

Lim Hng Kiang: Assessing the global megatrends that will impact Singapore's future

Speech by Mr Lim Hng Kiang, Minister for Trade and Industry and Deputy Chairman of the Monetary Authority of Singapore, at the Credit Suisse Global Megatrends Conference, Sentosa Cove, 17 January 2013.

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Ambassador David Adelman, US Ambassador to Singapore

Lito Camacho, Vice Chairman Asia Pacific and Country CEO, Singapore

Francesco de Ferrari, Head of Private Banking, Asia Pacific

Distinguished guests

Ladies and gentlemen

Good morning. It is my pleasure to join you at Credit Suisse's first Global Megatrends Conference. It is fitting to hold this conference in Singapore. As a small, open economy in the heart of Asia, we have always been acutely conscious of global trends and developments. Our attitude has always been that we are too small to influence global developments and events. We are a price taker. What we can do is align Singapore's position in anticipation of the major trends and be nimble enough to ride through short term volatility. So I am happy to share with you our assessments of the global megatrends that will impact our future; and how Singapore is positioning itself to take advantage of these trends. Let me highlight a few.

Asia's growing importance and economic integration

Asia will continue to thrive, driven by Asian consumption, to become a key pillar of global demand. China already accounts for a quarter of the world's demand for luxury goods. As China's consumption increases, its rising import demand will have a positive impact on Asia and on the rest of the world. Besides China, India's middle class is estimated to grow to almost 600 million people by 2025, and almost 60% of Indonesian households, in a country of 240 million people, are expected to reach middle-class status by 2020.

The Asian Development Bank projects that, by the middle of the century, Asia will account for more than half of global GDP and will own half of the world's financial assets and financial institutions. I'm sure all of you are cautious about long-term extrapolations, but this projection is one of many which are reflective of the optimism and growth potential that we see not just in China, but Indonesia and other Southeast Asian countries.

As these countries in Asia power ahead, they will drive further economic integration within this region. PricewaterhouseCoopers' "Future of World Trade" study describes how new trade corridors will form within Asia as a result of this integration.

In 1990, 20 years ago, the developed economies dominated the world trade map. Europe was responsible for over half of the world's exports, although these were mainly intra-Europe flows. In 2010, this map has changed with the global shift in manufacturing to Asia, with China accounting for 9 out of the top 25 bilateral trade routes by value.

By 2030, 20 years from now, the centre of gravity of global trade patterns is projected to shift even further to within Asia, with China accounting for 17 out of the top 25 bilateral trade routes, overtaking trade links between developed countries like Japan-USA, Germany-USA that will grow but they will grow much more slowly.

Within Asia, trade patterns will evolve. With increasing urbanisation and consumer demand, China's trade with developed Asia, will change. It will start to import relatively more finished

consumer goods from Japan, Korea and Singapore. These bilateral trade routes are not new, but they will rise in importance.

China's trade with developing Asia, particularly with Malaysia, Thailand and Indonesia, will propel these bilateral trade routes into the top 25 bilateral trade routes by 2030. Indonesia in particular, with low wage costs and proximity to China, is well placed to become the next manufacturing hub and sell low-end manufactured products back to the Chinese.

The shift in centre of gravity of world trade to Asia is more than a China story. As developing Asian economies become wealthier, they will consume more and trade more with each other. For example, bilateral trade between Thailand and Indonesia is projected to be almost five times as high in 2030 as it was in 2009.

To support this Asian integration, countries in Asia have already come together on regional platforms to foster greater openness and cooperation. For example, ASEAN has concluded Free Trade Agreements (FTAs) with Australia, New Zealand, China, Korea, Japan, and India. The ASEAN-China FTA alone covers over 1.9 billion consumers and an estimated trade volume of US\$1.2 trillion. As Asia grows and comes together economically, global companies that aim to have a share of the pie will have to develop strategies and production models that are customised for Asia.

Singapore exists at the confluence of these emerging trade routes within Asia and as well as between Asia and other regions. We have positioned ourselves as Global-Asia hub to take advantage of Asia's growth. Our strategic location and affinity with other Asian countries made us the location of choice for companies from the West to grow in Asia. In 2011, IBM Services set up an Integration hub here. GlaxoSmithKline too has set up their Emerging Markets & Asia Pacific HQ here to serve the Asian market.

At the same time, Asian companies expanding globally often opt for Singapore as their international base. Tata Communications from India has its HQ in Singapore, as do many Chinese companies. To aid these efforts, Singapore has initiatives to attract and develop talent that can thrive globally. For example, in 2010 we set up the Human Capital Leadership Institute to bring talent together to interact with one another and to prepare for the future.

Urbanisation and sustainability

Second, sustainability challenges will loom larger as the growth of the global economy puts more stress on the environment. More than half of the global population already live in cities. There are 23 megacities today; and it is projected that this number will double by 2030. Most of these new megacities will be in South and East Asia. OECD estimates that more than half of the infrastructure needed by 2030 has not been built yet.

Growing cities will need to simultaneously deal with the problems of scarce resources and climate change. Even developed countries can be vulnerable to extreme climate changes. Hurricane Sandy left a quarter of New York City's population without electricity, and shut down vital transport infrastructure including all 3 airports and all subway lines.

Whether or not a global agreement on mitigating the effects of climate change is reached or not, there will be tremendous business opportunities for companies that can provide solutions to address the challenges of resource efficiency and to back up vulnerable systems and infrastructure. Innovative urban solutions and investments in infrastructure R&D will be sorely needed.

As an early adopter of sustainable development strategies, Singapore is happy to share our experience learnt from sustainable growth strategies. The annual World Cities Summit, hosted in Singapore, serves as a platform for the exchange of leading-edge ideas on building liveable and sustainable cities.

Beyond the exchange of ideas, Singapore is pushing the boundaries in sustainability research. Two National Innovation Challenge programmes are currently on-going,

addressing the themes of 1) Energy Resilience for Sustainable Growth and 2) Land and Liveability. These research programmes will lead to solutions that seek to overcome Singapore's constraints in energy and land arising from our small size and limited resources. More importantly, the outcomes from these programmes can contribute to addressing some of the global challenges in urban development and the growth of megacities, both within Asia as well as in other parts of the world.

Demographics

Third, uneven global demographics will present countries with both challenges and opportunities. Developing countries with young and growing workforces will face the challenges of creating enough jobs and investing adequately in infrastructure, industry and institutions. If they succeed, they will be able to reap their "demographic dividend" and grow rapidly into middle-income economies.

If they fail, high unemployment will cause increasing restlessness and agitation for political change and revolution. The International Labour Organization, in its "Global Trends for Youth Employment 2012" report, attributed the Arab Spring protests partly to high levels of youth unemployment. Such instability could similarly affect other countries, and a demographic dividend could turn into a demographic curse.

At the other end of the spectrum, many advanced economies are experiencing rapidly ageing populations. Decades of low birth rates coupled with affluence and access to medical care and nutrition mean that the elderly live much longer even as fewer babies are born. Even as life expectancy in the EU and North America increased, the average retirement age has fallen from 68 to 63 (from 1970 to 2010). The state will find difficulty financing the increased public expenditure on healthcare and pension systems given shrinking populations of working adults, falling tax revenues and high dependency ratios.

In order to remain competitive, these advanced economies have 2 options. They can choose to augment their population through the import of young labour or global talent. This path leads to challenges in cultural integration. The alternative is for these countries to compensate for a stagnant and aging workforce with the deployment of technology. Japan and Korea are the best examples, relying on an increasing level of automation and sophisticated robotics.

As demographics change, so too will consumer demands. Singapore is positioning itself to attract companies to monitor and understand these changes within Asia. The Singapore-based Asian Consumer Insights Institute, launched in 2011, is helping companies to develop and test-bed Asian-specific products and business strategies. In 2012, Nielsen, a global provider of consumer insights, chose Singapore to launch an innovation hub. This hub, the first of its kind in Asia, will develop new technologies and methodologies in neuroscience, shopper technology, and measurement science to enhance consumer and market insights for companies working to reach consumers in Asia.

Technology

The final trend I'd like to talk about is that of technology. Technology, especially information technology, continues to change the world and is reshaping the social compact between states and citizens. According to IMS Research, the number of internet-connected devices has reached 9.6 billion. That is more than the number of people in the world today.

This hyper-connectedness between citizens, corporations and the cities they live in will give rise to new disruptions. The Arab Spring protests for example, were facilitated by the widespread access to mobile technologies. Citizenry today are able to quickly organise themselves around special interests and put pressure on governments and businesses.

But the digital revolution cuts both ways. Always-connected users leave data trails that make them easier to track and to be analysed, and many corporations now have more access to citizens' personal data than do the governments. Last year, Facebook worked with the FBI to bring down an international cybercrime gang responsible for more than US\$850 million in damages to computer networks. Power dynamics are changing and traditional state institutions will need to share power and evolve new modes of cooperation with such companies.

Even so, the trend of more data and greater openness will continue. There are good examples of how governments are leveraging technology in Asia. The Korean government is working with networking giant Cisco to build the world's first smart city by 2015. New Songdo City will occupy a manmade island and will incorporate millions of sensors and computers to monitor every aspect of the city's operation.

Recognising the enormous potential, Singapore tapped into the data revolution quite early in the game. As an example, the Data.gov.sg initiative, brings together 5,000 data sets from over 50 government agencies, and makes that data stats available to the public. Our "Singapore Real-Time" vision aims to grow data related services and develop the data industry. In 2011, the MIT Senseable City Laboratory obtained a research grant to launch the "LIVE Singapore!" project. This project provides a platform to pool real-time information from several government agencies and to present them in visually compelling ways.

Conclusion

Ladies and gentlemen, I have sketched out several key trends which I believe will have the greatest impact on the world, and highlighted how Singapore is responding to these trends. The future landscape will not just be shaped by the flow of goods and money, but also by the flow of ideas. This conference is therefore a very useful platform to bring together thought leaders and successful individuals from the East and West, not just to discuss future trends, but to seed and drive the exchange of powerful, world-changing ideas.

On this note, let me wish everyone a rich and exciting discussion at the conference today. Thank you.