fund in the Asian Ministerial Conference held in Kabul in 1970. These proposals, however, did not take concrete shape. In any case, it can be seen that India emphasised regional cooperation with Southeast Asian countries in economic spheres rather than in military or security spheres (Sridharan, 1996).

However, the Southeast Asian countries were mired by concerns over external security, and were not very enthusiastic about India's overtures to economic cooperation. India's close relations with the Soviet Union and its support for North

Vietnam were factors that led to estrangement in India-ASEAN relations. Also, India lost out to Japan as a provider of capital and technology to ASEAN member countries. In fact, Southeast Asian countries turned their attention to East Asia, as the latter emerged as a major economic power over the past three decades or so. In 1976, India approached ASEAN for granting it the status of a dialogue partner. ASEAN made only a lukewarm response; and when India recognized the Vietnam backed government in Cambodia in July 1980, relations between ASEAN and India hit a new low (Sridharan, 1996).

Relations between India and ASEAN improved only after 1985 (Sridharan, 1996). This was a period when India began partial measures for economic liberalization. At the same time, after two decades of fast growth, ASEAN member countries were facing several economic problems, mainly due to reduced demand and prices for their primary products. This set the stage for a revival of economic relations between India and individual countries of ASEAN (Sridharan, 1996). After 1991, major measures for economic liberalization in India also coincided with a 'look east' policy in the country's foreign relations. India's relations with ASEAN have been on a fast track ever since.

India became a sectoral dialogue partner of ASEAN in January 1992, although the dialogue relationship was limited to the areas of trade, investment and tourism. India became a full dialogue partner of ASEAN in December 1995 and a member of ASEAN regional forum in July 1996. India and ASEAN now hold annual summit-level interactions; the first such summit-level interaction between India and ASEAN was held in Phnom Penh in Cambodia in November 2002 (Sen *et al*, 2004). India-Singapore CECA is a precursor to a similar agreement for comprehensive cooperation between India and ASEAN, framework agreement for which was signed at the ASEAN annual summit held in Bali in October 2003. The free trade agreement between India and ASEAN is likely to come into force in less than ten years. India is holding negotiations with Thailand and Malaysia to conclude economic cooperation agreements with these countries.

India is now part of several regional groupings involving the Southeast Asian countries. They include the Indian Ocean Rim Association for Regional Cooperation,

and Mekong-Ganga Cooperation (which include India, Myanmar, Thailand, Cambodia, Laos and Vietnam). Another such regional grouping is the Bangladesh, India, Myanmar, Sri Lanka and Thailand Economic Cooperation. This grouping later included Nepal and Bhutan into its fold, and has been renamed as the Bay of Bengal Initiative for Multisectoral Technical and Economic Cooperation. In November 2004, the first India-ASEAN car rally was flagged off in Guwahati in India. The rally, which covered 8,000 km and eight ASEAN countries before finishing in Indonesia's Batam island, was an important step in the plans to link up India's north-eastern region with the Southeast Asian countries. There are proposals to build a 1,400 km-long highway that will link India, Myanmar and Thailand (Pardesi, 2004).

Singapore has always taken the lead in building bridges between India and ASEAN. In 1968, the then Indian Prime Minister, Mrs Indira Gandhi, visited Singapore upon invitation from Singapore Prime Minister of the time, Mr Lee Kuan Yew. It is interesting that during the visit, Mr Lee invited India's greater involvement in providing a security cover for the Southeast Asian countries (in the context of the departure of British military from the region). Mrs Gandhi, however, was reluctant to take up such a role for India, while at the same time she stressed India's commitment to "positive, creative and mutually profitable" regional organisations (cited in Dutta-ray, 1994). The next visit by an Indian Prime Minister to Singapore occurred only 26 years later, when in 1994, Mr P. V. Narasimha Rao, committed to the new 'look east' policy in India's foreign relations, visited several Southeast Asian countries (Datta-Ray, 1994). Mr Rao's visit to Singapore was preceded by a visit to India by the then Singapore Prime Minister Mr Goh Chok Tong, who was most instrumental in generating an "India fever" in Singapore. India looked to Singapore as an entry to the ASEAN region.<sup>v</sup> Singapore strongly supported India's bid to be ASEAN's dialogue partner and later part of ASEAN regional forum.<sup>vi</sup>

The increasing interest among ASEAN member countries, Singapore in particular, in deepening their relations with India is clearly linked to India's growing economic strength. According to Mr Goh, who is currently Singapore's Senior Minister, Singapore now has the chance to "hitch a ride" with the fast expanding economies of China and India (Goh, 2005). With the rise of India, ASEAN member countries can reduce their dependence on Japan, the western countries and China and for trading



and economic relations. Between 1991-92 and 2001-02, India's exports to ASEAN increased from US\$1 billion to US\$3.4 billion (7.7 per cent of India's exports to world), and India's imports from ASEAN increased from US \$ 1.3 billion to US\$4 billion (7.8 per cent of India's imports from the world) (Sen *et al*, 2004). However, as a proportion of ASEAN's total trade, ASEAN's trade with India is still very low (less than 2 per cent in 2002) (Gaur, 2003). The potential for expanding ASEAN-India economic cooperation is, therefore, very high. In fact, two-way trade between India and ASEAN is expected to increase from US\$12.1 billion in 2002 to US\$30 billion in 2007 (Gaur, 2003).

### **CECA and Areas of India-Singapore Cooperation<sup>vii</sup>**

As per the CECA between India and Singapore, Singapore will fully eliminate customs duties on all products from India including beer. India, on its part, has offered trade concessions to Singapore on products that cover 80 per cent of Singapore's exports to India at present. On 506 products that come under the 'early harvest line', India will fully eliminate customs duties to products from Singapore, with effect from 1 August 2005. Products belonging to electronics, instrumentation, pharmaceuticals, and publishing industries, among others, come under the 'early harvest line'. For the remaining products that are covered under concessions, India will either fully eliminate or substantially reduce customs duties in a phased manner over the period between August 2005 and April 2009. The CECA includes mutual recognition agreements (MRAs) that will recognise standards, technical regulations, and sanitary and phytosanitary measures in specified sectors in each other's country. With the MRAs coming into effect, products tested and certified for standards in one country will not be retested and recertified in another. The MRAs will be applicable to electrical, electronic and telecommunication equipments, egg products, dairy products and packaged drinking water, greatly facilitating India-Singapore trade in these products.

Data for the first half of 2005 shows that in Singapore's total trade, the share of India as well as that of China and the middle-eastern countries has risen; at the same time, the shares of Singapore's traditional trading partners, the US, European Union and

Japan, have fallen. By the first half of 2005, India's share in Singapore's total trade increased to 2.7 per cent; and India became the 10<sup>th</sup> largest market for Singapore's non-oil domestic exports, ahead of Australia.<sup>viii</sup> With the CECA having come into effect in August 2005, the volume of India-Singapore trade is expected to increase further. The CECA opens the doors for greater linkages between Indian and Singaporean firms -- through, for example, sourcing material and components from each other -- in several industries, particularly electronics, telecommunication and pharmaceutical industries.

There have been fears that upon signing the CECA, cheap imports from ASEAN member countries and China routed through Singapore will reach the Indian market. Therefore, the CECA involves rules of origin, which stipulate that only goods having 40 per cent local (Singapore or India) content will be eligible for tariff concessions. In addition, as per the CECA, customs law, regulations and procedures of both the countries will be made publicly available.

Singapore is already one among the top foreign investors in India. Between January 1991 and May 2003, approvals for FDI from Singapore to India amounted to US\$1.2 billion, which was 2.35 per cent of the total approvals for FDI to India during the same period.<sup>ix</sup> A Singapore-based company, Ascendas Private Limited, is one of the partners in Information Technology Park, Bangalore. Port of Singapore Authority is involved in the management of Pipavav Port in Gujarat and Tuticorin Port in Tamil Nadu. SingTel, a major telecommunication firm in Singapore, has a joint venture with Bharati Telecom. The Government of Singapore Investment Corporation and Temasek Holdings, which is Singapore Government's investment arm, have major investments in India.

With the CECA having taken effect, Indian and Singaporean firms will find it easier and more profitable to invest in each other's country. As per the CECA, national treatment (that is, same treatment as given to a local) will be given to Singaporean investors in India and Indian investors in Singapore. The CECA also provides for an improvement of a 1994 agreement between India and Singapore on avoidance of double taxation of income earned in one country by a resident of the other country. A

major feature of the improved agreement is that India will extend capital gains tax exemption to Singapore; this was previously available only to Mauritius.

It is expected that these measures will bring in large investments to India from Singapore. India welcomes investment from Singapore in the infrastructure sector; Singapore is keen on investing in India in the telecom, banking, automobiles, pharmaceuticals and energy sectors. Singaporean companies, given their good track record in small and medium industries, can invest in India's small and medium sector, infusing it with the much needed capital and technology. Singapore is a major sea cargo and air cargo logistics hub; it has several companies with proven competencies in the storage, transport and supply of food items, ensuring very high quality standards. A recent study by Viswanadham (2005) showed that there is potential for Singapore companies to invest in India in the processing, packaging and supply of food (Viswanadham, 2005).

As per the CECA, service suppliers from India and Singapore will have unlimited market access in each other's territory in certain specified areas in the service sector; they will also receive national treatment in these sectors. Three Singaporean banks -- Development Bank of Singapore, United Overseas Bank and Overseas Chinese Banking Cooperation -- can set up wholly owned subsidiary in India and enjoy treatment on par with Indian banks in branching, places of operation and prudential requirements. This proposal has raised some eyebrows in India, as it goes against the guidelines by the Reserve Bank of India that foreign banks may be given national treatment only after 2009.<sup>x</sup> Singapore, on its part, has agreed to grant qualified full banking privileges to three Indian banks. In the case of most telecommunication services, including basic, cellular, and long distance services, India will raise FDI limit for firms from Singapore from the current 25 per cent to 49 per cent. In the case of internet and telecom infrastructure services, the FDI limit in India for Singaporean firms will be 74 per cent.

India and Singapore look to each other for collaboration in various areas of knowledge economy. The major focus in the visit to India by the then Singapore Prime Minister Mr Goh in January 2000 was on building tie-ups between the two countries in high-tech areas, particularly information technology (Ghosh, 2000). As

per Singapore's Science and Technology 2005 Plan, Singapore is seeking partnerships with top-class research organizations worldwide; the country is also hunting for global talent to meet its large requirements for research scientists and engineers. There exists lot of opportunities for engineers and research professionals in India to work in Singapore. The CECA provides for easier movement of professionally qualified people between Singapore and India. As per the CECA, professional bodies in Singapore and India in the areas of accounting and auditing, architecture, medicine, dentistry and nursing will enter into agreements that will recognise each other's educational and professional qualifications. More professional bodies in the two countries are expected to enter into mutual recognition agreements. The CECA also relaxes rules for temporary entry of business persons and professionals into each other's country.

The two countries have agreed to cooperate in science and technology and in education. The National University of Singapore has recently signed a memorandum of understanding with Indian Institute of Technology, Mumbai to jointly offer courses in advanced engineering material science. As per the CECA, there will be more of such joint post-graduate programs between Indian Institutes of Technologies and Singapore Universities. Degrees specified by India's University Grants Commission and Singapore universities will be recognized for admission purposes by universities in both the countries.

Another potential area for engagement between the two countries is tourism. While India's rich cultural traditions and historical monuments may be amusing to visitors from Singapore, the first world experience and opportunities for shopping in Singapore will be valued by affluent tourists from India. In 2001, the number of Indian tourists visiting Singapore was 339,800 and the number of Indian tourists visiting ASEAN countries as a whole was 763,000. The numbers of tourists from Singapore and from ASEAN member countries as a whole visiting India in 2001 were, however, substantially smaller – only 140,000 and 43,400 respectively (Rahul et al, 2004). The CECA provides for future negotiations on enhancing air services connectivity between India and Singapore. This should give a boost to tourism in the entire region.

## **The Rising Tide of Regionalism in Asia**

As can be seen from the above section, the CECA signed between India and Singapore involves free trade agreement (FTA) in goods and services, as well as envisages cooperation between the two countries in other spheres, including investment, science and technology and education. FTAs are a form of regional trading agreements (RTA), in which the level of economic integration between member states is minimal. Customs union, common market and economic union, in that order, are RTAs that commit member states to greater levels of integration. In a free trade agreement, while trade barriers between the two member states involved are reduced to a minimum, each member state continues to maintain its own tariff barriers with the rest of the world. At the highest level of integration, in an economic union, member states harmonize their tariff barriers, customs and financial laws with the rest of the world; allow free movement of labour and capital across borders of these countries; evolve common economic policies and follow a single currency. There is a continuing debate on whether RTAs are “building blocks or stumbling blocks” to global trade liberalisation (see Krueger, 1999).

RTAs have been on the rise over the past several years, particularly from the 1990s. By the end of 2003, 290 RTAs have been notified to the WTO; the corresponding number in 1990 was only about 50 (Ghosh, 2004). Asia has been the scene of a large number of RTAs. ASEAN countries are committed to the creation of the ASEAN Free Trade Area (AFTA). From January 1, 2002, ASEAN-6 countries have reduced tariff barriers between them to a maximum of 5 per cent. The ASEAN summit in Bali in 2003 envisaged the establishment of an ASEAN economic community by the year 2020. ASEAN is expected to conclude FTAs with China by the year 2010, with India by the year 2011, and with Japan by the year 2012. There is progress towards the creation of an East Asian economic community, which seeks to build partnerships among ASEAN+3 countries (that is, ASEAN member countries, China, Japan and South Korea). In the aftermath of the East Asian financial crisis, there have been several moves towards ‘monetary regionalism’ in Asia, including the ‘Chiang Mai Initiative’ in May 2000 in which ASEAN+3 countries agreed to form a regional

network of foreign currency swaps to avert future currency crises (Tourk, 2004). It is important to understand the reasons behind this rising tide of regionalism in Asia.

Firstly, it can be seen that regionalism in Asia, as elsewhere in the developing world, is necessitated by the current pattern of global trade. Evidence shows that, despite claims to the contrary, economic globalization is just a “myth”, and that the forces behind regionalism are far stronger than the forces towards globalization (Kleinknecht and Wengel, 1998). Global trade is largely conducted between geographically proximate partners, particularly those among the developed countries (Chortareas and Pelagidis, 2004). Kleinknecht and Wengel (1998) show that between 1960 and 1995, the European Union (EU) countries increased their trading relations with each other, whereas, during the same period, EU’s trade with non-EU countries stagnated (Kleinknecht and Wengel, 1998). For the US, the major export market is its neighbouring Canada (Chortareas and Pelagidis, 2004). FDI, particularly in technology-intensive industries, is largely circulated within developed countries (Kleinknecht and Wengel, 1998). Against such a pattern of global trade and investment, Asian countries are increasingly looking towards each other for enhancing their economic strength. Exports from countries in Eastern and Southern Asia (ESA) region (which includes China) to other countries within the ESA region increased from 33.1 per cent in 1990 to 42.5 per cent in 2003 (United Nations, 2004, Table A.14).

Secondly, there is a point of view that the rise of regionalism in Asia in recent years has been in response to the Asian financial crisis of 1997. Of course, regional economic networks were very much in existence in East Asia in the 1980s and 1990s, and this was the result of a market-led process, that is, as a result of the activities of multinational corporations (MNCs) and Chinese overseas business community. According to Bowles (2002), what distinguishes the post-(Asian financial) crisis regionalism in Asia is that it is led by the state, not by market forces, and that it is part of the efforts by Asian countries at restoring their autonomy vis-à-vis the rest of the world, especially the US and international financial institutions (Bowles, 2002).

In 1997, when several East Asian currencies drastically fell in value as if on a ‘contagion’, the International Monetary Fund (IMF) stepped in to bail out these crisis-

ridden economies. The IMF prescribed several remedial measures to these economies, importantly major cuts in government spending and reform of their financial sectors. It is widely recognised that the reform measures prescribed by the IMF and other international institutions have exacerbated the East Asian crisis (Bowles, 2002). In fact, it is also argued that the East Asian crisis was a result of over accumulation of dollar-denominated reserves by Japan and other East Asian countries, which helped to maintain a high consumption-low savings economy in the US (Nordhaug, 2005). As a result of all this, a view emerged among several Asian countries that their economies were vulnerable to the vested interests of international institutions and to the domineering role of western countries, especially the US. It was felt that regional economic cooperation was the best way to safeguard Asia's interests (Bowles, 2002). ASEAN's Secretary-General, Rodolfo C. Severinto, argued in 1999 that, given the unevenness in global economic power, "weaker states must band together regionally, strengthening their solidarity and advancing their common interests" (cited in Bowles, 2002, p.262).

### **Towards Asian Economic Integration?**

The CECA is Singapore's first FTA in South Asia and India's first FTA outside South Asia. It might well be the beginning of a grand alliance in economic relations between South Asia and East Asia. In fact, for a major part of the past half-century, India and the rest of South Asia were waiting by the sidelines while East Asia, led by Japan and China, paced ahead in economic and strategic importance. This is set to change, largely due to the rising graph of India's economic growth. In a speech titled "Reconceptualizing East Asia", Senior Minister, Mr Goh, points out that, "India's [economic] rise compels us to look at our environment in new ways. It will be increasingly less tenable to regard South Asia and East Asia as distinct strategic theatres interacting only at the margins" (Goh, 2005). Goh (2005) argued that East Asian regionalism must be "forward looking", adapting itself to benefit from partnerships with India and the rest of South Asia.

ASEAN, and Singapore in particular, has been successfully playing the role of a go-between in the task of bringing Asian countries together. This, of course, is very much

in their interests, and in the interests of the rest of Asia. According to Singapore Prime Minister Mr Lee Hsien Loong, ASEAN is “strategically located between China and India....[and]...is well placed to tap the growth of both giants.”<sup>xi</sup> At its annual summit in Phnom Penh in 2002, ASEAN concluded separate agreements for cooperation with three major Asian powers -- China, Japan, and India. It is argued that these three ASEAN countries did not want to lose out to each other in building links with ASEAN (Acharya, 2002). Pakistan is a member of ASEAN regional forum and is keen to become a full dialogue partner of ASEAN. The visits by Singapore’s Prime Minister to Pakistan in June 2004 and Pakistan Prime Minister to Singapore in May 2005 are in line with Pakistan’s “Vision East Asia” policy and Singapore’s attempts to forge partnerships in South Asia beyond India. Singapore is now trying to strengthen its ties with Middle-Eastern countries (Shivpuri, 2005). According to Singapore’s Foreign Minister George Yeo, Singapore is like a “crystal with many facets” with respect to its strategy of developing trade and economic partnerships with as many countries as possible.<sup>xii</sup>

The moves towards Asian integration have been going forward in other directions as well. Significantly, India and China are coming closer. There is substantial progress in resolving the prickly border dispute between the two countries while new avenues for collaboration in economic and scientific spheres are sought. Chinese Prime Minister Wen Jiabao’s visit to India in April this year began in Bangalore - India’s IT capital - where he spoke about the potential for blending India’s skills in software and China’s expertise in hardware. “If India and China cooperate, it will signify the coming of the Asian century in IT”, according to the Chinese Prime Minister (Menon, 2005). China is making impressive advances in biological sciences just as India is making considerable progress in pharmaceutical industry (Cookson, 2005). India and China have identified several areas for scientific collaboration, including genomics, nanotechnology, space research and micro electromechanical systems (Menon, 2005). India and China are also considering the possibility of signing a free trade agreement, which, in the words of Singapore Prime Minister Mr Lee Hsien Loong, “will change [Asia’s] landscape economically”.<sup>xiii</sup>

India-Pakistan relations have improved considerably over the past two years. The FTA between India and Sri Lanka came into existence in March 2000, while the FTA



between Pakistan and Sri Lanka came into effect in June 2005. All this raises the chances of forward movement in concluding the South Asian Free Trade Agreement, which has been delayed for more than a decade due to India-Pakistan political rivalry. But the greatest economic benefit from improved India-Pakistan relations will be the possibility of energy cooperation among Asian countries. Negotiations are going on between India, Pakistan and Iran for laying a 2,600-km pipeline that will transport natural gas from Iran to India through Pakistan. There are proposals to extend this pipeline into Myanmar and the Chinese province of Yunnan.<sup>xiv</sup> Central Asian countries including Turkmenistan, Kazakhstan and Tajikistan are keen to export their oil reserves to China and India through the land route. There is no doubt that greater linkages between the energy surplus regions of West and Central Asia and the energy deficient regions of South and East Asia will have enormous benefits (Varadarajan, 2005).

There are, of course, several obstacles to such continent-wide cooperation in Asia. The United States will be a key player, who certainly does not want to see its influence diminished in the region. It has openly expressed its dislike for the India-Pakistan-Iran gas pipeline proposal. There are fears that the increasing bonhomie between the United States and India, importantly a proposal for a defence relationship between the two countries, forms part of a US strategy to contain the influence of China. During the recent visit by the Indian Prime Minister, Dr Manmohan Singh, to the United States, several important agreements for mutual cooperation between India and the United States have been signed, including an agreement for cooperation in civilian nuclear energy. Another factor that can wreck the forward movement towards Asian unity is divisions within the Asian region, particularly the recent spurt of rivalry between China and Japan. Japan is becoming militarily more aggressive while China witnessed anti-Japanese protests in April this year over what was perceived as misrepresentation of Japan's Second World War crimes in Japanese textbooks. It is reported that nationalist sentiments are on the rise in South Korea as well (Mallet, 2005).

## **Conclusion**

With the India-Singapore CECA having come into effect in August this year, trade and investment relations between the two countries are bound to expand greatly. Singapore has taken the lead in improving relations between India and ASEAN; and is today building new links with other South Asian and Middle Eastern countries. Singapore and ASEAN as a whole recognises the enormous potential for greater economic integration in Asia, particularly in the context of the economic rise of China and India. Indeed, regional economic links have been on the rise in Asia in recent years in response to the East Asian financial crisis and to the growing economic interdependencies among countries of North America and Europe. Improvement in bilateral relations between India and China and between India and Pakistan opens up newer possibilities for Asian cooperation.

## End Notes

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  - <sup>ii</sup> Keynote speech by Mr Lee Kuan Yew at the official opening of the Lee Kuan Yew School of Public Policy, Singapore, 4 April 2005, downloadable from <http://app.sprinter.gov.sg/data/pr/2005040401.htm>
  - <sup>iii</sup> According to predictions by Goldman Sachs; cited in Goh (2005).
  - <sup>iv</sup> For the year 2004-05, based on the findings of a joint United Nations Conference on Trade and Development (UNCTAD) -- Corporate Location Survey of international location experts. See UNCTAD Press Release, dated 13 April 2004, downloadable from <http://www.cgitoronto.ca/UNCTADonFDI.htm>
  - <sup>v</sup> For example, in 1994, India's Minister of State for External Affairs of the time, Mr Salman Khurshid expressed the hope that Singapore would be a hub for an Indian trade and business presence in the ASEAN region. See the *Straits Times*, August 14, 1994.
  - <sup>vi</sup> In the words of the then Prime Minister Mr Goh Chok Tong, Singapore welcomed the "deepening and broadening" of India-ASEAN relations and supported India's elevation to a full dialogue partner of ASEAN. See the *Straits Times*, January 4, 1995.
  - <sup>vii</sup> The full document and other related information on the India-Singapore CECA is available from the website of Singapore Ministry of Trade and Industry (see [www.mti.gov.sg](http://www.mti.gov.sg)).
  - <sup>viii</sup> Data released by IE Singapore, published in the *Business Times*, July 19, 2005.
  - <sup>ix</sup> Data available from the website of Federation of Indian Chambers of Commerce and Industry ([www.ficci.com](http://www.ficci.com))
  - <sup>x</sup> See 'Triumph of Bilateralism', *Economic and Political Weekly*, Editorial, July 2, 2005.
  - <sup>xi</sup> Speech by Singapore Prime Minister Mr Lee Hsien Loong at the US-ASEAN business council, 12 July 2005, Washington DC, downloadable from <http://app.sprinter.gov.sg/data/pr/20050712992.htm>
  - <sup>xii</sup> See 'Making things crystal clear' in the *Straits Times*, July 1, 2005.

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<sup>xiii</sup> See Suryanarayana (2005).

<sup>xiv</sup> ‘ Meeting the Growing Appetite for Gas’, *The Hindu*, Editorial, June 18, 2005.

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