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From the ringside

How to do business the Singapore way

Singapore's economic success is the envy of many other countries in Asia, with multiple lessons for those seeking to share in the growing regional wealth. This small city-State with just 4.5 million people and little by way of natural resources has a per capita income of US$ 21,230 — comparable to the OECD average and five-and-half times the regional average. By any reckoning, it is a most efficient intermediator of financial, air, and port services and has become the business hub of East Asia and the Pacific. Beyond the value of trade and importance of investment, the Singapore experience has many broader lessons for any country like India that seeks to spur and kindle the ‘‘animal spirits’’ as an engine of growth.

• First, Singapore has shown how to harmonise private entrepreneurship and a competitive environment with rising productivity even within a tightly controlled and disciplined administrative regime. The State first performed the role of guaranteeing security of life and property, leaving little scope for industrial unrest, crime or the creeping cancer of corruption. In this sense, it combined the virtues of growth and innovation associated with a market driven economy with the rigours of discipline and respect for authority associated with authoritarian regimes. Countries whose people decide that governments must wield significant economic control can draw a lesson or two from this beneficial amalgam of attitudes and policies. Singapore has shown that government can strictly enforce the law on private citizens and corporations, in a way that State-owned and State-run businesses fail to regulate themselves.

• Second, Singapore’s public sector entities have not hemorrhaged its economy but successfully used the strength of the State to undertake productive ventures both in Singapore and other countries. There are multiple economically vital activities that private enterprise and incomplete markets will fail to provide. In these, a strong State can create infrastructure that is the engine of economic growth. In contrast, public sectors in India have led to public dis-savings which has inhibited both the savings and investment rate. Privatisation of all public entities is neither desirable nor possible in India. However, Singapore has succeeded in combining public ownership with high productivity based on autonomy and efficiency in project implementation.

• Third and foremost, is that Singapore is a shining example of how to create a climate in which entrepreneurship and private initiative can flourish. An investment climate conducive to new business is a combination of tangible and intangible measures which kindles the urge to improve, to experiment and to excel. It goes beyond adoption of measures designed merely to benefit large business companies to fostering a culture based on credibility and trust which enables small enterprises to create gainful private employment in multiple ways.

As the World Development Report, 2005 ‘‘Investment Climate for Everyone’’ points out that ‘‘varying enormously around the world, both across and within countries, the investment climate influences the decisions of firms of all types: the decision of the farmer to sow more seed; the decision of the micro-entrepreneur to start a business; the decision of the local manufacturing company to expand its production line and hire more workers; the decision of the multinational to locate its next global production facility.’’

• Fourth, the International Finance Corporation (IFC) of the World Bank recently conducted a snapshot of Global Business Environment. The key indicators provide a measure of the ease or difficulty in establishing business enterprises. Singapore requires no more than seven procedures to establish a new business entity. These procedures are accomplished, on average, in just eight days with a cost equal to just 1.2 per cent income per capita. Similarly, on hiring and firing of workers, rigidity in determining working hours, and difficulties in getting rid of redundant workers, these and other indices measuring ‘‘rigidity of employment’’ all register a minimal ‘‘zero’’ in Singapore’s extremely friendly business environment, as compared to the Asian regional average of 25 and a much higher OECD average of 20.

And the list goes on. In Singapore it takes just nine days to register a transfer of property after sale, compared to the regional average of 51 days with costs that are significantly lower than other destinations. Similarly, on credit availability, namely access to credit information on how well collateral and bankruptcy laws facilitate lending, Singapore outpaces its neighbours on credit availability, access to credit information, and in the effective use of collateral lending and bankruptcy protection. Moreover, it is the easiest place in Asia to write and enforce contracts — with costs of court litigated enforcement at less than 1/6th of its regional neighbours.

In the Indian context, compressing approval and procedures remains complex since they also involve federal States. Hopefully, the exercise initiated by the Cabinet Secretary will have some tangible outcomes. Labour reforms remain stalled and progress after a statement by the former Finance Minister while presenting his Budget some three years ago, followed by the Report of the Labour Commission, could not secure political support. Some hope is available in a recent statement by the Labour Minister but action must go beyond rhetoric.

Ease of property transfer requires host of enabling measures which depends on the success of the newly-announced Urban Renewal Mission. The Mission must be persuasive enough for States to computerise land records, simplify transfer of property deeds, repeal Urban Land Ceiling Act and moderate stamp duty to encourage bonafide land transfers.

Judicial reforms have scarcely begun. While everybody regards judicial independence as India’s strength, in practice high pendency, inter-locutory court procedures and absence of widely-practiced alternative dispute settlement mechanism does not enthuse investors. Both the sanctity and the enforcement of contracts remain opaque. The fact that the State is the biggest litigator and responsible for high pendencies only complicates the process.

Improved quality and affordability of infrastructure is a mixed story; telecom is a runaway success while power remains mired in regulatory and policy uncertainties. Hopefully, the new focus on infrastructure, both on enhanced resources coupled with public-private partnership, would be implemented with sincerity and urgency.

The one lasting lesson for India from the Singapore experience is how to do business. Above and beyond the benefits accruing from freer trade and greater investment, Singapore teaches us that there is much that the State can provide that helps to foster new entrepreneurship and remove impediments for credit and market entry by small and medium enterprises. I have always felt that encouraging direct foreign investment to India is less about liberalising sector caps and more about building and enabling an conducive environment. Hopefully, the new economic partnership will be enlightening enough to imbibe these lesions and grasp the latent opportunities embedded in them. Hopefully, Chidambaram and the newly-created Investment Commission are listening.

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