

Why Modi is good for Asia, S'pore

A pro-business Indian govt pushing for growth in trade and investment will have a ripple effect on the region's economy

BY GIRIJA PANDE



Riding on India's growth: Supporters wearing Modi masks during a celebration rally in Mumbai on Monday. Singapore will benefit by leveraging its unique advantage in Asia as Indian firms expand in the region. - PHOTO: AFP

INDIA'S noisy democracy has surprised the world again, this time pleasantly, by providing the new Prime Minister Narendra Modi's pro-business right-wing party a stunning majority. Such a clean sweep has never happened since independence, regardless of personalities. Three decades ago when there was a majority mandate for Prime Minister Rajiv Gandhi, the catalyst was clearly the public's emotional vulnerability after the tragic assassination of his mother, PM Indira Gandhi.

The Modi tsunami has uprooted established (though ineffective) political parties, giving the new government full freedom to undertake whatever drastic measures are required - some call it Reform 2.0 - to enable it to get India back to double-digit gross domestic product (GDP) growth rates. This is not a pie in the sky ambition as this pace of growth is required if India, one of the youngest countries

in the world, is to benefit from its youth dividend by providing jobs to the nearly one million young people who enter the job market every month!

The Chinese Communist leaders understood this basic fact two decades ago when they stepped up reform under PM Zhu Rongji who took the difficult task of dragging a largely closed China into the World Trade Organisation in 2002. Export manufacturing grew by leaps and bounds and GDP growth in the first decade after that consistently averaged double digits as China became the factory of the world. The need to create jobs for the young in a populous economy was a policy Mr Zhu's successors followed faithfully. Wisely, the ruling Communist Party realised that jobless youth could create instability.

Youth revolution

India, on the other hand, because of its lower growth rate has had a body of restless youth and disguised unemployment for some years now. This has been made clear in election after election where incumbents were replaced and new coalitions formed as politicians tried to hang on to the government, even at the cost of implausible coalitions.

In large swathes of central India, which remain very backward, youth unemployment resulted in the creation of armed gangs (called Naxalites) that looted and killed under an obscurantist Marxist philosophy. Until now, this anger only bubbled under the surface. However, the spread of literacy, the growth of the media (which is now ubiquitous) and a globalising India have created a new paradigm for these first-time voters. They yearn for change. They want India to be able to compete with success stories, especially the phenomenal growth of China.

As strong gusts of wind can either destroy or be used to drive windmills and generate electricity, Mr Modi's genius lay in harnessing this angry frustration to his political advantage. Nearly 100 million new and young voters were swayed by his high-profile, media-driven promise of replicating the "Gujarat model" - i.e. good governance, good infrastructure and tangible economic progress which he provided over the last 12 years. Additionally, he was seen as personally above reproach, whereas the Congress, after a decade of rule, was thoroughly discredited with corruption scams and ineffective governance.

This push of a sclerotic Congress leadership and pull of a dream which Mr Modi so skilfully unfolded were just the secret sauce needed to unite the country's castes, regions and religions into creating a large mandate in favour of Mr Modi personally, rather than his party, the BJP. The youth also clearly voted for a rightist pro- business ideology that focuses on growth and jobs. This is a far cry from the left-leaning governments that India has seen since independence, with their focus on subsidies and welfare and attempts to eke out growth via futile public sector investments. The message is clear: The youth want an active role

that empowers them.

Another growth engine?

The Indian economy has still not matured and has a GDP per capita of around US\$1,600, one of the lowest in Asia. Many challenges such as inflation, poor infrastructure and low tax bases remain. However, India has a few things going for it. It has a young population profile and a savings rate of over 34 per cent of GDP - a rate at which the East Asian economies took off on a sustained growth path.

The problem has been keeping the investment ratio at nearly 38 per cent of GDP, as physical bottlenecks and poor governance and execution have not allowed the fruits of investment to give impetus for a continuing growth cycle.

India has in parts a very competitive and able entrepreneurial and managerial class which, if unsheathed, could create miracles. So far, entrepreneurs have found India to be a continuous obstacle course that only an Indian mind can fathom and handle. While Chinese companies succeeded because of the government, Indian companies succeeded despite the government.

Mr Modi understands these strengths well. Within his own state he exemplified this by encouraging investment and allowing growth of private business, with stunning results. Creating a growth miracle for India is thus easier with him at the helm than ever before. The Indian stock market understands this reality and is currently hitting its highest levels ever, based on these assumptions (at US\$1.43 trillion it is the 10th largest bourse in the world).

Of course there will be hiccups in India's growth trajectory as there still are inherent and contradictory forces that will try to derail the process. A rejuvenated Mr Modi will have to be resourceful to overcome these statist forces if his mantra of "development for all" is to succeed.

I believe we need to carefully watch the India, Japan and China triangle unfold in economic terms. In the last two years, we have seen three strong Asian leaders take charge: PM Shinzo Abe in Japan, President Xi Jinping in China and now PM Modi in India. These three countries form a large part of Asia's GDP and any significant uptick in their economies could be great for the region and the world.

There are many similarities among these newly empowered leaders. All three have the massive backing of their parties and individually all of them have powers which their predecessors could not dream of. They all have proved to be doers and achievers. They understand ground realities well, can push reluctant bureaucrats and implement difficult economic and political reforms.

PM Abe is shaking up a moribund Japan and President Xi has taken some very bold steps on both charting out a radically different growth path for China and tackling endemic corruption in his own party. PM Modi, too, is capable of both in

India, given his temperament, his experience and his popularity with Indians. All three leaders are pro-business and trade, and keen to create an enabling business environment that will nurture growth and productivity. These three leaders could individually drive a growth agenda in their countries that will reinvigorate growth in the region. The economic stars in Asia's three most important economies seem to be aligned after a long time.

In political terms, too, PM Modi is expected to give India's look-East policy a major push. He has very good relations with Mr Abe and funnelling large-scale Japanese investments and technology into the infrastructure sector (where demand for funding is expected to exceed US\$1 trillion) will be a priority. Japan has made major gestures towards a closer economic and defence partnership with India. The Japanese emperor's visit to India last year was not just symbolic.

However, when it comes to China, PM Modi may be more nuanced. He will certainly push for greater access for Indian products and services in China and encourage investments into India. Political issues may take a back seat until trust is built up via greater commercial engagement. Mr Modi has been to China many times to garner Chinese investments into Gujarat and the Chinese leadership understands him.

In my recent book *The Silk Road Rediscovered*, my co-authors and I tracked the progress of the commercial relationship between India and China via case studies of successful Indian companies building business in China and vice versa. There are nearly 165 Chinese companies in India and some 125 Indian companies in China. They have learnt, often the hard way, that there is no alternative but to build businesses in each other's markets - potentially two of the largest in Asia in the next decade. While Chinese investment in India currently is just under a billion dollars we expect this figure to rise to over US\$25 billion in the next decade. This could create opportunities for all.

Impact for Singapore

Many years ago, then Prime Minister Goh Chok Tong famously compared Singapore to a bird flying on two wings, those of India and China. Singapore's economic and political ties with both nations are excellent; its companies and entrepreneurs have business experiences in both.

Singapore also serves as a major international hub for companies from both countries and this role will only become more critical. Singapore will benefit greatly by leveraging on its unique advantage in Asia as Indian and Chinese companies expand in the region.

A right-wing government in India pushing for growth in trade and investments will have its ripple effect in Singapore. Opportunities will open up in a freed-up infrastructure sector, especially in urban development, water and waste management and the energy/power sector. Growth in India's consuming classes

will create a market nearly as large as China's. However, beyond a few government-linked companies (GLCs), Singapore firms have not ventured into India, possibly taking their cues from the few that failed. This must change.

South Korean companies, especially in the last decade, have built brands, networks and a top line in India that are exceptional. Even children in India are familiar with brands such as Samsung, LG and Daewoo, and their parents aspire to own products of these brands. This proves that to succeed in India, one has to take a long view and be persistent. There are lessons in the Korean miracle in India, and it would be unwise for Singapore companies to ignore them.

India has also a large SME sector, from which Singaporean SMEs could find interesting partners.

Many of us corporate leaders in Singapore have a duty to prepare Singapore for a newly invigorated India - the bird's second wing that had been flapping weakly for the last few years. Hopefully, this will now be strengthened. It's time to plan investments well and keep an eye on what PM Modi implements in the next 12-15 months. The right time to actively explore ventures in India will be then. But one must prepare for it now if one wants to ride on what may be India's best times.

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