

Lee Hsien Loong: Connecting India and Singapore

Keynote address by Mr Lee Hsien Loong, Deputy Prime Minister of Singapore and Chairman of the Monetary Authority of Singapore, at the Standard Chartered Bank's Singapore Conference, Mumbai, 16 January 2004.

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Introduction

I am delighted to be here today to address the Standard Chartered Bank's Singapore Conference.

We stand on the threshold of a major transformation in Asia. With a combined population of 3 billion people, Asia is the largest and most promising region in the world today. It includes Japan, not fully recovered from its post-bubble malaise, but still the second largest economy in the world, with deep capabilities and advanced technology. It includes South Korea, which took painful measures to open up its economy and restructure its chaebol-centred industrial system. And it includes Southeast Asia, whose countries have put behind them the trauma of the Asian Financial Crisis, and are growing and attracting investments again.

The biggest stories in Asia are China and India. It has been projected that China's GDP could overtake Germany in the next four years, Japan by 2015, and the US by 2039. India too is opening up and growing strongly, and could become the 3rd largest economy in the world within 30 years.

Globalisation plays a big part in Asia's vitality. It has resulted in more Foreign Direct Investments (FDI) into Asia, and created jobs and prosperity for Asians. MNCs are outsourcing or transferring call centres, business processing functions, and R&D activities from North America and Europe to India. Factories in the Pearl River Delta in China export goods to the whole world. Professionals cross borders freely, to do business and oversee operations all around the globe.

But globalisation has its downside too. Competition is now borderless and intense, and those who fail to keep up fall hard, be they countries, companies or workers. In the past, during a downturn a company would halt production, retrench some workers and run down its inventory. Now, the whole company may uproot itself and migrate to a cheaper site elsewhere. Thousands of jobs may disappear overnight, never to return. Governments also find themselves with less manoeuvring room. In the past, they could raise taxes to redistribute wealth, or impose tariffs to protect local businesses. But with globalisation, high taxes drive talent elsewhere, while high tariffs leave the protected industries inefficient and ultimately non-viable. Besides economic worries, many countries fear the impact of foreign influences on their indigenous culture and way of life.

For good or ill, we live in a more globalised world, and it will only become more integrated year by year. Asia's dynamism is largely a result of a successful response to globalisation. Today, I will describe how Asia has successfully ridden the tide over the past few decades. I will explain why in this era of globalisation, it makes sense to strengthen the linkages between Southeast Asia and India, and how Singapore, a small and open country whose survival is totally dependent on globalisation, can play a role in deepening these linkages.

ASEAN since the early 90's

For more than a decade until 1997, Southeast Asia enjoyed remarkable growth. As governments opened up economies, investments flowed in, exports grew, and prosperity was everywhere. People talked about the Asian Miracle and the Pacific Century.

Then we met the darker face of globalisation. Euphoria turned to gloom when the Asian Financial Crisis struck. A seemingly minor problem in Thailand rapidly developed into a widespread panic in the region. One country after another succumbed as investors stampeded out, stock markets and currencies crashed, and economies nearly collapsed. In Indonesia, the Crisis triggered deep political and social changes, resulting in a very difficult transition. A new and very different dispensation is only now recrystallising.

Even though the Crisis has passed, we have not returned to the status quo ante. The world has changed permanently. Globalisation has advanced even further, and competition is now fiercer. India and China are major new players which totally alter the landscape. From the point of view of other

Asian countries, they are formidable competitors for investments, but also offer immense new opportunities. The future belongs to those countries which recognise and adapt quickly to these changes, so as to ride the new wave instead of being overwhelmed by it.

The September 11th attacks in the US revealed another peril of globalisation - extremist terrorism. Soon after September 11th we discovered in Southeast Asia extremist groups, obtaining funding, training and support from Al Qaeda, and carrying out terrorist attacks in our own countries. The terrorist network is therefore a true MNC. Southeast Asian countries are mindful of the threat of terrorism to investors' confidence, and are co-operating to battle against these extremist elements. This is a long-term, worldwide struggle.

Despite these setbacks, Southeast Asian countries have not turned inwards, or tried to shut out the world. They continue to embrace globalisation as the best option for securing their future, and remain committed to plugging themselves into the global grid. Individually, they continue to promote FDI, encourage exports, and pursue linkages with the outside world. They know that to try to keep out new investments, technologies and competition and go it alone will condemn them to poverty and stagnation.

As a group, ASEAN is strengthening economic cooperation among its members. Intra-ASEAN trade in manufactured goods is already practically tariff-free. Last October, ASEAN leaders went a step further, and committed to creating an ASEAN Economic Community by 2020. This will be a single market for goods, services, capital and professionals. Externally, ASEAN is negotiating an FTA with China, and is targeting to conclude the goods chapter by middle of this year. In parallel, ASEAN is working on a Comprehensive Economic Partnership arrangement with Japan. The US, too, has announced the Enterprise ASEAN Initiative, under which it will pursue agreements with individual ASEAN countries, taking into account their respective progress in economic liberalization.

Southeast Asia's adherence to economic liberalisation and freer trade has helped the region to stay on investors' radar screen. Most of its economies have recovered from the Crisis. Confidence has returned and the economies are growing again. Stock markets have rallied as capital flowed back into the region. The countries have made progress remedying the structural weaknesses that contributed to the crisis. Their finances are now much sounder - with balance of payments in surplus, and foreign reserves accumulating.

Thailand is doing particularly well as the fastest growing economy in Southeast Asia. Malaysia, has maintained satisfactory growth rates, as has Indonesia despite the political and security issues. Vietnam escaped the Asian Financial Crisis and is now opening up and taking off. Singapore's fortune has been more mixed. It weathered the initial storm well, but then got hit hard first by the global electronics downturn and then by SARS. After all these tribulations the Singapore economy is now at last picking up and on a growth path again.

Over the longer term, Southeast Asia remains a region of promise, with strong fundamentals. It is outward oriented, with a large and young population, strong emphasis on education, a positive work ethic, good infrastructure, and abundant natural resources. These enduring traits are embedded into our geography and culture, and will serve us well for many years.

India since the early 90's

India too has been opening up since the early 1990s, although not at a uniform pace. Since independence, India had adopted an economic model that emphasised self-sufficiency, strong central planning, and the state controlling the commanding heights of the economy. By the late 1980s this model had run into difficulties. In 1991 Prime Minister Narasimha Rao started to deregulate and open up the Indian economy. Countries in Asia watched with close interest successive budgets of Finance Minister Manmohan Singh, as decisions that had hitherto been made centrally were devolved to the private sector, the Rupee was devalued, subsidies were reduced, state-owned enterprises were privatized, and industries opened up to competition and foreign participation. They looked forward to a dynamic, prosperous India, participating fully in the regional economy.

But the political situation in India changed after several years, and the pace of reform slowed down, or so it seemed to those watching India from afar. However, in the last few years under the BJP government led by Prime Minister Vajpayee, not only have the reforms resumed, but a new spirit and vigour have manifested themselves across the country. Last week's mini-budget announcements show the resolve of the government to press on with the reforms.

India is now a fast growing economy. Bangalore has transformed itself from a provincial capital into a world class centre for the global IT industry. Mumbai is a thriving commercial centre. MNCs are outsourcing backroom functions and call centres to India, attracted by India's highly skilled, English speaking, and cost competitive professionals. In manufacturing, India is doing well in automobile, pharmaceuticals and chemicals. The recent BJP victory in state elections is widely seen as the Indian people reaffirming their support for reforms. The current thaw in relations with Pakistan is another positive sign. Worldwide, people are becoming persuaded that the momentum for economic liberalization that has built up is irreversible.

A subcontinent is on the move. Nowhere is this more evident than in the self-confidence of Indian companies. As one consultant commented, 5-10 years ago his assignments in India were about how to withstand the competitive threat. But today the question is how to grow the companies beyond India. Therein lies an opportunity for India and Singapore to work together.

Responding to globalisation

Both India and ASEAN are opening up, reforming their economies, and pursuing the path of globalisation. The rapidly changing and highly competitive environment requires countries to make many changes in policies and strategies, and to cooperate more closely with others, especially in the region, for mutual benefit.

Internal restructuring

Singapore, being such a small and open economy, feels the need to remain competitive, adapt and upgrade most acutely. We are getting used to the fact that there is no more life-time employment or iron rice-bowl anywhere in the world. To meet competition, we need to keep our business costs and overheads low. So we have lowered our tax rates and employers' contributions to the national pension scheme. To adapt to changing conditions, we need flexibility. So the government is working with the unions and private sector to promote more flexible wage systems. To upgrade, we need new competencies. So we are encouraging workers to acquire new skills, as well as new mindsets in order to remain employable. Only thus can we continue to attract foreign investments, grow our economy, and improve our people's lives.

In manufacturing, we are moving out of low value-added activities, where we enjoy little comparative advantage, such as pure assembly, to focus on higher technology and higher value-added activities. We are growing new industry clusters, such as nanotechnology and biomedical sciences. We are doing more design engineering and R&D, in order to add value and complement other countries with more abundant land and labour. We continue to leverage on existing strengths, such as our strong supply chain infrastructure, skilled manpower and harmonious industrial relations. As a result, our trade with India and China, exports as well as imports, has grown rapidly, especially in intermediate components.

In services, we see a tremendous market opportunity in the hundreds of millions of affluent consumers in the region. India alone has a growing rising middle class of 200 to 300 million people. Increasingly, they will want quality services, be it tourism, education, healthcare or financial services. We are actively promoting all these areas, capitalizing on our reputation and brand name. Singapore welcomed 380,000 Indian tourists in 2002, 11% more than the year before. We especially value Indian visitors, who stay longer and spend more than tourists from elsewhere. To attract more tourists from India, we have relaxed visa requirements, and made multiple entry visas more available.

We are also wooing corporate customers from the region, to use our financial, legal and other professional services. Many Indian companies choose Singapore as the venue for their arbitration proceedings. We liberalised our financial sector thus freeing our capital markets and wealth management industry to grow. Indian companies that are expanding need capital, and will find Singapore a viable location to raise funds, be it debt or equity. The companies can tap into a large and growing investor base in Singapore. Close to 200 international fund management firms and 150 venture capitalists operate out of Singapore, managing over US\$200 billion in assets.

To support the growth of our economy, we are investing heavily in human capital, upgrading our skills and refreshing our knowledge. But in a small country of three million people, the talent pool is never big enough. We will therefore continue to attract talent globally. Over the years, we have benefited greatly from an inflow of talent from India, as well as of NRIs from around the world, and we will

continue to welcome them. Beyond augmenting our talent pool, foreigners living and working in Singapore enrich our culture and diversity. They help us to develop an even more cosmopolitan outlook, and keep our city state abuzz with vibrancy and energy.

External linkages

Besides restructuring our domestic economy, we also need to expand outwards, to invest in the region and ride on its growth. To do so, we need to expand our horizons, to understand more deeply the world around us, of which South Asia is a major focus of our interest. The Singapore Economic Development Board will be setting up an office in Mumbai. This will be its first office in India, to better service Indian companies which are looking at investing in Singapore and our region.

More importantly, our companies also need to venture out of Singapore, to ride the growth of India. To better appreciate conditions and opportunities in India, Singapore plans to set up a South Asian Institute (SAI) later this year. The Institute will be part of the National University of Singapore. It will track economic and political developments in the subcontinent and collaborate with key institutes in India and elsewhere. The SAI will complement the work of the current East Asian Institute (EAI) and Institute of Southeast Asian Studies (ISEAS). Together, these institutes will provide us with a more comprehensive assessment of the region within a seven-hour flight radius, and so encourage more of our companies to venture abroad. In fact, Singapore companies have already entered into many businesses in India, including IT, telecommunications, hotels, township development, professional services, port management and other infrastructure projects.

Earlier this week I visited the Information Technology Park in Bangalore - a development led by a consortium of Singapore companies with Indian partners. It is quite a sizeable park - 28 hectares - with its own power generation and even sewerage treatment plants. The Park has attracted many tenants to Bangalore, and will be expanding further in the third phase of its development. Other Singapore companies such as Singapore Telecommunications, Parkway Holdings and the Port of Singapore Authority have also invested in India. To-date, investments by Singapore companies in India amount to US\$2bn. I expect this figure to rise strongly, as the Indian economy continues to open up and the business environment becomes more conducive.

Economic cooperation is best led by the private sector, which can operate on a commercial basis and react quickly to opportunities. But governments can do much to support the private sector. Governments set the tone and framework for economic liberalization and integration. They should promote cross border economic activities, dismantle trade and investment barriers, harmonise regulatory standards, and jointly agree on steps to enhance our business environments. These government efforts make a lot of difference to the commercial calculations of the private sector, and catalyse the flow of people, goods and investments.

30. India and ASEAN have been actively engaging each other for several years. India has acceded to the Treaty of Amity and Co-operation in Southeast Asia (TAC) and adopted the Joint Declaration for Cooperation to Combat International Terrorism, signalling its strong commitment to ensure peace and security in the region. India is now a dialogue partner with ASEAN at the Summit level. Last year, the leaders adopted the suggestion of Indian Prime Minister Vajpayee and signed the ASEAN-India Framework Agreement on Comprehensive Economic Cooperation, an interim step towards an eventual ASEAN-India FTA. Both sides have agreed to start negotiations on trade in goods this year, including an 'early harvest programme' to boost trade in selected sectors. Singapore supports this far-sighted initiative and will work actively with India and other ASEAN members to fulfil this vision.

The India-Singapore CECA

Bilaterally, India and Singapore are already negotiating a Comprehensive Economic Co-operation Agreement (CECA), which will be a firm basis for expanding the India-ASEAN relationship. The rewards are not only economic, but also strategic. Singapore naturally hopes to gain freer access to the Indian market. But the benefits extend well beyond this. Singapore wants to strengthen its economic ties with many different centres of prosperity and growth, and not be overly dependent on one or two major trading partners. A strong relationship with India will complement our rapidly growing links with China, and help us to realise the strategy of growing two external wings in the region, with the two emerging economic giants.

On the part of India, since Singapore is already nearly completely tariff free, major gains will be in investment and services. India's economic reform and liberalisation has brought in foreign investments and benefited India for over a decade. Similarly, a CECA that opens up more opportunities to investors from Singapore, improves the business environment and strengthens the protection that their investments enjoy, will encourage more high-value investments to flow from Singapore into India. With India's growing strengths in services, a comprehensive agreement in services will open up new opportunities for Indian companies in Singapore and the region.

Strategically, a CECA will anchor India's position in Southeast Asia. It will ensure that India joins in the opportunities that Southeast Asia offers, just as companies from the US, Japan, and China are already doing. It will also spur other ASEAN countries to expand their ties with India. This is exactly what happened with the US-Singapore FTA, and with the Japan-Singapore Economic Cooperation Agreement. After Singapore made these two agreements, other ASEAN countries started to pursue similar arrangements with the US and Japan. Singapore is happy at this, as we will benefit when our neighbours too are promoting freer trade and investment flows.

I hope our CECA negotiators will complete their work soon, and deliver a comprehensive and substantive agreement that both countries can be proud of.

Singapore as a launchpad

From the business point of view, a CECA is the ideal platform for both countries to broaden and deepen bilateral co-operation, and advance our shared interests. Singapore makes an excellent partner for Indian companies embarking on a strategy of regionalisation or globalisation. Because of our historical and cultural ties, Indians are very comfortable in Singapore's social and corporate culture. Singapore is a good base for Indian companies to engage Southeast and East Asia. They can take full advantage of Singapore's trade and business networks in these growth markets, in particular China.

Singapore is also a major transportation, logistics and financial centre in Asia. We welcome Indian companies to make use of our international network of air, sea and telecommunications linkages, and tap the network and resources of 6,000 MNCs in Singapore.

Already over 1,000 Indian companies are in Singapore. In the last 3 years alone, over 150 Indian companies have set up substantial presence. Several large companies that are globalising are using Singapore as a marketing and operations centre for their regional businesses. For start-ups, Singapore serves as an ideal incubator to prototype innovative ideas and technologies. This is a promising way of marrying India's large talent pool with Singapore's emphasis on such industries and with our framework of intellectual property protection. Numerous start-ups are now incubating in the Indian Centre and several have secured funding, penetrated markets and grown into mature companies. Building on these, a second centre is being planned with the Confederation of Indian Industry.

All these make Singapore a natural gateway connecting India to ASEAN and East Asia, as well as a launch pad for products and services of the future.

Conclusion

These are exciting times in Asia. Countries have the opportunity to transform their economies, and substantially improve the lives of their people. For companies, many opportunities are opening up, which will surely be seized, if not by you then by your competitors.

Globalisation is an unstoppable phenomenon, presenting opportunities to those who are prepared but threatening the unconverted. It will not be easy for countries to realise this promise of globalisation, and avoid its many hazards each on their own. They need to look beyond their borders to tap and leverage on one another's strengths. I believe that Southeast Asia will rise to the challenge, hold its own as an attractive market and investment destination, and at the same time be an integral part of a booming Asia. India is a major part of the Asian story. I look forward to deepening and broadening the ties between these two regions, and in particular between India and Singapore, to the benefit of our economies, our private sectors, and our peoples.