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The Indian Budget 2009-10: Opportunities for Singapore Investments

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Key Features of the Budget

India's budgetary numbers for 2009-10 have been unveiled by Finance Minister, Pranab Mukherjee, on 6 July 2009. For international credit rating agencies and for foreign financial institutions, the foremost concern would be the fiscal deficit, which is budgeted to be the highest ever, at 6.8 percent. On the face of it, the Finance Minister is walking a fiscal tightrope, with the finances strained at close to unsustainable levels.

There appear to be two carefully crafted strategies in the exercise. The first is to restore growth and, given the sluggishness of the global economy, growth has to come from domestic consumption, not from a sharp growth of export or trade. It is reasonable to expect that in the next nine months of the financial year, commodity prices and, most importantly, oil prices, will not spike and the consequential costs of imports would be largely under control. At the same time, there is some doubt over the monsoon and this could lead to inflationary pressures, especially in food products, edible oil and vegetables. There is sufficient liquidity in the economy and little need to revisit interest rates again. Therefore, the push for growth has to come out of an expansionist fiscal policy, and to put more money in the hands of consumers for greater consumption. The lowering of personal income taxes would help in two ways – by leaving behind more money in the hands of the consumers, it would provide a hedge against inflationary pressures that may arise due to the poor monsoon and, at the same time, make available money for consumption expenditure, should that be needed.

There is also a thrust on infrastructure spending – most importantly, roads, railways and transportation. There are a number of Metro projects on the anvil and improvements in urban infrastructure through the creation of 'slum-free cities'. The role of the private sector in creating infrastructure is well recognised and there is a new attempt to create innovative financial models to make this happen. The budget is a carefully crafted push for growth and there are promises of a number of reform measures that will enable development to accelerate. This includes the tax relief given to pension funds and trusts, the removal of the

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Fringe Benefit Tax, the recognition of reducing fertiliser and oil subsidies, and the introduction of the banking and insurance bills.

Singapore Investment Initiatives

Against this backdrop, it is possible to revisit opportunities for foreign investments in India and to see where there would be scope for partnership with Indian firms for growth. There appears to be several opportunities that arise from this strategy, which can be of advantage to Singapore investors. In an article in *The Straits Times* on 19 June 2009, Ambassador Gopinath Pillai, Chairman of the Institute of South Asian Studies, outlined the advantages of investing in India, the difficulties and the rewards, and suggested the need for an iconic project that Singapore could be part of, for example, modernising Mumbai.

Singapore companies that have ventured into India have generally been frustrated at the slow pace at which things are done as well as the bureaucratic obstacles to success. In fact, in the last few years, not many Singapore firms have established any significant presence in India. There was the expectation of investment in a major Special Economic Zone (SEZ) in South India which, unfortunately, could not materialise due to problems with the SEZ policy, in particular, the resettlement of land holders. Singapore investors expected the local authorities to resolve the land resettlement issues and to hand over the area for development. However, the Indian authorities expected the developers to deal directly with the land owners, which proved very difficult for the Singapore companies. This initiative has not taken off.

There have been smaller investments by a few Singapore companies into information technology parks and real estate, and these are doing very well and providing good returns. However, most of these investments have been entrepreneur-driven, with the Singapore government a supporter and not necessarily an active participant in these efforts.

India Strategies

It is possible to compare the India strategies of some other countries which have, in the last few years, enlarged their India investments considerably. There has been a significant flow of Japanese investments into the pharmaceutical, chemicals and automobile sectors in India. There has also been a significant increase in the funding of infrastructure projects, such as the Delhi Metro, through soft loans tied to Japanese equipment supply. South Korean manufacturers have done exceedingly well in the Indian market, with Samsung, Hyundai and LG recognised as market leaders in their segments.

An important element of these countries' success is the involvement of their governments. During 2003-2007, there were over 80 delegations from Japan, often accompanied by a senior minister. The Japanese government has pushed its overseas development assistance arms – Japan International Cooperation Agency and Japan Bank for International Cooperation – into greater interactions with the Indian government, and the Japanese development aid and loan assistance has increased substantially, along with closer interactions between the two governments. These initiatives have paved the way for Japanese investments into (difficult) infrastructure sectors such urban transportation (Delhi Metro). Now Japanese firms are aggressively bidding for and participating in other metro rail projects and power projects.

In a similar way, Chinese delegations invariably are made up of a combination politics and commerce. Interestingly, the United States Embassy in Delhi constantly pushes for the agenda of its corporates. Most of the major participation agreements and contracts that involve the United States are often steered by American government representatives in Washington and New Delhi. Israel is yet another example where the government interactions have proved to be very useful for its commercial firms. This combination of governmental effort and private sector follow up appears to have been successful in many sectors.

Possibilities for Singapore Companies

It is possible to conceive of a similar approach for Singapore companies. At present, after the initial introductions by the Singapore government, the companies are often left to themselves to manage the intricacies of the rules and regulation in a non-transparent bureaucratic milieu, often leaving them feeling frustrated.

There is possibly an alternative approach that could be considered. For example, one of the strengths of Singapore is the creation and management of urban infrastructure. In the current budget, India’s Finance Minister has talked about the creation of slum-free cities – a massive urban renewal programme that offers opportunities for Singapore enterprises. There is substantial government funding available for this purpose. However, it is unlikely that the planning, design and execution capabilities are available either in the government or in the private sector in India. This is an opportunity for Singapore.

Among the Indian states, Hyderabad offers the best possibilities in this regard. There is a Congress government in the state of Andhra Pradesh and the Chief Minister, Rajasekhara Reddy, has just won a massive mandate for the second time. The Congress has increased its tally of Members of Parliament during the recent elections from this state. The Chief Minister is also a strong development-oriented administrator and several of his initiatives have been very successful. He also enjoys the confidence of the higher echelons of the party and is keen to ensure that five years down the road, he is able to go back to the electorate on the strong plank of development delivery. There is an opportunity to partner with this government and with its administration to leverage unique skill sets available in Singapore and yet to deliver what is planned for at a national level.

If one were to think through the ways in which this could be done, the following steps could be suggested:

1. A Singapore government-led delegation to meet with the Chief Minister to develop the ideas for the project to be done bilaterally;

2. Creation of a local company that would be anchored by a Singapore investment company, and it would have Andhra Pradesh government entities as well as Singapore companies;

3. Detailed project report preparation where the responsibilities could be allocated between Andhra Pradesh and Singapore players;

4. Assistance in financing debt/equity for the project by the Singapore investment company, leveraging on government funding; and

5. Planning and execution of the project.

An important point to bear in mind would be that this would be a project that would span several years and that, being an infrastructure project, returns would start only after three to four years. It is important that there is patience to see through the initial steps. However, it is certain that this is an area where India and Hyderabad would welcome Singapore's participation in terms of ideas, planning and execution.

The above is an example of what could be done. There are several other areas and sectors as well. If there is a lesson to be taken back, it is that private sector companies alone may not be able to handle the processes and bureaucracy, and that the support of the local government as well as the active involvement of Singapore government through one of its investment arms would be necessary to make these projects a success. At the end, as all those who have ventured to invest in India will bear testimony to, the returns are far greater than investments in any other country in Asia, including China.

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