

## Lim Hng Kiang: Seeking new growth horizons

Opening address by Mr Lim Hng Kiang, Minister for Trade and Industry and Deputy Chairman of the Monetary Authority of Singapore, at the 1st Annual World Islamic Banking Conference: Asia Summit 2010, Singapore, 14 June 2010.

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H.E. Governor Rasheed Mohammed Al Maraj, Central Bank of Bahrain,  
H.E. Governor Sultan Bin Nasser Al Suwaidi, Central Bank of the United Arab Emirates,  
Distinguished guests,  
Ladies and gentlemen

### Introduction

1. Good morning and a warm welcome to our overseas guests. First of all, let me thank Governor Rasheed and Governor Sultan for joining us at this inaugural World Islamic Banking Conference: Asia Summit (WIBC Asia). Your presence here today is testimony to the strong and long-standing ties that Singapore enjoys with the Gulf Cooperation Council (GCC) countries and warm relationships between MAS and your respective central banks.
2. The World Islamic Banking Conference has been held successfully in Bahrain for the past sixteen years. We are honoured that WIBC Asia is now anchored in Singapore. We hope that the Summit will become an important event on the Islamic finance calendar over time and catalyse even greater engagement between the Middle East and Asia. Hence, the theme: "Seeking New Growth Horizons" is highly appropriate for this inaugural Summit.

### Strengthening Asia-Middle East engagement

3. ***Uncertainty and fear from the financial crisis have abated somewhat, but risks still remain.*** Global economic output had begun to pick up from the second quarter of 2009. The pace of recovery however varies across regions. Though global conditions have improved, recent developments in Europe have once again unsettled financial markets as doubts have arisen over the fiscal sustainability of several countries in the Euro zone. These episodic concerns serve as broad reminders that the world economy still faces serious challenges as governments, financial institutions and corporations adjust to the new realities of greater prudence, tighter market conditions and lower tolerance for weak governance and excessive leverage.
4. ***In Asia, economic growth has rebounded strongly above pre-crisis levels and become more broad-based. Fundamentals in Asia continue to be strong,*** boosted by robust domestic demand, healthy balance sheets and strong resurgence in intra-regional trade. According to the International Monetary Fund (IMF), Asia is expected to grow by an average of 7.1% in 2010 and 2011, up from 3.4% in 2009. Having reformed and restructured their economies following the Asian Crisis a decade ago, Asia was better positioned with less fiscal imbalances or corporate excesses to emerge faster from the downturn. Prospects for sustained growth in ASEAN are also good. Its outlook is enhanced by continuing efforts to create an integrated single market by 2015. With improved trade links with the two Asian giants – China and India, ASEAN will become an even more dynamic and vibrant region within Asia.
5. ***The GCC countries too enjoy solid growth prospects, and look set to achieve around 5% GDP growth in 2010 and 2011, according to the IMF.*** They have implemented broad-based development strategies to diversify their economies away from hydrocarbons and harness new growth drivers. While the energy-related sector will remain an important

pillar in Asia-Middle East relations, we should develop other complementarities between the two regions such as in financial and business services, infocomm technology and media, infrastructure development, tourism as well as green technology and life sciences.

6. ***In this respect, the linkages between Singapore and the GCC have deepened.*** We have signed the milestone GCC-Singapore Free Trade Agreement (FTA). Singapore companies, such as Capital and in Bahrain and UAE, Changi Airport International in Saudi Arabia, Keppel Corp in Qatar and SembCorp in UAE and Oman, have secured about S\$26 billion of projects in the GCC. ***In addition, a strong cluster of Middle Eastern banks, such as Arab Bank, Emirates NBD, First Gulf Bank, National Bank of Kuwait and Qatar National Bank, is already based in Singapore.*** Quite a few are looking to expand their operations in trade finance and wealth management to capitalize on new growth opportunities in the Asia-Pacific region.

7. ***By strengthening linkages at all levels, the Middle East and Asia can then complement each other's development and seek out new growth areas for mutual benefit.*** Inter-regional platforms have been established to achieve this; for example, the Asia-Middle East Dialogue (AMED) and the ASEAN-GCC Ministerial Meeting, which was held in Singapore recently. Growth in trade between ASEAN and GCC have resumed post-crisis and is expected to receive a further boost with the ASEAN-GCC trade and investment framework agreement and FTA. I therefore urge all parties to work swiftly towards a mutually-beneficial conclusion.

### **Reforming finance to sustain growth**

8. ***The financial sector has encountered major turbulence and headwinds as a result of the financial crisis and has de-leveraged extensively in response to a more risk-sensitive environment.*** Significant changes in financial regulation are underway. Global regulators under the auspices of the Financial Stability Board, the Basel Committee on Banking Supervision, are working to put fractured financial markets back on a sounder footing. These changes include increasing the quality and quantity of risk-based capital, introducing new global liquidity requirements, and developing a fresh regulatory approach towards systemically important financial institutions. Such reforms should bring about greater stability to the global financial system.

9. These changes will not be dramatic for Singapore-based financial institutions because MAS' regulation and supervision have been sound, prudent and effective. This has helped our financial system to remain resilient through the crisis. Last week, MAS communicated our long-standing approach in the latest monograph – "Tenets of Effective Regulation" where we reiterated that our approach to regulatory development is outcome-focused, risk appropriate and impact sensitive. MAS' policies and actions need to be clear and consistent as well as responsive to industry and market changes and economic cycles. We believe that a stable and dynamic financial system that serves the needs of the economy and the public cannot be built on regulation alone. Responsible and competent board and senior management who manage the risks of their financial institutions well are also critical.

### **Growing interest in Islamic finance**

10. ***The general outlook for Islamic finance remains positive despite the negative spillover from the financial crisis.*** As a basic tenet, Islamic finance emphasizes that financing activities should underpin real commercial activities. Due to its widening acceptance and its appeal as a means for ethical investment, the industry is expected to continue growing at twice the pace of its conventional counterpart. As such, surveys estimate that the industry will soon cross the US\$1 trillion mark in total assets.

11. ***But similar to conventional banks, Islamic financial institutions have been impacted by the economic slowdown and resulting weaker asset prices.*** Some financial institutions have been badly affected by the over-concentration in illiquid assets and overly-optimistic business plans. The Islamic industry therefore needs to take heed of the lessons learnt from the current crisis and pay greater attention to issues related to capital adequacy, market liquidity and risk management. Overcoming these challenges will require strong cooperation within the industry and across different jurisdictions. MAS, as a full and Council member of the Islamic Financial Services Board (IFSB) since 2005, will continue to advocate and support multi-national initiatives that would bring about such improvements.

### **Singapore as a global city for business and finance**

12. As we have seen in recent times, financial centres are important nodes in ensuring that the world economy continues to function well. They need to be responsive to the dynamic market place in order to perform their critical roles to sustain growth by ensuring that capital is channeled to the most productive uses.

13. ***Singapore as a vibrant and cosmopolitan Global City is well-positioned for businesses to connect to Asia and international markets.*** Over time, we have established the necessary infrastructure, global connectivity and pool of expertise with the requisite knowledge, understanding and experience of local conditions in Asia that can add value to companies entering the region.

14. ***As a financial centre offering a full suite of financial services, Singapore stands ready to play a wider developmental role in promoting Islamic finance in response to rising regional demand for Shariah-compliant products and services.*** MAS has worked closely with the industry and other government agencies to ensure a level-playing field between Islamic and conventional finance such that Islamic finance is not disadvantaged for tax and regulatory purposes where the economic substance and risks are similar.

15. ***Many market players are already leveraging on Singapore's strengths and capabilities to raise capital, create infrastructure and real estate funds and conduct wealth and asset management activities.*** For instance, the Islamic Development Bank and City Development Ltd have tapped our capital markets to raise Shariah-compliant Singapore-dollar funding. Another notable development is the joint venture by Singapore's Keppel T&T and Saudi Arabia's Al Rajhi Group to create the world's first Shariah-compliant data centre fund. Last week, the fund managed to secure an initial US\$100 million from institutional investors in Asia and Middle East. We also understand that various market players are in the midst of preparations to launch and list Islamic Real Estate Investment Trusts (REITs), which will further boost Singapore's position as the largest REIT market in Asia ex-Japan.

16. In talent development, several credible players have initiated training courses and programmes to enhance the financial sector's capabilities in Islamic finance. For example, the Singapore Management University has started an International Islamic Law & Finance Centre to promote high-quality research, training and professional education. Such efforts will further support the growth and innovation of Islamic finance in the region.

### **Conclusion**

17. ***I am therefore pleased to launch the inaugural WIBC Asia Summit today.*** Such events serve to bring industry leaders together to explore and create business partnerships to capitalize on new opportunities in the Middle East and Asia. The financial crisis has not diminished the Asian growth story; in fact Asia has emerged even more compelling with growing exports and investment spending. Singapore is well-positioned to be the launch pad

for GCC businesses entering and investing in Asia. The Middle East also offers plenty of opportunities for Asian businesses to participate in its growth.

18. ***With greater awareness and adoption in more financial centres, Islamic finance is poised to play a bigger and more central role in global finance.*** We look forward to WIBC Asia as a key platform that will buttress the development of Islamic finance as it takes root in the region. The industry, which is open to all participants, can only reach greater heights with your commitment and support. I therefore wish you a productive conference as you seek exciting new horizons for Islamic finance.