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# Singapore's billion $ partner

## Indian investments here in 2012 equal $22 billion

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"INDIAN FDI (Foreign Direct Investment) into Singapore has grown at a whopping compound annual growth rate of 381 per cent since 2005." So says Mr Anil Kishora, country head and CEO of the State Bank of India in Singapore.

According to the Reserve Bank of India, cumulative outward Indian FDI into Singapore was US$24.7 billion till September 2012. The Singapore Department of Statistics reports these figures a little differently (stock as at year-end). Its latest statistics on April 30 show a $22.04 billion Indian FDI in Singapore at end 2012 (for which data is available).

What is even more interesting is that it is 55 per cent higher than China's $14.2 billion FDI in Singapore at the same time. This has been consistent for the previous three years also. (Indian FDI stock in Singapore is the amount of Indian investment already in Singapore as opposed to the Indian investment that came into Singapore in a given year. Cumulative Indian FDI is obtained by adding the annual Indian investments.)

What ranking does Indian investments hold? What was special about 2005? That was the year the India-Singapore Comprehensive Economic Cooperation Agreement (India-Singapore CECA) was successfully concluded and signed during Prime Minister Lee Hsien Loong's state visit to India. Not only that, the Indian government released a prowling tiger that year by allowing Indian companies to set up SPVs (special purpose vehicles/companies) in international capital markets like Singapore to invest in third countries.

First, let us address the question: Why are Indian companies investing overseas? The reasons for companies investing abroad have been well studied and documented. Here are some of the well-known ones:

1. To enter into new markets.
2. To diversify their products and markets.
3. To gain access to natural resources.
4. To gain access to advanced technologies.
5. To gain access to global financial markets.
6. To acquire overseas assets at a bargain.
7. To integrate vertically (from raw materials to finished products).
8. Government encouragement to globalise.
9. Ease of doing business, better regulations and transparency overseas.
10. Bilateral trade and investment protection agreements, and tax incentives.

Indian companies have invested abroad for one or more of the above reasons. Singapore too has been an attractive investment destination for Indian companies for a whole combination of benefits it offers to various industries and companies.

One of the earliest investors into Singapore was the Tata group from India. "Tatas made their entry into Singapore in its early years i.e. 1970s with the setting up of Tata Precision Engineering, which also served as a technical training centre in collaboration with the then EDB to develop local skills," recalls Mr K.V. Rao, resident director, ASEAN region, Tata Sons, based in Singapore.

All business... (right) Airtel CEO Sanjay Kapoor (left) and chairman Sunil Bharti Mittal greeting Singapore's Prime Minister Lee Hsien Loong at the Airtel headquarters in 2012. (Far right) Then Tata Steel managing director B. Muthuraman and then Natsteel chairman Dr Cham Tao Soon in 2004 at the announcement on intended sale of Natsteel's steel business to Tata.
PHOTOS: THE STRAITS TIMES, THE BUSINESS TIMES


He adds: "The group since inception has continued to play an important role in Singapore, both contributing to the local economy and also conducting international business." The group's activities in Singapore form part of a microcosmic representation of its US$100 billion activities across 100 companies worldwide.

"Our various companies in Singapore range from steel making, engineering projects, IT solutions, technology development, and telecommunications to shipping and financial services. We have over 15 companies (in Singapore) that employ over 3,200 staff," points out Mr Rao. While Natsteel is probably a household name in Singapore, the other group companies here like Voltas in engineering projects, Tata Consultancy Services (TCS) in IT solutions, Tata Communications, Tata-NYK shipping, Tata Capital etc. are all well-known leaders in their respective businesses.

It is not just the Tata group from India that invested in the engineering procurement and construction sector in Singapore. Soon after India opened up overseas direct investment, India's Punj Lloyd Ltd acquired Sembawang Engineers & Constructors in Singapore, one of the largest engineering and construction groups in South-east Asia, in 2006. Another Indian company, Ramky Enviro Engineers Ltd, took over the Services Division (commercial cleaning, conservancy services, and carpark management units) of Sembcorp Environment in Singapore in 2009.

In an interview with tabla! last year the then international director, Asia Pacific, at Singapore Economic Development Board Lee Eng Keat, pointed out that in the IT sector, "the top 10 Indian IT companies are here". The global IT giant of the Tata group, TCS, set up its regional headquarters in Singapore in 2001.

Today, TCS Asia Pacific, headquartered in Singapore, operates in 12 Asian economies, and has 10,000 consultants covering the region from Australia to Japan. It has built deep local partnerships like SMU-TCS iCity Lab, a joint initiative in which TCS has invested $6 million in the iCity Lab at SMU to develop IT solutions for intelligent cities in Asia and Worldwide. Another Indian IT giant, HCL, also has its Asia Pacific regional headquarters in Singapore. It set up its global enterprise mobility laboratory here to focus on research and development in enterprise mobility solutions.

So how do companies finance their foreign direct investments in the first place? Typically there are three categories of Foreign Direct Investment.

**Equity** – The parent company investing in a subsidiary takes an ownership interest in that company in the form of stocks or shares. A parent company can do so by using cash or borrowings or from its profits.

**Loans** – The parent company can lend to its subsidiary. It is also easier to repay/refinance a loan than to buy back equity.

**Guarantees** – If the parent company is credit worthy, a subsidiary can borrow against the guarantee/support from the parent. Once the subsidiary's business grows and is credit worthy, it can borrow on its own.

Apart from the presence of regional headquarters, Singapore is a major routing point for setting up holding companies that are used for international investments in Asia or globally. Usually these are Asian holding companies or international holding companies.

A well-known one is Tata Steel Asia Holdings (Singapore). According to the group website Tata.com, Tata Steel made an investment of US$4.1 billion in its wholly-owned subsidiary Tata Steel Asia Holdings (Singapore), which in turn invested the same in Tata Steel UK that went on to acquire Corus plc UK.

Similarly, Bharti Airtel Holdings (Singapore), a wholly owned subsidiary of Bharti Airtel Ltd, acquired 100 per cent equity stake of Warid Telecom International Ltd in Bangladesh that lead to the creation of Airtel Bangladesh Ltd.

"In fact, Singapore has emerged as one of the preferred offshore financial centres for Indian corporates to set up SPVs," says SBI's Mr Kishora.

Another example of Singapore's strategic role in a global takeover by an Indian company is that of Bharti Airtel which invested in a Singapore SPV which in turn invested in Bharti Airtel Netherlands BV that acquired 100 per cent of Zain Africa International BV. This enabled Bharti Airtel to expand in 15 markets in the African continent.

Nishith Desai Associates, an international law firm that specialises in strategic legal, regulatory and tax advice, analysed the Bharti-Zain deal. According to them, Bharti Airtel Netherlands BV was to avail itself of a loan to the tune of US$5.5 billion and the Singapore SPV was to borrow the rest of the amount. This left the parent company Bharti Airtel's financials intact (in India), as per the firm's analysis. At the same time the SPV route "did not absolve Bharti Airtel from overall responsibility of a borrower since it has provided a guarantee to bankers for the loan", it commented.

Netherlands has double tax avoidance and bilateral investment treaties with many of the African nations where Zain has subsidiaries and assets, the analysis pointed out. These treaties provided both the safety required to a foreign investor and a mechanism for repatriation of profits from the Zain subsidiaries in these countries.

Where does Singapore fit in this? Netherlands and Singapore have a tax treaty under which dividends paid by Bharti Airtel Netherlands BV to the Singapore SPV would not be subject to any taxes in Netherlands. Further, under the Singapore tax laws, foreign-sourced dividends are exempt from Singapore corporate taxes. The analysis points out that, finally, dividends distributed by the Singapore SPV to Bharti Airtel would only be taxable in India.

As Mr Rao of Tata Sons puts it succinctly: "Singapore provides an enabling and efficient environment to grow regional and international business, and also serves as an important investment holding destination for emerging global enterprises. Many of our group companies conduct a gamut of these activities anchored in Singapore."

Optimistic... SBI's Anil Kishora (above) and Tata's K.V. Rao (below).

Benefits of setting up Singapore SPVs are not just for the big Indian companies. Mr Vivek Kathpalia, partner at Nishith Desai Associates, Singapore, points out: "As Indian companies continue to mature, they will also globalise. A number of mid-sized Indian companies are also setting up shop in Singapore to access these markets."

What are the other sectors of the regional and global economies that Indian companies are most interested in investing? Given the growing population, agriculture is obviously important. Offices of Indian companies in Singapore procure palm oil and trade in agricultural commodities like soyabeans, pulses and grains. Some invest in plantations in the region. Trading in minerals and metals is another well-known sector. Power companies from India have explored and in some cases invested in coal mines in Indonesia and Australia. These investments, procurements, financing and shipping are coordinated from Singapore-based operations.

If Indian companies invest in Singapore, can their bankers be far behind? According to the High Commission of India in Singapore, "nine Indian banks operate in the country – Bank of India, Indian Overseas Bank, UCO Bank, Indian Bank, Axis Bank, State Bank of India, ICICI, EXIM Bank, and Bank of Baroda. SBI and ICICI have been granted Qualifying Full Bank (QFB) status".

Mr Kishora says: "SBI has been at the forefront in assisting large Indian corporates with overseas expansion plans while adhering to applicable guidelines. SBI has facilitated fund raising for the corporates through ECB/syndication facilities to enable expansion plans through M&A or Greenfield projects in overseas markets, including Singapore."

So what makes Singapore an attractive investment destination to Indian companies? Says Mr Kishora: "The advantages that Singapore offers as an offshore financial centre, apart from its geographical proximity, are transparent regulation, business friendly policies, taxation advantages and easier access to financial resources/international capital markets."

Singapore is attractive for a few other reasons in addition to "access to capital and easier fund raising" according to Mr Vivek Kathpalia. He points to "access to international markets, good jurisdiction to hold and exploit IP, lower tax rate etc".

"A number of Indian companies that are looking to globalise set up a company in Singapore for all these purposes. We have also seen a few flip structures, where Indian companies flip to become subsidiaries of a company set up in Singapore. This provides a number of advantages to the companies from a business, legal and tax perspective," he added.

For an investor making multi-million or billion-dollar investments in a country, there two more things that are important – connectivity and talented people. Singapore has both in abundance for an Indian investor. Apart from being regularly rated as the best airport in the world, Changi had, according to some estimates, 422 flights per week to 12 cities in India. From India's economic capital Mumbai alone, there are reportedly over 106,000 airline seats per day for Singapore. On the talent front, there are the highly skilled Singapore citizens who are the product of one of the world's best education systems.

In addition, outside of India and the US, Singapore has the largest number of graduates of India's premier educational institutions. Well over 1,000 alumni of IITs (technology professionals), IIMs (management professionals), IIFT (international trade professionals), and chartered accountants (financial services professionals) who are at home in the business cultures of Singapore and India, have made Singapore their home. Many of them are often involved in various parts of the billion-dollar investment deals. The contributions of this bi-cultural Indian diaspora to the multi-billion-dollar two-way investment between India and Singapore never shows up in any FDI statistics.

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