

Luncheon Address by Senior Minister Goh Chok Tong at THE Pravasi Bharatiya Divas Conference at SUNTEC CONVENTION CENTRE on FRIDAY, 10 October 2008, AT 12.15 PM

ENGAGING INDIA

I am honoured to be invited to speak at this special event, the first Pravasi Bharatiya Divas conference held in Singapore, and before such a distinguished audience. It gives me an opportunity to share with you my personal reflections on Engaging India – my engagement with India, India's engagement with ASEAN and its engaging transformation into a fast-growing, vibrant and open economy.

Personal Engagement with India

My official engagement with India goes back to 1992 when I asked for a meeting with Prime Minister Narasimha Rao on the sidelines of the NAM (Non-aligned Movement) Summit in Jakarta. India was then relatively isolated and its economy was in poor shape. Mr Kamal Nath, Minister of Commerce and Industry, captured the mood well in his recent book, "India's Century". India was mired in economic woes and faced a balance of payments crisis. Foreign debt had risen to US\$70 billion. GDP growth was a dismal 1.4% in 1991-1992. The prognosis was bleak. During the meeting, PM Rao's sincerity was palpable. I sensed that he was keen to strengthen bilateral relations. Our chemistry was good. I too wanted Singapore to expand its ties with India.

In January 1994, I was surprised to be invited by PM Rao to visit as Chief Guest for India's Republic Day celebrations. It was a signal honour. I had been to India a few times before but not as Prime Minister. For many members of my delegation, including then-Foreign Minister and Law Minister Prof S Jayakumar, it was also their first official visit to India. India accorded me and my delegation very warm hospitality. It was a clear signal that India wanted to establish closer ties with Singapore. It was also during this visit that I started to learn more about India.

I picked up the beginning of a shift in India's economic policy. Despite political resistance and bureaucratic inertia, PM Rao and then-Finance Minister Manmohan Singh started unbuttoning the cloak of "licence raj". I credit them with the opening up of India's economy which until then had crawled along the path of self-sufficiency and protectionism. As Dr Manmohan Singh has asserted, "India has a new mindset. There will be no backsliding". Under PM Rao's administration, Dr Manmohan Singh drafted an economic blueprint aimed at liberalizing India's economy and integrating it with the international system. The result was lower trade barriers, deregulation of financial and labour markets and privatisation of public enterprises.

To complement his economic reforms, PM Rao also embarked on a "Look East" policy. The Soviet Union had collapsed and with it India's close political relations with the Soviet bloc. He chose the Asia-Pacific region as India's launch pad for its "leap into the global marketplace". India then had an uneasy relationship with the West. Singapore, too, had minimal political relations with India. But we were looking for a second external wing to buoy our economy, having built up one wing with China and Vietnam. India was a potential key partner. Our congruence of strategic interests and foreign policy outlooks paved the way for greater engagement between both countries.

What gave me confidence in India when many people were sceptical about the country then? One of the key factors is the Indian diaspora. I had seen what the Indians outside India had achieved – in the US and in Singapore, for example. Their accomplishments gave me confidence in the potential of Indians as a people. If India had not performed, it was their insular bureaucracy, amongst other reasons. As I told several Indian leaders then, India should not aim just to be economically self-sufficient. It should use its huge population to also produce for the

rest of the world, just as China had begun to do. If India adopted a global mindset, its future prospects would be bright.

We have in this room today a significant sample of India's large talent pool. The Indian diaspora's influence is truly global. The Indian community is one of the most affluent ethnic groups in the United States. ArcelorMittal is the world's largest steel company. There are six Indians in Forbes' latest list of Asia's 15 youngest billionaires. Ten Indian companies, including Bharat Heavy Electricals, Bharti Airtel and Reliance Industries have made it to Forbes' list of the 50 best companies in the Asia-Pacific.

There are also many prominent Indians in Singapore. They have established themselves in numerous fields such as the legal and medical professions. Many first-generation Indians like our late Foreign Minister S Rajaratnam have made immense contributions to Singapore's nation-building. The establishment of the Singapore Indian Association in 1923 has helped to deepen the sense of pride and identity within the Indian community. Now, we are seeing a second wave of Indian immigrants. They are contributing to Singapore's economic development and cultural vibrancy. They will also contribute to the further strengthening of the long-term ties between our two countries.

With an enlightened leadership, a dynamic private sector and a highly skilled and talented population, India's prospects are promising. I was, and remain, convinced that India will be the next global engine of growth, alongside China. I believe India will keep up with its current impetus for reforms, whichever party or parties form the government. It simply has no choice. It has also tasted the fruits of a more open and liberal economy. And it is not only Singapore, but the whole of ASEAN that stands to benefit from India's rise.

It was with this belief that I spoke about sparking a mild "India fever" back in 1993, before it became fashionable to speak about 'India rising'. A concrete commitment of our early faith in India was the Bangalore IT Park which welcomed its first tenants in 1994. I am happy that the 'mild fever' has since become a pandemic of global proportions. Since 1994, I made another four visits to India as Prime Minister. I have continued to visit India regularly since stepping down as Prime Minister. My last visit was in March this year. India's transformation is clearly irreversible as PM Manmohan Singh had predicted fourteen years ago. That economic reforms have continued despite the vicissitudes of politics and changes of government show that the Indian mindset has changed, at least insofar as engaging the world is concerned.

The India-Singapore Comprehensive Economic Cooperation Agreement concluded in 2005 illustrates this point clearly. Negotiations on the CECA started with the BJP government of Mr Atal Bihari Vajpayee. They were successfully concluded with the Congress-led government of Dr Manmohan Singh. This was India's first CECA and its conclusion, after 13 rounds of formal talks, was not without difficulties. Officials of both sides were not sanguine about its prospects when the BJP lost the elections in 2004. But the new Congress-led government, despite being made up of many parties of different political shades, stuck with India's external orientation, and we were able to conclude the CECA. Both sides have reaped the benefits. Since the conclusion of the CECA, bilateral trade rose to S\$24 billion in 2007 from S\$17 billion in 2005.

India and ASEAN

I had hoped that other countries in the region would also be infected by this "India fever". When then-Finance Minister Manmohan Singh remarked that India's destiny was "interlinked with that of Asia's and more so, Southeast Asia", it signalled a radical shift in India's strategic priorities and an opportunity for ASEAN to plug India into the regional architecture. However, India's "Look East" policy was met with little enthusiasm, or at best, cautious optimism within the region. Such scepticism, compounded by historical suspicion, was understandable.

However, I believed then, as I do now, that India and ASEAN could and should reconnect. Our links go back many centuries and are profound. As India will be one of the key economic pillars in the Asian region, ASEAN and India need to engage each other, and shape a new regional construct. To build this strategic nexus, Singapore encouraged and supported India to become a full dialogue partner of ASEAN. The CECA was also a useful building block for the ASEAN-India FTA. I understand the Trade in Goods Agreement of the AFTA is targeted for signing at the ASEAN Summit this year. This is a welcome development. To date, India-ASEAN trade is just under 10% (9.8%) of India's total trade, but is already as high as India's trade volume with the US. I hope to see the momentum of economic integration between ASEAN and India continue. If the target of completing the Investment and Services chapter under the AFTA by the end of 2009 can be achieved, the AFTA would be a good blueprint for the Comprehensive Economic Partnership of East Asia.

Rising India and its Challenges

While India still faces many domestic challenges, India's rise is real. It has enjoyed an average rate of growth of 9% for the last four years. It was the world's second fastest growing economy. Today, India accounts for 6.5% of the world's GDP. By 2050, if high growth rates are sustained, it is expected to become the world's second largest economy, after China. India's key advantages are its fast growing middle class of 300 million people and large English-speaking population. It also has a young population which is getting younger, unlike many other major countries. By 2030, India's working age population will overtake China's and by 2050, it will be 50% larger than China's. Just imagine India's competitive presence then at the global stage.

But is the current rate of development sustainable? In 1994, I said that India was a giant which had not realised its own potential. Today, India has undergone a great transformation but much untapped potential remains. I have faith in India's prospects but it needs to address several challenges.

One key challenge is its agricultural and rural sectors. Close to two-thirds of its people are engaged in subsistence, rather than commercial agriculture. While India and China have nearly the same amount of arable land, in its best harvest year, India produced only 96 million tonnes of rice as compared to China's 130 million tonnes. Finance Minister P. Chidambaram revealed that over 20% of India's population lives below the World Bank defined poverty line. According to Kamal Nath's calculation, 200 million jobs have to be created just for the agricultural workers in the services and manufacturing sector in order to tackle poverty. The agricultural sector itself also has to modernise and be made internationally competitive.

When I met PM Rao in Calcutta in 1995, he had asked that Singapore and Indian officials work together to study India's rural housing development. Alleviating India's housing woes was an arduous project, given the scale and specific requirements for the different areas. At his request, I sent him some public housing plans but unfortunately, the Indian side did not follow up. It would have given the people in the rural sector hope and an incentive to improve their own lot.

The second area for improvement is in education. The growing labour force would only be an asset if substantial investment in education and skills development is made. India has an illiteracy rate of 40%. As Finance Minister Chidambaram has pointed out, India cannot have "scholars in research institutions as well as children out of school". There is also a shortage of skilled labour amidst an abundance of labour. I am glad to note that the Indian government has recognised these shortcomings and will be launching a "Skills Development Mission" with the aim of increasing the number of engineering and medical colleges, as well as universities and schools.

The third area, which most people are aware of, is infrastructure. One estimate suggests that India's infrastructural development is 2.5 times slower than China's. I know comparing India with China may not be politically correct but I do so to underline the importance of infrastructure to

India's growth. I have just travelled by the high-speed train from Beijing to Tianjin, a journey of about 120 kilometres. It took just half an hour as compared with about 2 hours by car. I have also travelled by coach from the coastal city of Shanghai to the inland city of Hangzhou, and Huangshan in Anhui Province. The expressways were as good as the German autobahn. For India to be a more productive economy, it must have a more efficient logistics and distribution system. More investment in new infrastructure is needed and existing infrastructure has to be upgraded. There are encouraging signs of improvement in urban transport and its aviation policy. India's "open skies" agreement with the US and ongoing discussions with key regional players such as China and ASEAN would help it connect with the world. With better infrastructure and improved connectivity, the economy will be on a much stronger footing.

Reforms in India's financial sector would also need to keep pace with economic development. While India's capital markets are strong, the banking and insurance sectors could be further liberalised to deliver more credit and financial services to more people and, more importantly, to lower the cost of doing business in India. This would also facilitate financing for infrastructural development.

Minister Chidambaram was deliberately harsh but not wrong to point out that India's reforms are still marked by "gradualism". India is a big country and given its present supply-side constraints and infrastructural inadequacies, we can expect development to be uneven across the states. Coalition politics and state-central dynamics would also mean that pushing through reforms will not be easy and progress will not be smooth. The judiciary remains overburdened and the private sector wants to see a less cumbersome and rigid civil service. An Egyptian minister once told me that Egypt's bureaucracy has a history of 5,000 years. So it is difficult to make changes. The bureaucracy of the Republic of India has far fewer years of history, and any red-tape mindset should be easier to change.

Though I argue for a more rapid pace of change for India, I am acutely aware that local politics may stand in the way. Indian governments have to be elected and changes cannot move too far ahead of its people. Former Chief Minister of Andhra Pradesh, Chandrababu Naidu, had tried to transform his state into India's IT hub. He was the most IT-savvy Chief Minister I had ever met. Once I rode with him in his car. He immediately whipped up his laptop to brief me of his plans to transform the state. I was impressed but unfortunately, not his rural constituents who felt neglected. He lost his elections.

Singapore as Gateway for India

What can Singapore and India do to deepen our economic cooperation? Business alliances between our two countries have been long-standing and constructive. International companies cognisant of Singapore's attributes and links with India have chosen Singapore to be the base for their ventures into India. Singapore's FDI inflow into India in 2007 was US\$1.43 billion, making us India's second largest investor after Mauritius, surpassing even the US and the UK. It is worth noting that the Singtel-Bharti joint venture was concluded pre-CECA and it was one of the first few major joint ventures which Indian firms had struck with foreign companies then. There is much that both sides can learn from each other through such collaborations. In fact, the scale of Bharti's operations has now surpassed that of Singtel's. Another example of bilateral economic cooperation is the Singapore-built Bangalore IT Park, one of the earliest significant economic projects between India and a foreign country following its economic liberalisation.

Singapore is well-placed within the region, with good connectivity to key regional markets such as China, Vietnam and Australia. We can be India's springboard to East Asia and beyond. Dr Manmohan Singh was aware of Singapore's strategic location when he said that if the Indian government wanted to "market New India, they would have to begin in Singapore".

There are now more than 3,200 Indian companies in Singapore. Some Indian companies such as i-Flex Solutions, Satyam and Tata Consultancy Services chose Singapore as their regional

hub to internationalise their operations. Other Indian businesses were started in Singapore and grew to become world beating companies. For example, Olam International, a company listed on the Singapore Exchange, has been based in Singapore for the last 12 years and today, has a turnover of nearly US\$6 billion. Its team in Singapore has grown six-fold since 1996 to its current staff strength of 180. Olam is just one example amongst many where ethnic Indians have succeeded in building their businesses in Singapore. I am confident that there will be more to come.

Singapore shares “New India’s” pro-market ideology. We have an inclusive cosmopolitan community which welcomes Indian enterprise and talents. India and Singapore have shared strategic interests in contributing to Asia’s growth and stability. Singapore is glad to have not only witnessed, but also played a small part in India’s transformation and emergence. Our relations have deepened and taken on greater dimensions over the last 15 years. These include the areas of defence, arts and culture, science, technology and education. We find India more engaging the more we engage it.
