

Lim Hng Kiang: Singapore's key role in Asia

Opening remarks by Mr Lim Hng Kiang, Minister for Trade and Industry and Deputy Chairman of the Monetary Authority of Singapore, at the 8th Annual Citi Asia Pacific Investor Conference 2011, Singapore, 16 February 2011.

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Distinguished guests,

Ladies and gentlemen,

1. Good morning and a very warm welcome to everyone here today. It is my pleasure to join you here at the 8th Citi Asia Pacific Investor Conference.

2. This conference is taking place at a time when the global economic recovery is picking up pace. Against this backdrop, there will be many opportunities to be explored. I am confident that this conference will provide an excellent platform for participants to share ideas and build networks.

3. The world's economic landscape has been re-shaped since the recent global financial crisis. The recent crisis was said to be the worst since the Great Depression of the 1930s. Today, the advanced economies which were at the epicenter of the crisis still face headwinds in their recovery. In the United States, economic recovery remains fragile after two rounds of quantitative easing measures. In the Euro-zone, concerns over sovereign debts have yet to subside. There are still uncertainties in the horizon for these advanced economies.

4. This time, Asia is at the forefront of the global recovery. Asia's resilience, built up over the years since the Asian Financial Crisis, has enabled us to weather this crisis better. Many Asian economies rebounded quickly and strongly from the crisis. Following the onset of the crisis, policymakers in Asia took prompt actions to stabilise their economies, using measures such as fiscal stimulus. In Singapore's case, our fiscal flexibility allowed the government to introduce a SGD\$20.5 billion resilience package in the FY2009 budget to help Singaporean businesses and households tide over the economic difficulties. This also helped strengthen our economy's long term competitiveness.

5. Starting from a relatively stronger position, Asia's role in the global economy will become more important as we continue to build on our strengths. Looking ahead, Asia's economic prospects look promising, although the region is still at risk from external shocks. The IMF estimated that GDP growth for Asia will settle at a more sustainable 7 percent in 2011. However, Asia as a region remains inter-connected with other major economies through trade and financial linkages. Therefore, Asia is not insulated from external shocks. But Asian foreign policymakers have been quick to respond. To reduce reliance on exports, many Asian countries have taken measures to rebalance their economies towards domestic demand. The growing Asian demand will help support the global economic recovery; and in the longer term, contribute to the growth of our global economy.

6. Going forward, it is widely expected that Asia will continue to lead the global recovery. Investors are confident of Asia's prospects due to sound economic fundamentals and fiscal strength. The booming Asian economies will present many investment opportunities. In particular, infrastructure financing is likely to be a major driver of demand for investments. The Asian Development Bank estimated that USD\$8 trillion worth of infrastructure spending is needed in the 10 years leading up to 2020 to support Asia's growth. The demand for capital investments driven by the growth in Asia's real economy will support the development of the region's capital markets. As investors continue to invest in Asia, the depth, accessibility and efficiency of Asia's capital markets will continue to improve.

With proper balance, the continuing inflows of funds, improvements in capital markets and growth in the real economy will create a self-reinforcing virtuous circle.

7. Along with the rise of Asia, Singapore will continue to enhance our position as a Global-Asia financial and business hub. As a well-connected international financial centre, Singapore can be the base for global players to tap into opportunities offered by a rising Asia. To do that, we will build on our strengths in areas such as trading, asset management and infrastructure financing. We will also continue to emphasise the importance of strengthening risk management, enhancing transparency, as well as build depth and diversity in the offering of financial products and services. Let me cover these areas in turn.

8. First, in the area of strengthening risk management. In the context of the capital markets, we have been building the necessary infrastructure to help market participants better manage their risks. There has been greater concern over counterparty risks since the financial crisis. This fear of counterparty default dented global trading and interbank lending activities. To allow market participants to better manage their counterparty risks, the Singapore Exchange launched a new clearing service for OTC financial derivatives in 2010. This is the first such service in Asia. 10 international and local banks have since signed up with SGX to clear their OTC financial derivatives, and there are intentions to expand the product suite going forward. This initiative also enhances our role as a regional risk management centre.

9. In May last year, MAS published a consultation paper on amendments to the Code on Collective Investment Scheme. Among other things, there are proposals to introduce a number of measures to address counterparty risks. For instance, MAS has proposed that managers may only enter into OTC financial derivative transactions with counterparties subject to prudential supervision. If the financial derivative transaction is performed on an exchange where the clearing house performs a central counterparty role, the counterparty risk can be taken as zero. MAS will be publishing its response to the consultation paper in due course.

10. Singapore is also a key risk management hub for the commodities business. We are Asia's leading OTC commodity derivatives trading hub, accounting for more than 50% of Asia's volume. There is also a confluence of users and suppliers of commodities risk management solutions in Singapore. Apart from the critical mass of global commodities traders, many global banks have also based their Asian commodities business in Singapore. These banks provide sophisticated risk management and hedging services to the regional corporates.

11. Let me now turn to how to enhance transparency. Sound corporate governance is fundamental to a successful disclosure-based regime. The financial crisis has highlighted the importance of risk management oversight at the Board level and sparked increased global discussions on the need for better corporate governance practices. In December last year, MAS published its response to the consultation feedback on corporate governance regulations and guidelines. The enhanced rules and guidelines underscore the important role played by the Board in overseeing the soundness of the financial institutions.

12. MAS has also been promoting improvements in the disclosure and quality of information available to investors. Since the third quarter of last year, financial institutions are required to provide Product Highlight Sheets when offering investment products to retail investors. This will provide brief highlights, including an overview of product features and risks, and applies to products that are accompanied by prospectuses, including exchange traded funds, asset-backed securities and structured notes. Since January 2010, real estate investment trusts (REITS) have also been required to hold annual general meetings (AGMs). These mandatory AGMs provide an important channel for communication between REIT managers and investors. This will also increase transparency and raise the accountability of REIT managers to investors.

13. Last but not least, we remain committed to building diversity in Singapore's financial markets. We will continue to provide a conducive business environment that encourages innovation. On this front, we have seen increased diversity, both in terms of product offerings as well as in the issuers. In the area of product offerings, for example, we have seen an increase in the offering of commodity-related financial products. The Singapore Commodity Exchange launched a Robusta coffee futures contract in April last year. The Singapore Mercantile Exchange launched in August last year also provides a platform for trading a diversified basket of commodities including futures and options contracts on precious metals, agriculture commodities and energy. We have also replicated the success of the real estate investment trusts model for the infrastructure sector, further adding to the diversity of our capital markets.

14. On top of the increased diversity in product offerings, we are also encouraged by the increased diversity of issuers coming to tap into the depth and liquidity of our capital markets. Last year, we saw the first Russian debt issue in the Singapore market when VTB Bank launched its Sing Dollar Eurobond here. This paves the way for other highly rated Russian issuers to access our markets. In the area of Islamic finance, a number of international players have also tapped our markets for their shariah-compliant instruments. They include Saudi Arabia's Al Rajhi Group¹ and Malaysia's Khazanah Nasional². In November last year, Sabana also launched the first shariah-compliant Real Estate Investment Trust in Singapore, which is also the world's largest shariah-compliant REIT.

15. Singapore plays a key role as a gateway to Asia, facilitating capital and investment flows. As a regional financial hub, the developments in Singapore's capital markets reflect the growing vibrancy, diversity, and sophistication of Asia's capital markets.

16. To conclude, let me reiterate that the outlook for Asia is positive. Although the region's growth is expected to settle to a more sustainable pace, Asia will remain at the forefront of the global recovery. Despite facing challenges from large capital inflows and inflation, I am confident that Asia's policy-makers will make appropriate policy adjustments in order to achieve long term sustainable growth.

17. On this note, I wish you a fruitful and successful conference. Thank you.

¹ Al Rajhi Group and Keppel T&T announced a joint venture agreement to establish an asset management company to manage the world's first Shariah-compliant data centre fund – Securus Data Property Fund. The fund's initial closing was achieved in June 2010 at US\$100 million with institutional investors from the Middle East and Asia.

² Khazanah Nasional Berhad issued its inaugural Singapore Dollar sukuk amounting to S\$1.5 billion in August 2010.