Singapore's state capitalism vs. the Indian economy: comparing the economic systems of two potential allies

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SINGAPORE'S STATE CAPITALISM vs. THE INDIAN ECONOMY: COMPARING THE ECONOMIC SYSTEMS OF TWO POTENTIAL ALLIES

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Abstract

This paper studies the phenomenon of "State Capitalism", undertaking a comparative analysis of the economies of Singapore and India, two potentially strong Asian allies in today's global economic order. Practised and adopted in many variants over the world, the "New" variant of "State Capitalism" as pursued in the emerging city-nation of Singapore has enabled it to achieve remarkable successes, posing challenges to bigger economies. India, on the other hand, began its newly independent planned industrialization under a conventional "State Capitalism" regime, but soon got mired in bureaucratic shackling. Subsequent to widespread Structural Adjustment Programmes in 1991, it is only recently that India has started emerging as a strength-gathering and rapidly developing nation, although its successes, compared to Singapore, have been modest on many fronts. This paper compares the two nations' performances on various aspects including economic, political and a body of "freedom indices" using Time Series data on National Accounts and other selected economic indicators. "Freedom" indices for both countries are found to be correlated to respective economic indicators. Singapore is found to have much healthier economic indicators with higher "freedom" rankings. The lessons India can emulate from Singapore's development experiences are also highlighted.

Keywords: State Capitalism, Freedom Index, Fiscal Policy, Singapore, India

JEL Code:

Introduction

The phenomenon of "State Capitalism" is understood and in practice followed in a wide array of variants across the world. McNally (2013) describes a "new dynamic" emerging between traditional capitalistic systems and State-led Capitalist models where the State plays an "activist role" in managing the economic system, typically characterizing some of the major emerging economies that are increasingly challenging the conventional established capitalist regime.

Among emerging economies of today's global order, China is probably the most well known State Capitalistic system, well characterized by the dominant presence of the State in its aggressively pursued economic policies. Yet in the emerging world, other "New" Variants of the same order are increasingly in evidence. Our focus in this paper concerns one such economy, viz. the emerging city-nation of Singapore, which has been exhibiting remarkable successes with the variant of "State Capitalism" it has chosen to pursue. We compare and contrast Singapore's economy with another of its peer nations, viz., India, which too ranks among the major emerging economies of today's world but has a significantly different political-economic system in place. India, it is true, had a brief encounter with resolute State Capitalism at the start of its post-Independence Planning era in 1950-51 with a concerted drive towards accelerated development through industrialization under State aegis. However, India's brush with Soviet Socialist-type Planning, with the State at the "Commanding Heights" of the economy, was to be relatively short-lived as the economy soon became mired in excessive and inefficient bureaucratization, the so-called "license-permit raj". It was only after the gradual introduction of a relatively liberalized regime that India's growth rate was to pick up.

In this paper, we take a comparative look at the two emerging economies of Singapore and India, respectively. The two had been described as "diplomatically distant" from each other until quite recently but are gradually emerging in a cordial relationship "back to history" (Ting 2012). Based on major economic indicators, as well as a body of "freedom" indices, Singapore's model of State Capitalism is compared and contrasted with India's development experiences over the period 1995-2013. In the next Section, we take an overview of State Capitalism and briefly revisit some relevant literature to explain our choice of country and time period of study. The subsequent two Sections deal with Data and Methodology, and the Main Analysis, respectively. The final Section concludes and suggests some further research areas.

State capitalism: an overview and brief survey of literature

The term State Capitalism, originally coined in the context of the early Soviet system, has gained altogether new connotations in the 21st century global reality. As Wooldridge (2012) describes, "... The crisis of liberal capitalism has been rendered more serious by the rise of a potent alternative: state capitalism, which tries to meld the powers of the state with the powers of capitalism. It depends on government to pick winners and promote economic growth. But it also uses capitalist tools such as listing state-owned companies on the stock market and embracing globalisation. Elements of state capitalism have been seen in the past, for example in the rise of Japan in the 1950s and even of Germany in the 1870s, but never before has it operated on such a scale and with such sophisticated tools. State capitalism can claim the world's most successful big economy for its camp. Over the past 30 years China's GDP has grown at an average rate of 9.5% a year and its international trade by 18% in volume terms. Over the past ten years its GDP has more than trebled to $11 trillion. China has taken over from Japan as the world's second-biggest economy, and from America as the world's biggest market for many consumer goods. The Chinese state is the biggest shareholder in the country's 150 biggest companies and guides and goads thousands more" (Wooldridge 2012).

Bremmer (2010) has described State Capitalism as a system where "governments use various kinds of state-owned companies to manage the exploitation of resources that they consider the state's crown jewels and to create and maintain large numbers of jobs. They use select privately owned companies to dominate certain economic sectors. They use so-called sovereign wealth funds to invest their extra cash in ways that maximize the state's profits. In all three cases, the state is using markets to create wealth that can be directed as political officials see fit" ... "And in all three cases, the ultimate motive is not economic (maximizing growth) but political (maximizing the state's power and the leadership's chances of survival). This is a form of capitalism but one in which the state acts as the dominant economic player and uses markets primarily for political gain" (Bremmer 2010).

State capitalism is distinguished from capitalist mixed economies where the state intervenes in markets in order to correct market failures or establish social regulations in the following way: in a state capitalist system, the state operates businesses for the purpose of accumulating capital and directing investment in the framework of either a free-market economy or a mixed-market economy. State and governmental functions are organized as corporations, companies or business enterprises. The People's Republic of China is argued by many analysts to be one major example of state capitalism in the 21st century (McNally 2013). Bremmer (2010), too, describes China as the primary driver for the rise of state capitalism as a challenge to the free market economies of the developed world, particularly in the aftermath of the 2008 financial crisis.

Coming to the emerging nation of Singapore, Tan (2009) describes Singapore's leaders as dubbing the city-State's formative experiences as "riding the tiger." "How Singapore and other Asian countries relate strategically with a rising China (riding the Chinese "dragon," if you will) stands as one of the key questions concerning the contemporary Asian security order today" (Tan 2009). Singapore, described as the smallest and one of the "more self-perceptibly vulnerable of the Asian countries", has had to maintain strategic foreign policy balance towards the major players in the Asian power arena. In its own domestic arena, Singapore has been successfully pursuing a State-led and urban-centric planned development model. The massive holdings by Singapore's powerful Sovereign Wealth Fund Temasek have been cited by Musacchio and Lazzarini's (2012) extensive study on the dominant distinctive categories of State Capitalist models. By all standards, as we shall presently see from the data, Singapore represents a thriving example of a new breed of State Capitalism.

The Indian economy, on the other hand**,** described by McNally (2013) and other commentators as actively pursuing its own variant of State Capitalism, has nonetheless always remained a perpetual enigma to economic analysts and commentators. As famously quipped by Joan Robinson (quoted in Sen 2005), "The frustrating thing (...) is that whatever you can rightly say about India, the opposite is also true." Galbraith described India almost half a century ago as a “functioning anarchy”, the implication being that the nation did well despite the government not doing much (Sabnavis 2013). Can India be truly described as an actual State Capitalist system? The point is indeed debatable. India’s “sordid transition” has been viewed with concern by many commentators, with the current scenario being described as "curry capitalism"... “(A) blend of state capitalism, crony capitalism and—the saving grace and big future hope—entrepreneurial capitalism, driven by a new breed of promising young entrepreneurs and impact investors” (Jayant Sinha, managing director of Omidyar Network India Advisors quoted in Karunakaran, 2013).

Some of the concerns and research issues that are increasingly capturing the attention of academics and practitioners the world over include questions as to how the phenomenon is impacting the development path and policies of emerging economies; what are the defining characteristics of State Capitalism and the many forms or variants in which it might be practiced or adopted across the world; the economic potentials of State-Owned Enterprises (SOEs); the potential economic influence of State-owned Investment Funds (“Sovereign Wealth Fund” or SWF-s) in the global economy; and last but not the least, issues relating to national security and as clearly spelt out by Wooldridge (2012), the challenges State Capitalism is increasingly posing in the face of liberal capitalism.

In this context, to introduce the basic analytical questions that our paper seeks to address, growth models in the neoclassical tradition have typically stressed on the importance of investments (physical as well as in human capital), coupled with technological advancement (Lee et al 2012). The “new institutional economists”, however, argue that it leaves unanswered the reasons behind disparities in investment and/ or productivity across countries. Instead, the quality of a nation‘s institutions and the degree of economic freedom, are argued to have potent influence on economic growth through impacting resource availability (Lee et al 2012). Applying panel cointegration and Granger causality, Lee et al (2012) examine the dynamic relationship between economic freedom and real GDP per capita. They find plausible long-run causal link between the two.

The present study, too, looks into the inter-relationships between indicators of freedom and major economic variables and finds strong correlations.

Choice of Country and Time Period

Our choice of the two economies of analysis, has been guided, firstly, by the fact that Singapore, identified as among the top performers not only in the emerging world but globally as well, clearly presents a remarkably successful model of State Capitalism worthy of study and emulation. It is also worth analysing as a serious challenge to the established and traditional capitalist order. India, on the other hand, provides a curious blend of laudable successes marred by dismal failures on many fronts. Described by many as yet another unique variant of State Capitalism on its own, it is worthwhile analysing the Indian economy in a comparative light with Singapore's brand of State Capitalism. The unique relationship between these two nations, crossing their traditional diplomatic distance to come increasingly closer in today's world, has already been noted above.

The chosen period of our study is 1995-2012-- the start-year denoting the economic environment prevailing just before the Great Asian Crisis that struck in 1997-98. Taking the end-year as recent as possible by data availability (particularly relating to Singapore National Accounts), on the other hand, allows us to suitably incorporate the economic scenarios and the relevant data well into the aftermath of both the Global Financial Crisis of 2008 and the Euro zone crisis.

Data and methodology

Data

The extensive data on Freedom Indices has been culled from the rich database made available online by the Wall Street Journal (WSJ) and the Heritage Foundation (2013). Data on GDP and respective growth rates of the two countries have been collected from the World Bank Database.

Methodology

Trend and ratio analysis have been employed to undertake the comparative analytical study between Singapore's and India's economy. Cointegration analysis is employed to correlate the various freedom indices to the economy's respective major economic variables and to draw important inferences.

Analysis

Index of Economic Freedom: Brief Overview of the Empirical Evidence

Following the WSJ- Heritage Foundation interactive database, we present below some selected sample indices from the whole array of Freedom Indices. The concepts and the measurement of each of the Indices are discussed. Detailed data as well as visual representation are given to illustrate clearly the historical experience of each of the selected countries. A comparative description of the relative performances/ records follows.

The WSJ- Heritage Foundation (2013) defines and enumerates an array of “Freedom Indices” which are used to categorize countries into increasing degrees of “freedom” covering various aspects of economic life. The Index of Economic Freedom is constructed on the basis of 10 specific components of economic freedom, which, in turn, can be grouped into four key categories as follows:

- The “Rule of law” aspect comprises property rights and freedom from corruption.
- “Limited government”, comprising fiscal freedom and government spending, is the next aspect.
- The third aspect is “Regulatory efficiency” comprising business freedom, labor freedom and monetary freedom.
- Finally, the degree of openness of markets is depicted by trade freedom, investment freedom and financial freedom.

Some of these 10 components are themselves composites of additional quantifiable measures (WSJ and Heritage Foundation 2013). Each of the 10 economic freedoms as graded on a scale ranging from 0 to 100. The 10 component scores are equally weighted and averaged to get an overall economic freedom score for each economy.

Each of the 10 components of economic freedom can thus take a value between 0 and 100, and based on the value of the Index (ϕ), the range of positions for an economy on the “Freedom Scale” can be located as follows:

Table 1

Range of Freedom Index and Country Diagnosis

Index Range	Country Location on the Freedom Scale
$\phi < 50$	“Repressed”
$50 \leq \phi < 60$	“Mostly Unfree”
$60 \leq \phi < 70$	“Moderately Free”
$70 \leq \phi < 80$	“Mostly Free”
$80 \leq \phi \leq 100$	“Free”

Source: Based on WSJ and Heritage Foundation (2013)

We now discuss the various dimensions of freedom and our selected country’s respective performances on the basis of these indices as evidenced by actual data. We first consider the “Overall” economic freedom score, which for any economy is computed by averaging the ten component scores on the basis of equal weights. Table 2 and Figure 1 below illustrate the Overall Freedom scores for Singapore and India, as well as the World Average Score, over the period 1995-2013.

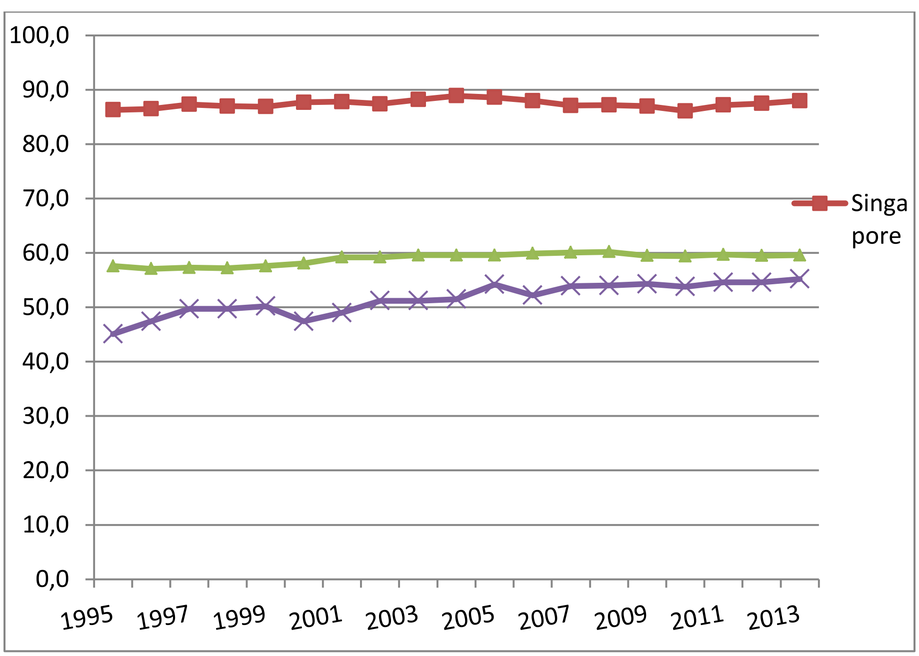
Table 2

Index of overall freedom: singapore vs. India

Year	Singapore Score	Singapore Rank	World Avg. Score	India Score	India Rank	Year	Singapore Score	Singapore Rank	World Avg. Score	India Score	India Rank
1995	86.3	2	57.6	45.1	87	2005	88.6	2	59.6	54.2	108
1996	86.5	2	57.1	47.4	112	2006	88.0	2	59.9	52.2	130
1997	87.3	2	57.3	49.7	112	2007	87.1	2	60.1	53.9	119
1998	87.0	2	57.2	49.7	116	2008	87.2	2	60.2	54.0	116
1999	86.9	2	57.6	50.2	120	2009	87.0	2	59.5	54.3	123
2000	87.7	2	58.1	47.4	130	2010	86.1	2	59.4	53.8	124
2001	87.8	2	59.2	49.0	127	2011	87.2	2	59.7	54.6	124
2002	87.4	2	59.2	51.2	123	2012	87.5	2	59.5	54.6	123
2003	88.2	2	59.6	51.2	127	2013	88.0	2	59.6	55.2	119
2004	88.9	2	59.6	51.5	127						

Source: Based on WSJ and Heritage Foundation (2013)

Figure 1
Index of overall freedom: singapore, india and the world average



Source: As Above

Table 3

Trade freedom: singapore vs. India

Year	Singapore Score	Singapore Rank	World Avg. Score	India Score	India Rank	Year	Singapore Score	Singapore Rank	World Avg. Score	India Score	India Rank
1995	83.0	2	56.7	Not available	Not available	2005	85.0	2	66.9	38.0	146
1996	83.0	2	58.1	14.0	0	2006	85.0	2	68.1	24.0	0
1997	83.0	2	57.9	13.2	0	2007	90.0	2	72.0	51.2	144
1998	83.0	3	59.9	13.2	147	2008	90.0	2	72.0	51.0	0
1999	83.0	4	60.2	24.0	0	2009	90.0	2	73.2	51.0	149
2000	83.0	3	61.2	19.6	0	2010	90.0	1	74.2	67.9	0
2001	83.0	3	63.9	25.6	0	2011	90.0	1	74.8	64.2	0
2002	83.0	5	64.7	21.8	0	2012	90.0	1	74.5	64.1	0
2003	85.0	2	64.2	23.0	0	2013	90.0	1	74.5	63.6	0
2004	85.0	2	64.7	23.6	0						

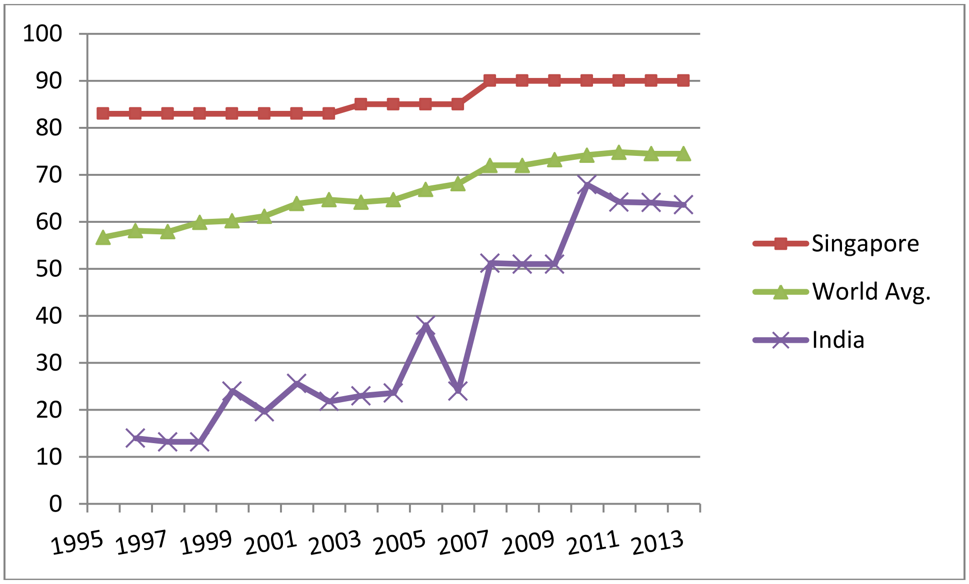
Source: Based on WSJ and Heritage Foundation (2013)

The data above (Table 2) and Figure 1 clearly shows that so far as “Overall Freedom” is concerned, Singapore has consistently ranked way above the world average, ranking only behind Hong Kong and with consistent scores in the 80-90 range all throughout the study period. India, on the other hand, although showing a gradual increase in its Freedom Score from below 50 (“Repressed” region) in the early years to move up towards the “60”-mark by 2013, has all along ranked below the world average. In other words, compared to Singapore’s remarkable degree of freedom, India is seen to have moved up from the “Repressed” region to the “Mostly repressed” at best.

The next index in our discussion is the “Trade Freedom Index, “a composite measure of the absence of tariff and non-tariff barriers” (Heritage Foundation 2013). The index is based on the two “inputs”, viz. the trade-weighted average tariff rate and non-tariff barriers. The weighted average tariff uses weights for each tariff based on the share of imports for each good.

Figure 2

Trade freedom: singapore vs. India



Source: As Above

As Table 3 and Figure 2 above show, the scenario for trade freedom is again, remarkably different for Singapore and India. Singapore has all along ranked among the top 4 countries, with a consistent score above 80 and moving up to claim the top position with a score of 90 since 2010. India, on the other hand, even though showing a very steep rise in trade freedom score throughout the period, has frequently failed to achieve any ranking at all with its modest scores. It finally attained a score of 63.6 in 2013 to reach the lower end of the “Moderately Free” zone.

We now come to the Index of Business Freedom, defined as “a quantitative measure of the ability to start, operate, and close a business that represents the overall burden of regulation as well as the efficiency of government in the regulatory process” (Wall Street Journal and Heritage Foundation 2013).

Table 4

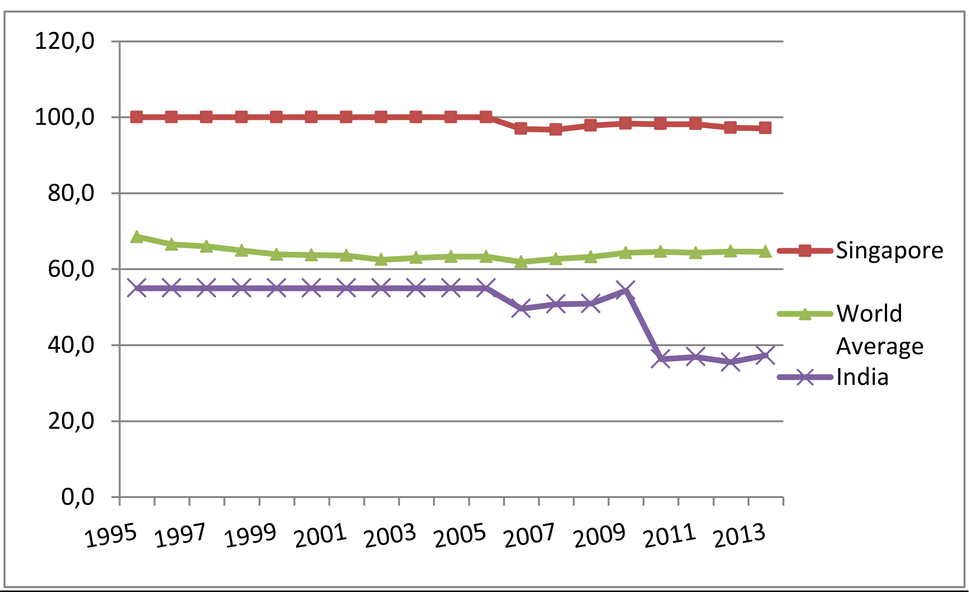
Business freedom: singapore vs. India

Year	Singapore		World Avg. Score	India		Year	Singapore		World Avg. Score	India	
	Score	Rank		Score	Rank		Score	Rank		Score	Rank
1995	100.0	1	68.5	55.0	64	2005	100.0	1	63.3	55.0	76
1996	100.0	1	66.5	55.0	85	2006	96.9	2	61.9	49.6	120
1997	100.0	1	66	55.0	85	2007	96.7	3	62.7	50.8	120
1998	100.0	1	64.9	55.0	83	2008	97.8	3	63.2	50.9	124
1999	100.0	1	63.9	55.0	82	2009	98.3	3	64.3	54.4	134
2000	100.0	1	63.7	55.0	82	2010	98.2	3	64.6	36.3	167
2001	100.0	1	63.6	55.0	80	2011	98.2	4	64.3	36.9	164
2002	100.0	1	62.5	55.0	74	2012	97.2	4	64.7	35.5	168
2003	100.0	1	63	55.0	76	2013	97.1	4	64.6	37.3	171
2004	100.0	1	63.3	55.0	76						

Source: Based on Heritage Foundation (2013)

Figure 3

Business freedom: singapore vs. India



Source: As Above

Between 1995 and 2005, Singapore remained the uncontested topper in business freedom, with a full score of 100.0, to subsequently experience a fall in its score as well as ranking. By 2013, Singapore ranked 4th, behind countries including Hong Kong and Denmark.

India, in its turn, has experienced a host of problems affecting the business environment it can afford to offer entrepreneurs. Land issues have become one of the biggest problems for doing business in India, aggravated by government policies that are all too often geared towards vote-bank politics. A host of complicated tax and fee structures on business have compounded the problem. India's business freedom score, modest to start with, is clearly seen to have fallen drastically from 2009 onwards in particular.

Coming next to the aspect of fiscal freedom, relating to the extent of government in the economy, we have the following data on the two economies as in Table 5 and Figure 4.

The computational Methodology of the Fiscal Freedom Index operates on a Laffer-Curve like assumption of an inverse relationship between very high rates of taxation and the resulting revenues government can mobilize. The Index, constructed on the basis of the tax burden imposed by government, is composed of three components, viz., the top marginal tax rate on individual income, the top marginal tax rate on corporate income, and the total tax burden as a percentage of GDP, each component being weighted equally as one-third of the Index.

Table 5

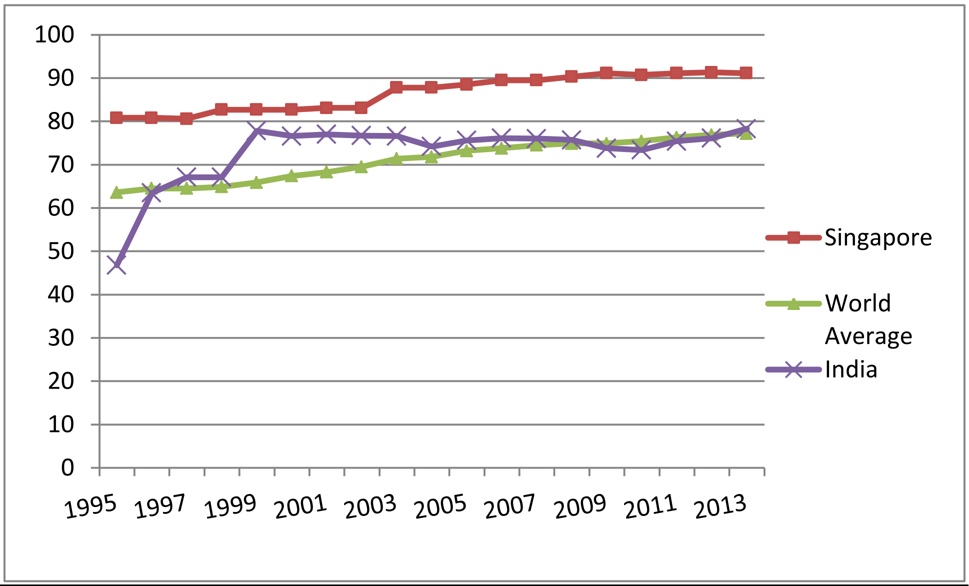
Fiscal Freedom: Singapore vs. India

Year	Singapore		World Avg.	India		Year	Singapore		World Avg.	India	
	Score	Rank	Score	Score	Rank		Score	Rank	Score	Score	Rank
1995	80.8	16	63.6	46.8	82	2005	88.5	18	73.2	75.6	75
1996	80.8	23	64.5	63.5	79	2006	89.5	20	73.8	76.1	76
1997	80.6	28	64.5	67.1	74	2007	89.5	18	74.5	76.0	75
1998	82.7	20	64.9	67.1	77	2008	90.3	17	74.9	75.7	83
1999	82.7	26	65.9	77.8	40	2009	91.1	18	74.9	73.8	102
2000	82.7	25	67.4	76.6	47	2010	90.7	18	75.4	73.4	111
2001	83.1	27	68.3	77.0	48	2011	91.1	18	76.3	75.4	105
2002	83.1	31	69.5	76.7	54	2012	91.3	21	76.9	76.1	105
2003	87.8	19	71.4	76.6	60	2013	91.1	26	77.2	78.3	94
2004	87.8	19	71.8	74.2	75						

Source: Based on WSJ and Heritage Foundation (2013)

Figure 4

Fiscal freedom: singapore vs. India



Source: As Above

Singapore, although still in the high-score "Free" region, is now seen to display comparatively lower rankings so far as fiscal freedom is concerned, remaining behind countries that include Saudi Arabia, Oman, Mauritius, Hong Kong and others. Even so, its score shows a gradual increase from close to 80.0 to 91.1. India, on the other hand, shows a remarkable and dramatic pattern of fiscal freedom, remaining firmly above the World average for the most part and nearly touching the 80-point mark around 2000. With a subsequent tapering off to scores averaging 75.0 on the whole, India's performance in the fiscal freedom aspect is clearly better than its experiences with other indices.

The Index of Government Spending takes into account the level of government expenditures (including government consumption and transfer payments) as a percentage of GDP. In this case, as the following Table 6 and Figure 5 show, both Singapore and India are above the World Average. Compared to its own performance with the other Freedom Indices (Trade, Business etc.), Singapore is seen to be ranked rather lower led by a host of peer economies.

India, on the other hand, after having exceeded Singapore's score in 1995 and subsequently closely moving on the heels of the latter up to the year 1999, later shows a fall in score to around 60 and consequently lower rankings, although firmly remaining above the World Average.

Table 6

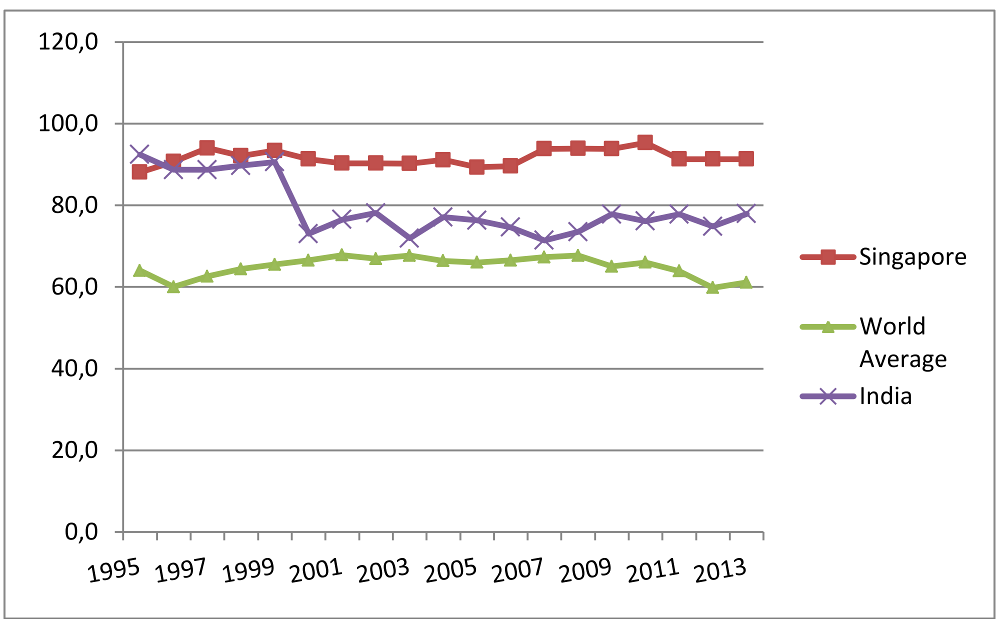
Index of Government Spending: Singapore vs. India

Year	Singapore		World Avg. Score	India		Year	Singapore		World Avg. Score	India	
	Score	Rank		Score	Rank		Score	Rank		Score	Rank
1995	88.1	22	64.0	92.4	10	2005	89.3	24	66.0	76.3	63
1996	90.7	18	60.0	88.7	29	2006	89.6	19	66.5	74.6	71
1997	94.0	7	62.6	88.7	28	2007	93.8	6	67.3	71.4	78
1998	92.1	13	64.4	89.7	26	2008	93.9	5	67.7	73.5	77
1999	93.4	11	65.5	90.6	24	2009	93.8	6	65.0	77.8	64
2000	91.3	13	66.5	73.0	81	2010	95.3	2	66.0	76.1	72
2001	90.3	19	67.8	76.5	68	2011	91.3	9	63.9	77.8	67
2002	90.3	16	66.9	78.1	62	2012	91.3	11	59.8	74.8	62
2003	90.2	20	67.7	71.9	85	2013	91.3	9	61.1	77.9	56
2004	91.1	12	66.4	77.1	63						

Source: Based on: WSJ and Heritage Foundation (2013)

Figure 5

Government spending: singapore vs. India



Source: As Above

The index of Monetary Freedom, a component of the aspect of “Regulatory Efficiency” in the economy, seeks to combine a measure of price stability with an assessment of price controls, awarding a high score to price stability with minimum intervention.

Table 6

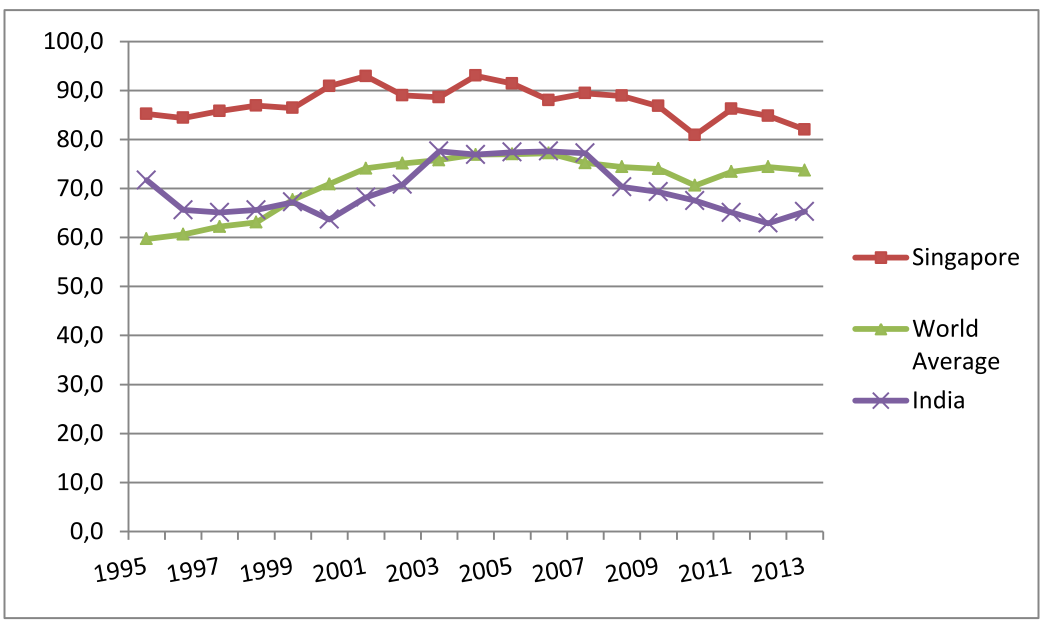
Monetary freedom: singapore vs. India

Year	Singapore Score	Singapore Rank	World Avg. Score	India Score	India Rank	Year	Singapore Score	Singapore Rank	World Avg. Score	India Score	India Rank
1995	85.2	9	59.70	71.7	45	2005	91.4	2	77.00	77.4	99
1996	84.4	20	60.60	65.6	77	2006	88.0	16	77.20	77.6	91
1997	85.8	9	62.20	65.1	85	2007	89.4	5	75.20	77.2	76
1998	86.9	11	63.10	65.6	98	2008	88.9	2	74.40	70.3	123
1999	86.4	19	67.70	67.2	107	2009	86.8	6	74.00	69.3	144
2000	90.9	5	70.90	63.7	131	2010	80.9	9	70.60	67.5	128
2001	92.9	3	74.10	68.2	126	2011	86.2	5	73.40	65.1	157
2002	89.0	10	75.10	70.8	123	2012	84.8	11	74.40	62.9	169
2003	88.6	8	75.80	77.6	98	2013	82.0	17	73.70	65.3	161
2004	93.0	2	76.90	76.9							

Source: Based on: WSJ and Heritage Foundation (2013)

Figure 5

Monetary freedom: singapore vs. India



Source: As Above

While remaining firmly in the "Free" zone of 80+, Singapore's record on the monetary freedom front has been rather fluctuating. It has experienced a decline in its freedom score, as well as rankings, in the recent years subsequent to the 2008 crisis. The enhanced necessity to have greater regulatory mechanisms in place consequent upon the Global Financial Crisis of 2008 has clearly affected the country scores. India, on the other hand, after reaching a relatively freer phase between the years 2002 and 2007, reverted back to a subsequently falling monetary freedom index, reflecting both the inability to combat inflation at home as well as the various regimes of price controls and subsidies the Indian economy has to maintain.

On the Investment Freedom front, which captures the ability to invest freely in the economy by both domestic and foreign investors, Table 7 below shows the extraordinary fluctuation in Singapore's sterling record up to 2006. Having topped the charts consistently throughout 1995 to 2006 with the high score of 90.0, followed by a rather steep decline in its score (80.0) and rankings (down to 9 from 1) that climbed even lower from 2010 onwards, Singapore's score declined from 80.0 to 75.0 for the consecutive years 2010—2013, with rankings sliding down to 27th as its peers climbed up the investment freedom ladder.

Table 7

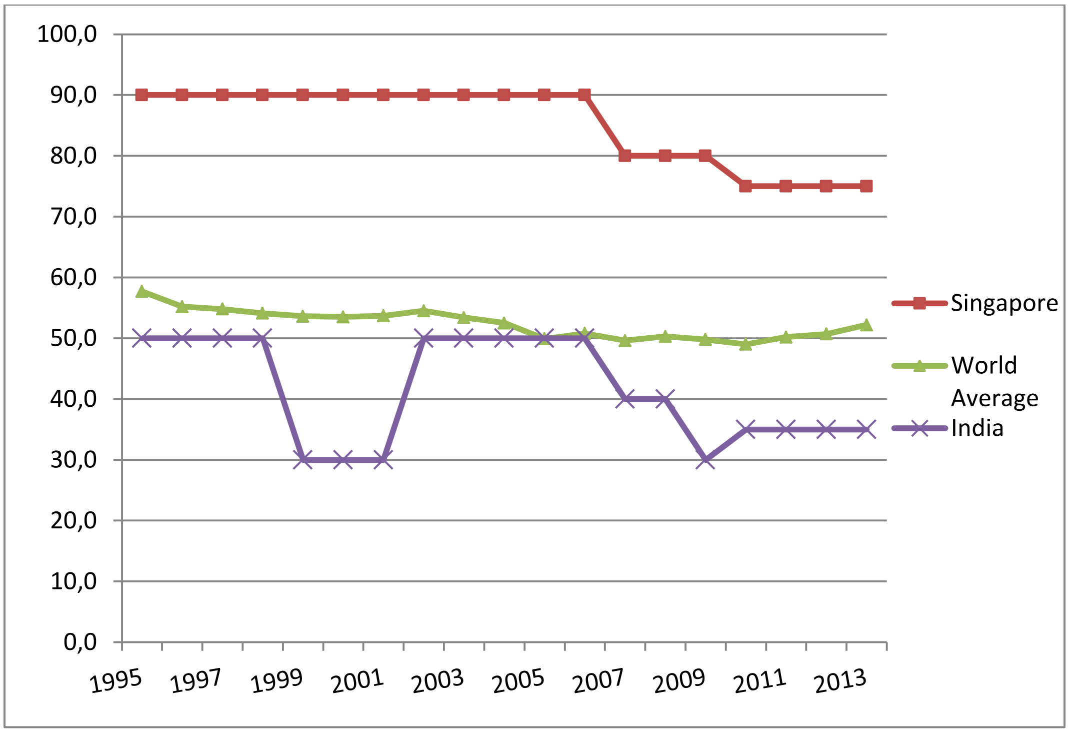
Investment freedom: singapore vs. India

Year	Singapore		World Avg. Score	India		Year	Singapore		World Avg. Score	India	
	Score	Rank		Score	Rank		Score	Rank		Score	Rank
1995	90.0	1	57.7	50.0	52	2005	90.0	1	49.9	50.0	
1996	90.0	1	55.2	50.0	66	2006	90.0	1	50.8	50.0	49
1997	90.0	1	54.8	50.0	68	2007	80.0	9	49.6	40.0	100
1998	90.0	1	54.1	50.0	70	2008	80.0	9	50.3	40.0	97
1999	90.0	1	53.6	30.0	120	2009	80.0	9	49.8	30.0	126
2000	90.0	1	53.5	30.0	121	2010	75.0	22	49.0	35.0	121
2001	90.0	1	53.7	30.0	121	2011	75.0	26	50.2	35.0	123
2002	90.0	1	54.5	50.0	65	2012	75.0	24	50.7	35.0	123
2003	90.0	1	53.4	50.0	52	2013	75.0	27	52.2	35.0	130
2004	90.0	1	52.5	50.0	50						

Source: Based on WSJ and Heritage Foundation (2013)

Figure 6

Investment freedom: singapore vs. India



Source: As Above

India's investment freedom, while remaining firmly in the "Repressed" zone (≤ 50), shows a rather peculiar trajectory as Figure 6 clearly brings out. Conventionally wary of foreign investment as well as handicapped by a dearth of domestic investment, India's recent efforts to attract foreign capital have met with mixed results.

The markers of Financial Freedom are banking efficiency as well as independence from government control and interference in the financial sector. The Index takes into account the extent of government regulation of financial services, the degree to which the state intervenes in banks and other financial institution as well as seeks to influence credit allocation, financial deepening and capital market development and the degree of openness to foreign competition.

Singapore, having scored until the year 2000 within the Top Ten economies offering Financial Freedom while maintaining a comparatively cautious Index Score of 70.0, was superseded by other climbers on the ladder with higher scores. The economy went on an even more cautious stand from 2005 onwards (Financial Freedom Scores 60.0 and below), to gradually relax its regulatory environment and climbing to 4th position on the Financial Freedom scale with a score of 80.0 in 2013.

Table 8

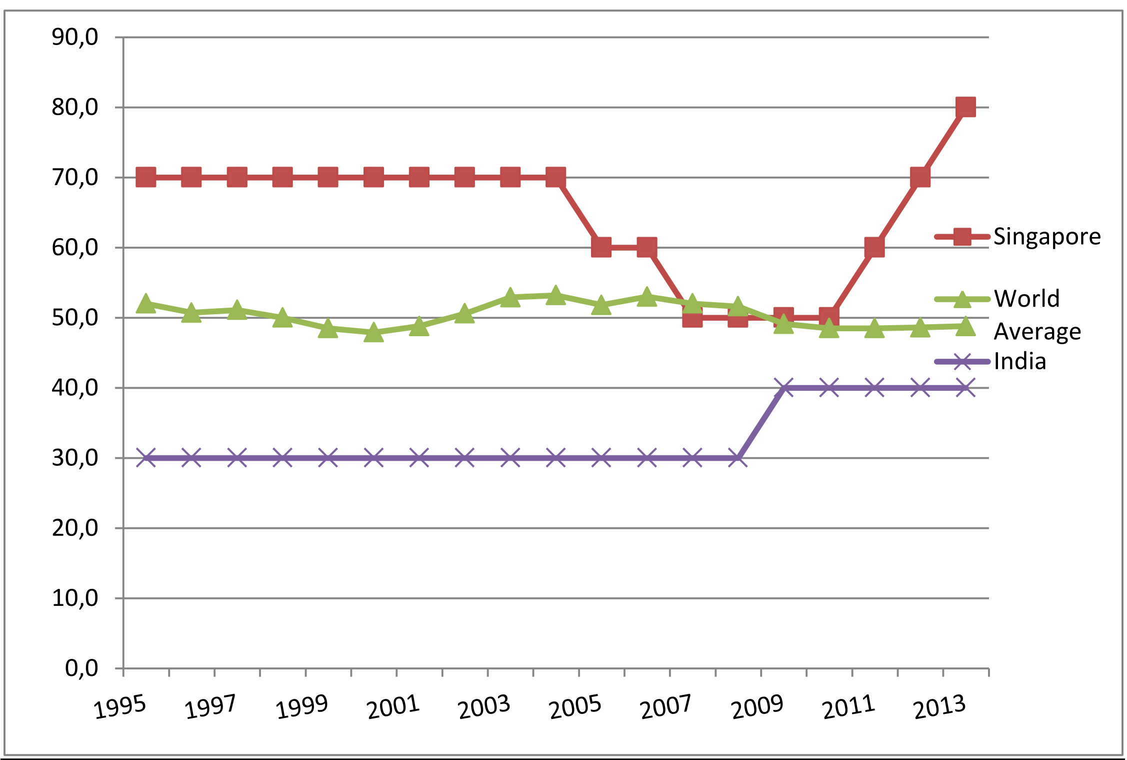
Financial freedom: singapore vs. India

Year	Singapore Score	Singapore Rank	World Avg. Score	India Score	India Rank	Year	Singapore Score	Singapore Rank	World Avg. Score	India Score	India Rank
1995	70.0	6	52.0	30.0	81	2005	60.0	60	51.8	30.0	105
1996	70.0	9	50.7	30.0	105	2006	60.0	59	53.0	30.0	115
1997	70.0	10	51.1	30.0	109	2007	50.0	71	52.0	30.0	131
1998	70.0	9	50.0	30.0	111	2008	50.0	66	51.6	30.0	121
1999	70.0	9	48.5	30.0	109	2009	50.0	71	49.1	40.0	106
2000	70.0	9	47.9	30.0	106	2010	50.0	69	48.5	40.0	106
2001	70.0	13	48.8	30.0	108	2011	60.0	38	48.5	40.0	106
2002	70.0	16	50.6	30.0	112	2012	70.0	17	48.6	40.0	105
2003	70.0	16	52.9	30.0	120	2013	80.0	4	48.8	40.0	107
2004	70.0	18	53.2	30.0	114						

Source: Based on WSJ and Heritage Foundation (2013)

Figure 7

financial freedom: singapore vs. India



Source: As Above

India presents a contrast with its determined monetary conservatism and strict regulatory environment that have been argued to have protected the economy well from the catastrophic repercussions of both the Asian Crisis of 1997-98 and the Global Crisis of 2008. The country is clearly seen as firmly established in the “Repressed” zone (Score 30.0 throughout from 1995 to 2009). Even with the subsequent partial relaxing of its monetary policy stance, India has been located on a plateau in the “Repressed” zone with a Score of 40.0. India’s commitment to a closely monitored and supervised financial-monetary system is expected to continue in future as well. However, development of an efficient capital market and transparent financial system remains among the foremost concerns of the economy.

The final, but by no means least important, of our selected freedom Indices is the Freedom from Corruption, ensuring economic freedom by eliminating “insecurity and uncertainty” from economic relationships (WSJ-Heritage Foundation, 2013). The Freedom from Corruption Score has been derived primarily from Transparency International’s Corruption Perceptions Index (CPI) for 2011 (WSJ-Heritage Foundation site, 2013).

Table 9

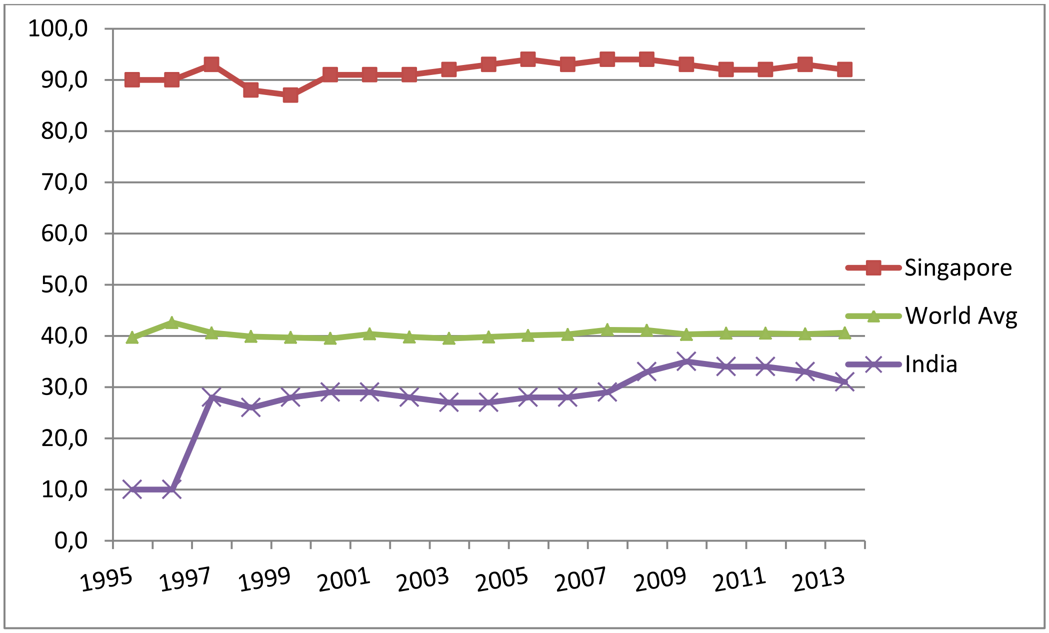
Freedom from Corruption: Singapore vs. India

Year	Singapore		World Avg. Score	India		Year	Singapore		World Avg. Score	India	
	Score	Rank		Score	Rank		Score	Rank		Score	Rank
1995	90.0	1	39.7	10.0	69	2005	94.0	5	40.1	28.0	98
1996	90.0	1	42.6	10.0	105	2006	93.0	5	40.3	28.0	100
1997	93.0	2	40.6	28.0	107	2007	94.0	5	41.2	29.0	93
1998	88.0	11	39.9	26.0	111	2008	94.0	5	41.1	33.0	68
1999	87.0	12	39.7	28.0	107	2009	93.0	4	40.3	35.0	74
2000	91.0	7	39.5	29.0	105	2010	92.0	4	40.5	34.0	86
2001	91.0	7	40.4	29.0	103	2011	92.0	3	40.5	34.0	84
2002	91.0	6	39.8	28.0	103	2012	93.0	1	40.4	33.0	89
2003	92.0	4	39.5	27.0	103	2013	92.0	5	40.6	31.0	93
2004	93.0	5	39.8	27.0	97						

Source: WSJ and Heritage Foundation (2013)

Figure 8

Freedom from corruption: singapore vs. India



Source: As Above

As Table 9 and Figure 8 above clearly bring out, Singapore has consistently ranked among the least corrupt economies throughout our study period of 1995-2013 with a 90+ score and rank within the first 5 (except for the years 1998 and 1999 when its Score climbed down below 90 with an accompanying fall in ranking below 10). Overall, Singapore's remarkable transparency is clearly evidenced throughout, threatened only by 3 or 4 economies of the world including Denmark, Finland and New Zealand.

Alongside Singapore's record, however, both the World average and India in particular, cut rather unfortunate figures. The World average itself is dramatically below Singapore's Freedom Score all along (Figure 8 below), almost stable at the low 40-point mark. India's Freedom from Corruption Score, in turn, barely ever crosses even this low 40-point mark. India's rank is among the bottom economies, despite short-lived marginal improvements. By the Transparency International measure, therefore, one has little choice other than to place India among the most corrupt stratum within the world economies.

Freedom Indices: Observations

The observations on the basis of the Tables and Figures relating to the array of Freedom Indices thus far can be summarized as follows:

- From all aspects of freedom, Singapore ranks way above India, being in fact in a different league altogether, being among the top ranks whereas India is generally ranked at the bottom layer.
- For a country, often rank has gone down even when freedom score has moved up— implying that other countries have simultaneously gained relatively more.
- India, ranking mostly way at the bottom with other indicators—is somewhat ranked higher in the index “Government Spending.” This is not surprising given the rather large presence of government and fiscal conservatism of India’s policy stance.

Freedom Indicators vs. Growth Rate of Economy

Having examined the detailed Freedom data for the respective economies of our study, we now consider the question as to how selected freedom indicators are correlated with the economic performance of an economy. To analyze the issue, we consider the respective data on the GDP growth rates for the economies of Singapore and India over the study period of 1995-2012 (that is, figures up to 2012-13, as the 2013-14 estimates are still provisional).

Table 10

Gdp growth rate (annual %): singapore and india

Year	India	Singapore	Year	India	Singapore
1995	7.6	7.3	2004	7.8	9.2
1996	7.5	7.6	2005	9.3	7.4
1997	4.0	8.5	2006	9.3	8.6
1998	6.2	-2.2	2007	9.8	9.0
1999	8.5	6.2	2008	3.9	1.7
2000	4.0	9.0	2009	8.5	-0.8
2001	4.9	-1.2	2010	10.5	14.8
2002	3.9	4.2	2011	6.3	5.2
2003	7.9	4.6	2012	3.2	1.3

Source: World Bank (2013)

An interesting feature to note here is the reasonably good performance of the Indian economy despite its dismal freedom indexes as evidenced in the earlier sub-section, even though it never quite succeeded in achieving the growth rate exceeding 14% as evidenced by Singapore in 2010 propelled by the fiscal stimulus regime. Even so, India’s own growth rate, an impressive 10.5% in the same year, has never turned actually negative as Singapore has had to experience post-Asian Crisis and also in the immediate aftermath of the 2008 Global Financial Crisis.

We examine the central hypothesis that the economic freedom score of an economy and its economic performance in terms of growth rate are positively correlated. Note that at this stage of the analysis, we do not propose to go into causality analysis, thus refraining from attempting to posit a strict causal direction to the correlation thus obtained

We undertake the analysis separately for each economy. Essentially, for each economy, we are looking for a possible cointegrating relationship between each measure of the freedom index and economic growth rate. Among the wide array of indices discussed above, the following are selected for the most plausible relationship with the growth rate of the economy:

Overall Freedom Score

Business Freedom Score

Trade Freedom Score

Monetary Freedom Score

Financial Freedom Score

Investment Freedom Score

Freedom from Corruption Score

In each case, the growth rate of GDP is taken as the indicator of economic growth.

Relationship between Freedom Index and Economic Growth: Singapore

Pair-wise cointegration tests are run between each of the selected Freedom Scores above for Singapore and the growth rate of Singapore economy. The detailed output of Cointegration Results are available on request from the author. In brief, the results obtained are summarized below:

1. There is a strong cointegrating relationship between overall economic freedom and the growth rate of the Singapore economy.
2. For Business and Trade freedom Score, evidence for Cointegration is found between Freedom index and economic growth.
3. The relationship between monetary freedom and economic growth is less obvious, as evidence for cointegration between the two cannot be established.
4. Financial freedom score for Singapore is found to be cointegrated with economic growth.
5. Investment Freedom Score and Freedom from Corruption Score are both found to be cointegrated with economic growth so far as the Singapore economy is concerned.

Relationship between Freedom Index and Economic Growth: India

Running similar pair-wise cointegration between each of the selected Freedom Scores and economic growth rate for India, we find the following results:

1. As before, there is evidence of a cointegrating relationship between overall economic freedom and the growth rate of the Indian economy.
2. Similar cointegration between Business Freedom and economic growth is obtained for India.
3. However, so far as the Indian economy is concerned, we failed to find significant cointegration between Trade freedom Score and economic growth. Also, we failed to find significant cointegration for either monetary freedom or financial freedom and economic growth in the Indian context.
4. Finally, there is evidence for cointegration between the Freedom from Corruption Score and economic growth in India

Conclusions

To conclude this exploratory study, we may note a few salient points. The first of these is the spectacular performance of the Singapore economy on almost all dimensions of economic freedom, enabling it to earn top rankings on the freedom scale. Singapore, thus, is pursuing its “new” breed of State Capitalism with remarkable success. Singapore’s growth performance, too, has been impressive, excepting the immediate Asian Crisis year and one or two slippages from its growth trajectory. Significant correlation between most of Singapore’s freedom indicators and its economic performance highlights the indispensability of economic transparency in running a successful State machinery.

India, on the other hand, presents a perplexing example. By all indicators of economic freedom it presents the scenario of a considerably “repressed” economy in complete contrast to Singapore. Yet India’s growth performance has been on the whole reasonably good. Indeed, the cautious policy stance that has resulted in low “freedom” rankings has also served the economy well in withstanding extreme global repercussions in the recent economic upheavals. The lack of a clear cointegrating relationship between India’s growth rate and its freedom indices serves to underscore the point that there are other important drivers of economic growth.

On a comparative basis, India would perhaps do well to take a leaf or two out of Singapore’s book to ensure proper environment for encouraging business and entrepreneurial spirits. In particular, India’s abysmal performance on the “Freedom from Corruption” aspect is a serious cause for concern for the increasingly aware citizen-voter of today’s enlightened polity, and it is not for long that India can entirely afford to remain oblivious to the pressures to deliver good Governance to its people. It is in such a context that India has much to emulate and learn from the Singaporean model.

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