

Lee Hsien Loong: ASEAN - the way ahead

Speech by Mr Lee Hsien Loong, Deputy Prime Minister of Singapore and Chairman of the Monetary Authority of Singapore, at the opening ceremony of the ASEAN Finance Ministers meeting (AFMM), Singapore, 7 April 2004.

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Finance Ministers of ASEAN member states
The ASEAN Secretary-General
Ladies and Gentlemen

Let me first welcome all of you to Singapore for the 8th ASEAN Finance Ministers Meeting.

Introduction

In 1997, ASEAN was hit by its worst-ever economic crisis. The Asian Financial Crisis dealt a severe blow to all of us. One after another, our countries succumbed to the flight of capital and investors. Several economies were on the verge of collapse. Before we could fully recover from the Crisis, we were confronted again with yet another shock, this time a global economic downturn. The September 11 attacks in America followed shortly. More recently, ASEAN was hit by SARS and the avian flu.

ASEAN has taken quite a few hard punches in the last few years. Although we might have been bruised, we are far from being knocked out. ASEAN countries strived to repair the damage, to recapitalise banking systems, to restructure companies in difficulties, and most importantly to restore confidence. Despite the setbacks, ASEAN countries continued to embrace globalization. We continued to look outwards, do our best to attract FDI, liberalise trade, and broaden our linkages with the outside world.

Now most ASEAN economies are on the mend. Economic growth has been strong in many countries. Exports are growing, and stock markets are up. As a regional grouping, we have continued to integrate our economies while individually pursuing restructuring. ASEAN is now back on its feet, up and running again.

The necessity of deeper integration

The need to broaden and deepen economic co-operation is a necessity recognised by ASEAN more than ten years ago. In 1992, ASEAN started the ASEAN Free Trade Area (AFTA) to boost intra-ASEAN trade and establish the region as a common area for manufacturing operations.

At that time, the catalyst for greater integration was globalisation. Competition was getting tougher. Europe was consolidating and integrating itself to form the Single European Market. In North America, the US, Canada and Mexico were preparing to form the North America Free Trade Area (NAFTA). NAFTA provided US manufacturers an attractive, low cost manufacturing base in Mexico. Mexico too expected to benefit from new investments from the US, which would create jobs and bring growth and prosperity to the country. Both the Single European Market and NAFTA strengthened the competitiveness of the continents, and threatened to divert investments away from Asia.

Determined not to lose out, ASEAN responded with AFTA. In retrospect, AFTA is perhaps the most important decision on economic cooperation that ASEAN members have taken together.

Today, the world is even more globalised than compared to 1992. Competition is once again at our door step. This time however, the competition comes not from Europe or Mexico, but from much closer to home. China and India are growing very rapidly. China is the factory of the world, while India is the back office of the world. The rise of these economies is in fact putting pressure on Europe and Mexico, which we worried about as competitors ten years ago.

ASEAN must once again band together to maximise our strengths. Our fundamentals are strong, and can be further exploited. First, ASEAN has a large market, with a population of 560 million and a combined GDP of US\$330 billion, which is comparable to China's coastal region. Second, we have an abundant supply of skilled labour - young, eager to learn, and with a good attitude towards work. Third, ASEAN has a good track record in welcoming trade and foreign investments. We have always

been outward-looking, and our belief in free and open trade is reflected in the multitude of FTAs that we are currently pursuing. The new ASEAN members have not progressed as far as the original ASEAN members in economic development and liberalisation, but they too are moving, and their rich human and natural resources and lower costs are key advantages that will fuel their economies.

We must also remember that although the competition seems formidable, international competition is not a zero-sum game. ASEAN can benefit tremendously from the rise of our large neighbours by trading with them, investing in them, and attracting investments and tourists from them. But it means working smart, co-operating with China and India, and complementing their activities. It also means further integrating our economies.

Forging ahead

Bilaterally, individual ASEAN countries are already increasing their economic links with China and India. But we should complement these individual efforts with combined ones, either several ASEAN countries which are ready proceeding first, or the whole of ASEAN working together as a group.

We are negotiating an FTA with China, and targeting to conclude the goods chapter by middle of this year. By 2010, we should have an FTA between China and the original six ASEAN countries. By 2015, all ten ASEAN members will be included. India is also negotiating to establish an FTA with ASEAN by 2011. Japan, which has been a key investor in ASEAN, has also proposed a Japan-ASEAN Comprehensive Economic Partnership, which both sides are now working on. The US, too, has announced the Enterprise ASEAN Initiative, under which it will pursue various agreements with ASEAN countries, taking into account their respective progress in economic liberalization. So we are strengthening our linkages with all our key trading partners.

Last October, the Leaders committed to an ASEAN Economic Community by 2020. This is an ambitious vision which will see the creation a single market for goods, services, capital and talent in ASEAN. But 2020 is a long time from now, and we must make progress long before this deadline. Beyond trade in goods, ASEAN needs to step up its integration in other areas. For example, much work remains to be done in forging common investment rules, and in liberalising and integrating the services sectors.

Financial cooperation

Financial cooperation is a critical component of this effort. Financial services is a significant part of our (6-7%) regional economy, and is a growing sector. But it is not just the size of the market that makes financial services important. The Asian Crisis has demonstrated that with globalisation and greater ease in transferring funds around the world, it is more critical than ever that our financial sectors be sound, and our economies not be weakened by excesses.

In recognition of the importance of the financial sector, the ASEAN Finance Ministers started to meet in February 1997. We have introduced important co-operation initiatives, such as the ASEAN Surveillance Process to keep track of economic and financial trends and to provide early warning of economic vulnerabilities, and the ASEAN Finance Work Program to improve financial procedures, standards and corporate governance within member countries. These are important mechanisms to guard against a repeat of the Asian Crisis.

To further liberalise and integrate our markets, the Finance Ministers last year endorsed a roadmap for regional financial integration. This will guide us towards greater liberalisation and integration of our markets. To keep ASEAN on the radar screens of international investors, Finance Ministers are planning to organise joint road-shows to Europe and the US to promote the investment opportunities in ASEAN.

One possible area for collaboration is in the capital markets. While regional capital markets have generally experienced strong growth since the financial crisis, our potential is limited because by international standards the regional equity and bond markets are small and fragmented. We made some headway four years ago with the Chiang Mai Initiative (CMI), which saw the expansion of existing multilateral currency swap arrangements to include all 10 ASEAN members, as well as the conclusion of 16 bilateral swap arrangements, totalling US\$36.5b in combined facility. When the CMI was launched in May 2001, it was agreed that Finance Ministers should review the Initiative 3 years

after implementation. So it would be timely this year, for ASEAN Finance Ministers together with our "Plus-3" counterparts to consider what and how the review of the CMI could be done.

We should also explore further avenues of cooperation. For example, we may develop greater linkages between stock exchanges in the region, or harmonise standards and conventions so as to make it easier for investors to operate across the capital markets in the region. In such initiatives, we do not have to wait for all ASEAN members to be ready. Once two or more ASEAN members are ready to make the move, they can work together as pathfinders for the whole region.

Conclusion

Globalisation has presented many challenges to ASEAN, but it has also created many opportunities. Integrating our economies requires hard work, political will and often, tough decisions. ASEAN is determined to overcome the challenges, and embrace globalisation to benefit the lives of our people. Governments will need to lead the way, by implementing sound policies that foster development and growth. Foreign investors too will play a key role, by supporting good policies and exploiting the full potential of our markets. Once the people of ASEAN are aware of the larger challenges that the region is facing, I believe they will support the agenda for economic cooperation which will improve their lives.

On this note, let me now declare the 8th ASEAN Finance Ministers Meeting open. I wish you meaningful and fruitful discussions.