

## **Goh Chok Tong: Building a brighter future for Asia together**

Keynote address by Mr Goh Chok Tong, Senior Minister of the Republic of Singapore and Chairman of the Monetary Authority of Singapore, at the Nomura Asia Equity Forum 2007, Singapore, 4 July 2007.

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Welcome to Singapore. I thank Nomura for holding its fourth Asia Equity Forum here, and for bringing together this diverse group of companies, financial institutions and investors. I hope that this forum will serve as a platform for forging new business relationships and conceiving new growth opportunities.

Last week, the World Economic Forum on East Asia hosted more than 300 leaders from business, politics, government, civil society and media in Singapore. The mood was upbeat. The overall feeling was that 10 years after the Financial Crisis, Asia has emerged stronger and its growth built on firmer foundations. The belief was that despite some challenges ahead, Asia would continue to rise.

As leaders of governments and companies, we have to anticipate the future. I am not suggesting that we do this with a crystal ball but we should have a mental road-map of the terrain ahead. This will help us position ourselves to seize the opportunities, manage the risks and devise strategies for growth.

This morning, I would like to share with you how I see Asia's regional architecture evolving, and how we are building a brighter future. I will take a medium term timeframe as I believe this is more relevant to business planning.

### **Asia's share of global wealth**

Let us start by taking a look at Asia's share of global wealth to see how far it has come, and where it is projected to go.

Back in 1980, Asia accounted for 19% of global GDP in PPP (purchasing power parity) terms. Today, Asia's share stands at 35%. In 2020, this is expected to rise to 45%. Compare this with America and the EU. Each accounted for roughly 21% of global GDP in 1980 and 2005. Both are expected to see their share drop to 19% by 2020.

Let us look at another measure. Asia's share of global exports in 1980 was 14%. It doubled to 27% in 2006. By 2020, this is expected to rise to 35%. The picture is the same for Asia's share of global outward FDI (Foreign Direct Investment) stock. In 1980 it was 5.9%. By last year, it doubled to 11.4%. It is expected to grow to 20% in 2020. What this suggests is that Asia is no longer just a recipient of investments from US and Europe. Increasingly, Asia will become a major source of FDI for the rest of the world.

In terms of private wealth, a 2006 Merrill-Lynch study noted that Asia-Pacific contains 27% of the global population of High Net Worth Individuals (HNWI) and 23% of global HNWI wealth. Merrill-Lynch expects private wealth in Asia-Pacific to exceed US\$10trillion by 2010, growing at an annual growth rate of 6.7%, outpacing the global rate. These are vast resources which can be harnessed to finance future growth.

### **Strategic stability within the region**

Politically, I expect the strategic environment in Asia to be stable.

On a bilateral level, the key relationships which underpin the region's stability – US-China, US-India, China-Japan and China-India – are sound. The major players will compete and cooperate over a range of issues. There will be occasional tensions over trade, history and territorial disputes but these will be managed as the major players want stability and growth, not conflict and instability. They have also taken steps to strengthen their relations.

Although slow, progress is being made to resolve the crisis over North Korea's nuclear programme. Tensions may arise in cross-strait relations should Taiwanese politicians play the independence card as Taiwan heads for elections in 2008. But so long as the US maintains its clear stand that it will not support Taiwan's independence, the situation will not get out of hand.

I do not expect major military conflicts to break out in Asia. All countries in Asia understand that any such conflict would set themselves and the region back. This will detract from everyone's focus on economic growth and building cross-national and cross-regional ties. There is strong optimism that Asia can make it in this century and strong determination to succeed. I therefore expect a stable strategic environment to provide the backdrop for the region to grow.

### **Deepening economic integration and interdependency**

Within Asia, economic integration is deepening, and we are becoming more and more interdependent. Intra-Asian trade as a share of the region's total trade has grown from 34% in 1980 to more than 50% today. Asia is being woven together by trade and investment flows, MNCs spreading their production chains and a growing web of bilateral and multilateral FTAs (Free Trade Agreements) and regional processes.

China plays a critical role in quickening the pace of regional integration. China is serving as a production platform for foreign firms. Many manufacture there. Others export intermediate goods to their affiliates in China for assembly and then shipping the finished products to key export markets in the US and Europe. What we are seeing is production sharing and the intensification of an Asian production network.

However, both China and other Asian countries also know that due to China's sheer size and strategic weight, its re-emergence exerts a displacement effect. To use an image, it is like a huge elephant wading into a pond. This will displace the water and reduce the space of others using the pond. What do we do? We cannot live without water. The answer is to enlarge the pond so that there is more space for everybody.

China is conscious of its size. It emphasises peaceful development so that while it displaces, it does not threaten. Hence, China is negotiating an FTA with ASEAN so that its growth will translate into more opportunities for ASEAN. Asian countries welcome China's peaceful development and are getting together to find ways to tap China's growth.

But the boost from China to the region is not confined to production and exports alone. As China grows, it will also consume more. Already, China is buying more from the region and the rest of the world. Chinese tourists are seen in large numbers in many parts of Asia, Europe and the Americas. China has also started to invest its surplus savings abroad in a more strategic and active way. Its recent landmark investment of US\$3billion in Blackstone is just the beginning. Such investments will continue to grow, given China's vast foreign reserves. And as China – and also other Asian countries – look to diversify the ways in which their stocks of surplus savings are invested, the scope for deepening the Asian financial system will be enhanced tremendously.

Let me now turn to the other fast emerging large economy in Asia-India. India began to open up its economy in the early 90s. Over the past 12 years, India grew by an average of 6.5% per year. Growth over the last 3 years was even higher – at 8% per annum.

Much of this growth has been driven by India's strength in services, particularly IT, rather than manufacturing. Compared to China, India is relatively less integrated in terms of trade and production with the rest of Asia. But this will change. India will build its manufacturing strength. Its policy on Special Economic Zones testifies to this. When India diversifies its economic base in this way, its weight will increase, and its effect on the region will be felt more keenly.

Despite several changes of governments and Prime Ministers, India and its leaders have continued on the reform path. A billboard at the 2006 WEF meeting in Davos proclaimed: "15 years, 6 Governments, 5 Prime Ministers, ONE DIRECTION". The message is clear: reform and liberalisation in India are irreversible. China serves both as an example of what a large country can do and a compelling reason for India to grow faster to keep up.

I believe that India will continue to grow at a high rate. I have met Indian leaders across the political spectrum. I am persuaded that they will continue to open up the economy and welcome foreign investments. Take the case of West Bengal in Kolkata, a state that has been under communist rule for 30 years. The Chief Minister, Buddhadeb Bhattacharjee, one of the politburo members of the Communist Party of India (Marxist), candidly said that he welcomed foreign investment, "whatever the colour – be it yellow, red or white".

Against this dynamic backdrop, individual ASEAN countries have been strengthening their economies and competitiveness. Collectively, ASEAN integration is quickening and deepening.

In January this year, ASEAN Leaders committed to establish by 2015 – five years ahead of the original target – an ASEAN Economic Community. In November, the Leaders will, at their Summit in Singapore, issue a legally-binding blueprint to implement the ASEAN Economic Community. ASEAN will eventually evolve into a single market with free flow of goods, services, investment and talent.

For investors, an integrated market of half a billion people will be an attractive investment proposition. For financial institutions, it will mean more projects to finance and more wealth to manage. ASEAN's combined GDP of US\$1trillion is larger than most economies. It is, in fact, bigger than India's US\$890billion and more than a third of China's US\$2.6trillion. In addition, the ASEAN Economic Community will boost the region's GDP by 10%.

To benefit from the growth of China and India, ASEAN is negotiating FTAs with these two giants. They are targeted for completion by 2010 and 2011 respectively. Besides China and India, ASEAN is also enhancing links with other economic centres. ASEAN signed a regional Trade and Investment Framework Arrangement (TIFA) with the US last August. It is negotiating FTAs with Japan, South Korea and Australia and New Zealand. And in May, ASEAN and the European Union decided to launch FTA talks.

### **Political coalescence**

At the political level, Asia is also coalescing. However, political coalescence is progressing more slowly than economic integration. And it will be far less defined and institutionalised than what we see in the EU. Compared to Europe, Asia is more diverse politically and culturally. There are complexities and practical difficulties. However, the basic direction has been set.

ASEAN has made a strategic decision to strengthen the organisation politically. It is finalising a Charter that will lay out a bold and visionary future for ASEAN. This will provide an institutional framework for the grouping and transform it into a more effective and efficient rules-based organisation. The Charter will be signed at the Singapore Summit in November.

Asia is evolving its architecture for regional cooperation. Today, there are already several overlapping fora and groupings: the ASEAN Regional Forum (ARF) and Shangri-La Dialogue which discuss sensitive security and defence issues, the ASEAN + 3 framework and the recently formed East Asia Summit (EAS). Countries in Asia understand that they must work together to strengthen regional cooperation. These structures complement one another and help to deepen regional integration and build an East Asian community.

### **Building relationships with other regions**

While the final shape of the regional architecture will not be decided for some time to come, what is clear is that it will be an inclusive and forward-looking one. This was clearly demonstrated in the way participants in the EAS were determined. Instead of going by narrow and outmoded geographical and ethnic notions, the leaders in Asia wisely decided to adopt a forward-looking, inclusive and open definition. Asia will therefore continue to remain open in engaging external players on the understanding that in today's context, what defines a "region" are ties, connections and interdependency, rather than physical boundaries and ethnicity.

The US will continue to play a vital role in Asia's stability and prosperity. American trade, investments, technology are vital. The US is also the preponderant military power which underpins regional stability. This is something which the region, including ASEAN, India and China, welcomes.

Europe remains another important political player. It is also a major trading and investment partner.

Asia also welcomes other players and regions like Russia, the Middle East and Latin America to engage us. When we engage each other, there is potential for finding common ground. And when we find common ground, we think of ways to share experience, collaborate and grow together.

## **Asia and the Middle East rediscovering each other**

What has transpired between Asia and the Middle East recently is a good example. Over the past few years, Asia and the Middle East have started a process of rediscovering each other. Asia and the Middle East have had a long, fruitful and ancient history of exchanges. But this flow ebbed some time in the last century or so.

Recent global developments have drawn countries from these two regions closer again. Post-Sept 11, Middle Eastern countries became more interested in Asia. Their leaders began stepping up engagement with Asia for collaboration in management, science and technology, education, governance systems and development models.

At the same time, Asian countries began to recognise that the Middle East is an increasingly important global player.

Strategically, the leaders in the Middle East are committed to harnessing the various forces to tip the region in the direction of peace, cooperation and development. Economically, high oil prices have given many Middle East countries an unprecedented opportunity to diversify their economies and invest in capacity-building for the future. Indeed the Middle East today stands on the threshold of a new era of unprecedented infrastructural development and economic activities.

Asia and the Middle East have concurrently become aware of each other's dynamism and the mutual benefits of closer ties, frequent interaction and a stronger partnership. Some observers have dubbed the flourishing trade and business linkages between the Middle East and Asia as a "New Silk Road". But the ties between the two regions will surely become much more multi-dimensional in the years to come.

## **How Singapore is remaking itself**

How is Singapore responding to these dramatic changes in its external environment?

We have used the last 10 years to remake Singapore, strengthen our competitiveness and expand our economic space. We have progressively restructured and diversified our economy. Manufacturing will continue to play a key role but we are also moving into more technology- and knowledge-intensive manufacturing. Fostering cutting edge scientific research and strengthening Singapore's attractiveness as an R&D (Research and Development) hub is a priority. In the services sector, we have strengthened the key areas of tourism, healthcare, education and financial services. More of Singapore's growth will come from innovation and knowledge.

We are also looking outward towards the rest of Asia and beyond. Singapore is located at the heart of Southeast Asia, with China to the East and India and the Middle East to the West. As an economic hub and financial centre, Singapore is well connected to the major regions. So we are leveraging on our strengths, experience and contacts to build partnerships and create growth opportunities. To enhance our connectivity and enlarge our economic space, we have concluded 11 FTAs, including with the US, India, Japan, South Korea and Australia. We are negotiating 11 more, including with China and the Gulf Cooperation Council (GCC). Many MNCs, investors and businesses are making use of Singapore's connectivity to reach out to the region and beyond.

Financial services are a prime example. Japanese financial institutions have made inroads into the Middle East. Interest has centred on servicing Asian investors – primarily project financing and loan syndication. I encourage you to take a wider perspective – consider making commercial banking, corporate finance, capital-market services and private-banking services part of your long-term growth strategy. There are many opportunities for you to use Singapore to reach out to the Middle East.

You could explore possibilities for collaborating with Singapore-based financial institutions with strong know-how. You could also start discussions with the Middle Eastern banks and players present in Singapore.

I would also like to encourage you to use Singapore as a regional hub to conduct your investment activities.

Let me give you some idea of what we're building here. Allow me to share with you the results of the 2006 Asset Management Survey. There are three broad trends worth noting. First, total assets under management (AUM) have grown robustly over the last six years. The assets managed by Singapore-based fund managers grew by 24% to almost US\$600billion in 2006.

Second, the sources of funds flowing into or through Singapore continue to diversify. The Middle East has become increasingly important, along with South Asia. Funds sourced from the Middle East and South Asia grew by 21% and 36% respectively year-on-year.

One of our local banks, DBS Bank, recently formed a joint venture with a group of Arab investors to set up Singapore's first Islamic bank. This will spur the development of Islamic financial products in Singapore. I understand that Japan is also moving into Islamic finance. We can learn from each other and work together.

Third, the critical mass of asset management activity in Singapore is continuing to grow. In 2006, 57% of the total AUM in Singapore was invested in the Asian region. Fund managers continue to use Singapore as their regional headquarters because they see Singapore as a prime location to service clients, raise capital from the region, as well as invest into the region and beyond.

Singapore has also grown as a centre for hedge fund managers. Not only have these alternative investment managers contributed to the growth of our asset management industry, they have also added to its breadth and depth.

Why has Singapore seen such strong growth as a financial centre? I think much of it has to do with our continuous efforts to enhance Singapore's position as a gateway to Asia by transforming Singapore into a global city. Also, our ability to adapt quickly to the changing environment and our resilience in overcoming shocks and crises such as the Asian Financial Crisis and SARS (Severe Acute Respiratory Syndrome).

We will continue our efforts to make Singapore one of the world's most vibrant and liveable cities – a unique city which is Asian and cosmopolitan at the same time. We will preserve our greenery and environment. We are building Integrated Resorts with casinos, hosting the Formula One grand prix from next year onward, attracting some of the world's best golfers to take part in the Singapore Open, bringing in world-class entertainment acts and events and jazzing up our nightlife. This will ensure that Singapore remains an attractive city where talented people want to come to work, live, have fun and feel safe and at home.

## **Conclusion**

Let me conclude.

Governments in Asia are deepening economic integration and political cooperation. This will create the conditions and framework for the private sector to grow and for you to take advantage of the full array of opportunities. I hope you now have a mental road-map of where Asia is heading. I wish you a safe and fruitful journey ahead.

Thank you.