

## **Goh Chok Tong: Building on our reputation and reaching for new horizons**

Address by Mr Goh Chok Tong, Senior Minister and Chairman of the Monetary Authority of Singapore, at MAS Staff Seminar, Singapore, 30 November 2004.

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### **I. Introduction: a central bank of excellence**

I am happy to address the MAS Staff Seminar, especially as this is the first time I am speaking to all of you. In the few months I have been Chairman, I have met many of you and been briefed on the work of MAS. I am impressed by the professionalism, dedication and dynamism of our officers. We have a good team here at MAS.

MAS has played, and continues to play, a vital role in Singapore's development. Through its conduct of monetary policy, MAS has helped to ensure a sound macro-economic environment, so critical to our economic competitiveness, stability and success. MAS' supervisory and developmental efforts have also contributed immensely to the growth, dynamism and resilience of the financial sector. Our financial sector employs 5% of the workforce but accounts for about 12% of GDP.

MAS has earned a reputation as a central bank of excellence. We are well respected as a regulator for our technical skills, credibility and integrity. We must build on this and reach for new horizons. This is the only way to ensure that Singapore stays ahead of the competition. Today, I would like to focus on the key strategic thrusts for MAS over the next five years.

### **II. The changing geopolitical landscape**

In conducting monetary policy, in supervising financial institutions and in developing Singapore as a financial centre, MAS must be keenly aware of the larger geopolitical picture. International events and politics play a big part in the economic prospects of our region, including Singapore. Let me first sketch for you the geopolitical situation.

Though there are many uncertainties and serious challenges, international relations are essentially stable. The US is unrivalled as the pre-eminent global power. As terrorism is a serious threat to the American homeland, the global fight against terror will remain President Bush's overriding priority. He will have to find a way to stabilise the situation in Iraq, hold elections and hand over the task of rebuilding Iraq to the Iraqis. He will want to rebuild ties with Europe. On the economic front, President Bush will try to keep the US economy humming, while managing the growing trade and fiscal deficits and weakening dollar.

In Asia, both China and India are on the rise. They will exert an increasing influence on global economic developments and trade and capital flows.

China is now the location of choice for a wide range of manufacturing activities. It produces goods so cheaply that even Bangladesh complained about it. When I was in Bangladesh recently, they complained that Chinese textiles were edging out their own textiles in Bangladesh. But China is not a sweatshop for cheap, shoddy consumer goods. MNCs and Chinese companies produce high-quality goods there for the international market. However, China's rapid growth also presents major domestic challenges. The Chinese leadership understands well the dangers of overheating in the economy and has been applying the brakes to bring about a soft landing. In addition, China has to grapple with capital account liberalisation and financial system reforms.

India, too, is rising but along a different path. It is rapidly becoming a powerhouse for "soft" infrastructure businesses such as software development, business process outsourcing and creative industries. India, too, has its own set of challenges, particularly in the areas of fiscal and structural reforms. But the Congress-led coalition Government, under Prime Minister Manmohan Singh, is committed to the path of reform and liberalisation.

Japan appears to be shaking off a decade of sluggish growth. Its recovery is due to the effects of many years of structural reform and strong external demand. But not everyone is convinced that this recovery is self-sustaining.

In ASEAN, peaceful elections and leadership transitions have taken place in the Philippines, Malaysia and Indonesia. In Singapore, too, we have a new Prime Minister and several new Ministers. The new leaders in ASEAN will have the opportunity to address economic and security challenges together, hopefully in a bold, creative and pragmatic manner.

The rise of China and India presents both opportunities and challenges for ASEAN. To seize the opportunities and meet the challenges, these new leaders must work with their other colleagues to speed up the integration of the ASEAN economies. When I met a group of Japanese industrialists recently, they lamented that the target date of 2020 to achieve the ASEAN Economic Community was too far away. They urged ASEAN to integrate into one single market so that it would be an attractive destination for Japanese investments besides China.

Terrorism and regional security are major problem areas. The fight against terror will continue for many years. Victory can only be achieved through a sustained and united global effort. The most important dimension of the fight is the ideological one - between mainstream Islam and the extremist elements. If the extremists are not defeated in this intra-Islam ideological fight, there will be a constant supply of terrorists out to create terror and chaos.

Tensions have heightened in the Taiwan Straits and the Korean Peninsula. While Taiwan's economy is becoming increasingly intertwined with China's, politically, Taiwan appears to be taking steps to move permanently away from China. The risk of a miscalculation leading to military conflict is high in the next few years. The consequences of such a war will make the war in Iraq look like a skirmish. Asia will be in turmoil. Its development will be set back for many years.

North Korea is another potential trouble spot. Fortunately, whatever their differences, the key players share a common interest in the peaceful containment of the issue.

### **III. Five-year strategic plan**

What does this mean for us in MAS? It means we have to anticipate events and plan for uncertainties. It means we have to be proactive, not just react to events after they have taken place. This is what the work-plan is about - planning our work over the next five years, in the context of likely scenarios.

I believe, barring a war in Asia which all countries must work hard to prevent, we can be optimistic about our future. Singapore is situated at the heart of a dynamic Asia. Our economy has undergone major restructuring over the past few years. It has regained its competitiveness. We are expanding our economic space and have shown that we can manage change as a people. There is no reason why Singapore should not continue to do well.

The MAS Strategic Planning Exercise has yielded three inter-linked and mutually reinforcing priorities for the next five years. These are not new goals. They are priorities. Let me elaborate on them and the key strategies to support them.

#### ***Strengthening our position as a leading financial centre in Asia***

Our first priority is to strengthen Singapore's position as a leading financial centre in Asia. We will work closely with the financial industry to enlarge our investor base, build greater liquidity and depth in our financial markets, and expand our reach beyond traditional markets.

To succeed, the industry needs to attract talented and dynamic professionals from a broad range of disciplines and experiences. I am pleased that the industry has established the Financial Industry Competency Standards Committee to develop internationally-aligned competency benchmarks for the whole financial sector. This will guide industry efforts towards deepening and broadening our talent pool so that it is on par with those in other leading financial centres.

Fund management and private banking activities build up the investor base for our financial centre. The wealth management business has grown rapidly and prospects are bright. Strong economic growth in Asia has led to an accumulation of wealth in both the government and private sectors. To capture a share of this growing Asian wealth, our financial institutions must offer products and services that meet global standards. On our part, MAS will continue to promote a conducive regulatory environment and provide appropriate incentives to support the growth of new areas such as alternative investments, structured products, trust services and philanthropy advisory services.

MAS will also work with other government agencies to develop a holistic “Best Home” environment for qualified high net worth individuals. We have just devised a permanent residency scheme for individuals who place at least S\$5 million with MAS-registered financial institutions. We hope this will boost total assets under management and attract high net worth individuals and their families to take up residency here.

We must also develop a solid domestic investor base. In 1999, MAS and GIC announced plans to place out a total of S\$35 billion in foreign assets for management by private sector fund managers. The initiative has attracted many international fund management companies to set up offices in Singapore and has catalysed the growth of total assets under management. Some firms have established their regional headquarters here. These companies have helped to broaden the range of products here beyond plain vanilla equity mutual fund products and develop more sophisticated skills and expertise.

MAS has decided to place out an additional S\$5 billion to external fund managers. The funds will be invested in Asian equity and fixed income markets. This recognises the investment opportunities in Asia and will also help to anchor and grow specialist skills in Asian investments in our financial centre. This will be on top of what GIC recently announced it will place out for external management.

Liquidity and depth in Singapore’s treasury and capital markets is another critical success factor for our financial centre. Singapore can serve global issuers and investors as the gateway to ASEAN markets. We want to promote the ASEAN region as an asset class for capital markets investments. We will work with key players, including the Singapore Exchange (SGX), to forge regional exchange linkages, integrate market infrastructure, harmonise regulatory frameworks and promote regional electronic bond trading.

SGX already has a link with the Australian Stock Exchange and is in discussions with Bursa Malaysia and the Tokyo Stock Exchange. The ASEAN Finance Ministers agreed at their meeting in April to explore alliances and linkages among ASEAN securities markets to facilitate access to these less mature markets by international investors. A Linkages Task Force, chaired by MAS, will make its recommendations next year.

In the treasury market, we have maintained our position as the world’s fourth largest forex trading hub after London, New York and Tokyo. We continue to rank as the second largest over-the-counter (OTC) derivatives hub in Asia after Japan. We will build on these strengths and deepen our markets by developing the structured finance market. The asset securitisation market has already taken off, with structured products accounting for more than half of the Singapore dollar debt market. This will be further boosted when Singapore’s first loan securitisation programme for Small and Medium Enterprises is launched.

ASEAN will continue to be an important market. We should build closer ties with some of the fast emerging ASEAN economies. For example, we have made a proposal to Vietnam to connect our two economies, including our financial markets, so as to reap the benefits of synergy. Vietnam is receptive. We are approaching this at a pace which Vietnam is comfortable with.

Besides ASEAN, we should also position ourselves to play a bigger role in other growing regions. I am pleased to note that our local players have embraced globalisation to capitalise on opportunities in the region and beyond. In response to increased competition, our local banks have consolidated and expanded abroad. They remain profitable, sound and well-capitalised, and are becoming regionally competitive.

China, India and the Middle East offer rich opportunities for both wealth management and capital markets activities. Singapore can play a useful intermediary role to serve the needs of Chinese companies seeking funding and expansion overseas. SGX has taken the lead and attracted more than 50 Chinese companies to list in Singapore. Over 1,000 Chinese companies have set up offices here to tap opportunities in the region. We must continue to sharpen our competitive advantages to draw more Chinese companies to use Singapore’s financial services.

We are close to concluding the Comprehensive Economic Co-operation Agreement (CECA) with India. This will reinforce the trend of Indian financial institutions and companies using Singapore as a base for expansion overseas, and allow Singapore-based financial institutions to benefit from India’s growth. We saw our first Indian listing this year. Banks such as ICICI Bank and State Bank of India are also serving the large non-resident Indian community and facilitating their fund raising activities from Singapore.

The Middle East has a combined GDP that exceeds ASEAN's. Post 9/11, the Middle East is increasingly looking towards Asia in order to reduce its dependency on the West. There is a window of opportunity for us to play a bridging role. Singapore will host the inaugural meeting of the Asia-Middle East Dialogue (AMED) in June next year. To expand our economic space and strengthen political relations, I have visited several countries in the Middle East and will visit more next year. MAS should continue to work with other government agencies to deepen our engagement with the Middle East.

The market estimates that of the US\$1.3 trillion in Middle East private wealth invested overseas, less than 10% is invested in Asia. Some US\$100 billion or more could flow into regional markets to tap diversification benefits. This presents an opportunity for the asset management companies and capital markets industries here to develop investment funds and structured products, including Islamic financial products, to manage a portion of this wealth.

### ***Maintaining excellence in a riskier environment***

Our second priority is maintaining excellence in our core central banking functions in a riskier environment. In recent years, the external environment has become more volatile and complex. At the same time, our economy has been undergoing significant structural adjustments. We must ensure that the formulation and conduct of monetary policy continue to be robust and flexible.

We will further strengthen our monetary policy formulation process by enhancing our forecasting, surveillance and research capabilities. We intend to reinforce our macro-econometric model by introducing new features that will enable us to better assess the impact of risks on key sectors and relationships in the economy.

In the area of surveillance, we have started an intensive industry consultation process as part of our exchange rate policy review. We will continue to fine-tune this process. To enhance our understanding of the economy, we are constructing a flow-of-funds framework to get a better understanding of financial flows across different sectors of the economy.

Changes and increased volatility in financial markets also pose challenges for the implementation of monetary policy. Singapore dollar capital markets have grown enormously over the last five years. Foreign participation has gone up. More foreign investors are likely to participate in our markets when Singapore Government Securities are included in the World Government Bond Index next January. Our market surveillance must broaden as the mix of market participants becomes more diverse. As the volume of trade in Singapore dollar securities increases, our management of the Singapore dollar will become more challenging. We must constantly review and improve our intervention strategies and our communication with the market.

We must also continue to strengthen our regulatory and supervisory framework, in line with changes in the industry and evolving risk issues. As our local players go regional and expand their activities, we must take our approach to consolidated and integrated supervision to the next level. We will enhance our framework for supervising local banks' securities and asset management operations overseas, as well as fine-tune the framework for the integrated supervision of banks engaging in capital markets and insurance activities. In addition, we have to co-operate more closely with other regulators in order to adequately supervise the institutions operating in our markets. As more financial institutions turn to outsourcing, we will review the need to supervise companies providing significant outsourcing services to our institutions.

With the convergence in product offerings by different types of financial institutions, we need to harmonise our regulatory requirements and supervisory practices to prevent arbitrage. We are currently developing a common risk assessment framework for banks, insurance companies and capital markets intermediaries.

To complement our oversight functions, we are putting in place basic safety nets for depositors and policy holders, as well as working towards the further empowerment of consumers. Disclosure requirements are currently in place but the presentation of information is often less than satisfactory. As more complex investment products emerge, this situation will become untenable. We will work towards refining existing disclosure requirements. Consumer education efforts will also be stepped up. Feedback obtained from the national financial literacy survey to be launched early next year will help us to tailor our consumer education programmes.

To help consumers resolve disputes with their financial institutions promptly and affordably, we are facilitating the setup of a one-stop Financial Industry Disputes Resolution Centre, or FIDReC. It will

serve consumers across different sectors and ensure consistency in processes. We have also recently announced that we will publish details of market conduct regulatory actions where it is in the public interest to do so. This will further enhance market discipline.

### ***Leveraging and building on our reputation***

The third priority for MAS is to leverage and build on our reputation. Singapore has acquired an international reputation for its strong macro-economic performance, its robust and vibrant financial system and its high standards of regulation and supervision. This reputation has accorded us some influence in the international financial community. This influence has in turn helped us to expand our economic space by opening doors to strategic partnerships and removing market access barriers. With influence, we have been able to keep abreast of key developments and ensure that our views are heard and heeded.

To leverage and build on our reputation, MAS must continue to deepen existing relationships and build new ones. We must engage in active dialogue with our external counterparts, as well as play an active role in regional and international co-operation. Our efforts in key regional fora like ASEAN and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP) will help to accelerate the pace of liberalisation and integration of the region's financial markets. This will benefit the entire region.

In the international arena, MAS must continue to play an active role in promoting sound macro-economic policies and a stable global financial system. We are already engaged in and contributing to many diverse fora, covering areas like monetary policy, regulation and supervision, financial stability, corporate governance, anti-money laundering and counter terrorist financing. As a good global citizen, Singapore will continue to work with like-minded jurisdictions to keep the international financial system stable and safe.

Singapore fully supports all international and regional collaborative efforts to fight terrorism and cross-border crime. We will work with other countries to establish a reciprocal basis for co-operation in fighting crime like money laundering and terrorism. But in co-operating with others, we must uphold certain principles. This is also an integral part of preserving our reputation. Our co-operation will be provided within a structured framework, in accordance with our domestic laws and with adequate safeguards to prevent abuse. For example, we will not entertain attempts at fishing for banking information and other spurious requests. As with all major international financial centres, customer confidentiality is a cardinal principle of our financial sector. It will only be lifted by a Singapore court order and only if the safeguards set out in the Mutual Assistance in Criminal Matters Act are met. These provisions do not shield criminal activities. Singapore will continue to participate actively in the fight against crime, money laundering and terrorist financing.

Going forward, we will work to deepen the sharing of knowledge and practices with jurisdictions that approach us for assistance through training programmes. We believe that we can make contributions on economic and financial issues, particularly those pertaining to the region. For instance, our unique monetary policy framework has proved to be sufficiently robust and flexible to cope with shocks in the external environment. We are keen to share our experience through research papers, policy dialogues and seminars with developing countries which are experimenting with intermediate exchange rate regimes.

## **IV. Conclusion**

Let me conclude. I have outlined our priorities for the next five years. Our emphasis is on action. We must translate the seminar findings and conclusions into a set of practical initiatives and implement them. We must be prepared to take calculated risks and adapt as we go along. This will require not just hard work and dedication, but also a spirit of openness, inquiry and enterprise. I am confident that together we can achieve our goals for MAS and Singapore.