The Indian EXPRESS COLUMNISTS

N K SINGH

Sunday , April 10, 2005

From the ringside

The Singapore lesson

My recent visits to Singapore have been encouraging on the prospects of enhanced Indo-Singapore economic cooperation. The Comprehensive Economic Co-operation Agreement is in its final stages and likely to secure approval over the coming weeks. Relations between our two countries have undergone a marked transformation.

In the 1980s, India was routinely subjected to the somewhat caustic remarks of Lee Kwan Yew, who derided our failed development model. People of Indian origin living in Singapore had excelled in multiple ways in that more competitive business environment. A combination of self-interest and ethnic pride left these expatriates longing for policy changes that would enable the establishment of business linkages to India and open what was Asia's second largest market.

Any Indian visiting Singapore in the late 1980s and even early 1990s would invariably have visited Mustafa & Shamshuddin, a well-known department store set up by an expatriate Indian from Azamgarh. Here he would have found a booming business in goods, especially catering to the Indian market, all the result of quantitative restrictions and high tariffs of the Indian economy. Notwithstanding exchange control regulation designed to restrict the availability of foreign exchange to tourists, the Indian Rupee was certainly a convertible currency with a regular exchange counter at this flourishing store.

This year, when I visited the store, a lot had changed. The complex had expanded, but neither the clients nor the goods were exclusively designed for the Indian consumer: The dismantling of the Quantitative Restrictions in India, combined with sharp tariff reductions, had dramatically lowered the exclusive reliance of the famous ''Mu'' storefront (an abbreviation for Mustafa understood by all taxi-drivers) on stifled Indian demand. Now a variety of goods were available to a multi-ethnic clientele at competitive prices.

There is interesting anecdotal evidence of how things began to change after 1991; the pace was slow in many important sectors. Former Prime Minister P V Narasimha Rao's failure to implement a promised joint-venture of Singapore Airlines and Tata for the Indian skies created a wound that has taken long to heal. It took several successive governments to liberalise the civil aviation sector and this has opened up a competitive culture which will benefit consumers and improve India's poor record in air connectivity. Indo-Singapore trade and investment remain modest notwithstanding our high growth experienced in the 1990s. The Look East rhetoric also began at that time. It has, however, taken time both in altering our policies and equally the perceptions of countries in this region.

A fresh initiative to enhance the quality of India-Singapore relations followed the visit of former Prime Minister Atal Behari Vajpayee to Singapore in 2002. One outcome of the visit was the constitution of an Indo-Singapore Joint Study Group to consider the possibility of concluding Comprehensive Economic Co-operation Agreement (CECA) between the two countries. The study group submitted their report in April 2003 during the visit to India by the Singapore Prime Minister, Goh. It identified multiple areas of cooperation covering trade policy, investment, tourism, movement of natural skilled personnel, air and port services, as well as harmonisation of tax policies. Since then, the negotiating teams headed by the Commerce Secretaries of both the countries have held several rounds of fruitful discussions with tangible outcome now in sight.

Any preferential trade agreement between India and another significant regional economy will always face the hurdle that our tariff rates continue to be significantly higher than any other country in the region. This gives the false impression that India has little to gain from these agreements. Singapore, for example, already has a near zero tariff. There is therefore little added benefit to be secured by Indian exporters, while Singapore's exports would secure preferential access to the large Indian market. Complicating matters is the fact that a significant proportion of Singapore's exports are in effect re-exports, and any agreements must involve complex definition on Rules of Origin in order to minimise the potential for unproductive rent seeking.

For a balanced agreement it was necessary therefore to also outline ''compensatory arrangements'' relating to investment and easier movement of skilled workers. Private investment can only be induced by an enabling competitive environment. In the meantime, however, public investment through Government Linked Corporates (GLCs) and TAMASEK holdings — which controls the Port of Singapore Authority, Singtel, Singapore Airlines, Changi Airport to name a few — can constitute an important source of ''directed investment''. An example is the TAMASEK Stanchart Bank constituting the Merillion Fund over 100 million dollars for investment in mid-size Indian companies. This is only the beginning. With its ageing and modest population, Singapore will seek an increasing number of skilled Indian workers in the future.

Having become an efficient financial, air services and trans-shipment hub, Singapore, based on its conducive business environment, is seeking to become an education hub. It has an ongoing programme of collaboration with Wharton School at the University of Pennsylvania and INSEAD in France. It would now like to create centres of educational excellence in collaboration with Indian Institutes of Technology or Indian Institutes of Management to fortify its own advantages. This will enable improved quality of its skilled manpower, as well as a means of providing higher education to the immigrant community which will inevitably rise significantly to fill the gap in its demographic profile. Indian educational institutions stand to benefit greatly in the process of enlarging its regional footprints.

Beyond trade and commerce, what are the abiding lessons which Singapore has for India? This will be the topic of my column next week.

Write to ***nksingh@expressindia.com***