

Lim Hng Kiang: Singapore – pursuing broader and deeper economic integration with major economies

Opening keynote speech by Mr Lim Hng Kiang, Minister for Trade and Industry and Deputy Chairman of the Monetary Authority of Singapore, at Deutsche Bank Access Asia Conference 2013, Singapore, 20 May 2013.

* * *

Distinguished guests,

Ladies and gentlemen,

A very good morning to all of you. It is my pleasure to join you at Deutsche Bank's Access Asia Conference 2013.

Let me first thank Deutsche Bank for the invitation to speak at your conference. This is the largest event hosted by Deutsche Bank each year globally, and a huge turnout is a clear indicator of the strong corporate and investor interest in Asia.

In the last 10 years, the centre of gravity of the world economy has been moving away from the US and Europe to Asia. Asia is expected to continue to prosper in the decades ahead as the middle class expands in line with strong economic growth. China is set to be the largest economy in the world by 2030 and is already creating megacities of over 10 million at an average rate of one per year. Besides China, India's middle class is expected to grow to almost 600 million people by 2025. In Indonesia, almost 60 per cent of Indonesian households, in a country of 240 million people, are expected to reach middle-class status by 2020.

Being a very small state, Singapore has and will continue to maintain an open economy. We will participate actively to propagate free and open trading alliances as Asia grows and becomes more economically integrated. In this way, we help to unlock the value, spin off new opportunities and create good jobs for Singaporeans.

ASEAN and AEC 2015

One key market for Singapore is ASEAN. ASEAN is a growing region and has a combined population of 600 million people. ASEAN also has a GDP that is the third largest in Asia, after China and Japan. In recent years, ASEAN has embarked on an enterprise to integrate our economies into a regional bloc. ASEAN today, through initiatives like the ASEAN Free Trade Area, has resulted in virtually no tariffs for flows of goods between our countries.

Going forward, ASEAN is making good progress towards becoming the single market and product base envisioned in the ASEAN Economic Community (AEC). The realisation of the AEC by 2015 will result in an even more tightly integrated region, and this has opened up more opportunities for corporates as well as investors.

A key principle underpinning the AEC 2015 is the free flow of goods, services and investment within the region by 2015. Let me update you on the progress so far.

- On trade in goods, virtually all goods in ASEAN already move throughout the region tariff-free¹. We are now working on reducing non-tariff barriers.

¹ ASEAN-6 countries have eliminated tariffs on 99.65% of tariff lines effective 1 Jan 2010. The CLMV countries have reduced tariffs on 98.86% of their tariff lines to the 0–5% tariff range in 2010, and are expected to eliminate tariffs on these goods by 2015, with flexibility for a few tariff lines until 2018.

- On services, ASEAN Member States have recently completed the eighth package of commitments under the ASEAN Framework Agreement on Services. What this means is that we can expect the reduction of services barriers, such as foreign equity limits in the ASEAN countries.
- On investment, the ASEAN Comprehensive Investment Agreement entered into force in March last year. This agreement has established stronger, pro-business rules, with enhanced investment protection for both ASEAN-owned investments and also foreign-owned investments based in ASEAN².

Singapore's multilateral agreements

However, to enable businesses to access major markets more easily, Singapore has also broadened our engagement with Asia Pacific beyond ASEAN. By doing so, we aim to reduce trading costs. To this end, Singapore actively participates in negotiations of several multilateral trade agreements. One example of such a multilateral trade agreement is the Regional Comprehensive Economic Partnership, or RCEP, which is a partnership between ASEAN and six other countries, namely Australia, New Zealand, China, Japan, India and South Korea.

Regional Comprehensive Economic Partnership (RCEP) and Renminbi (RMB) Internationalisation

This agreement builds upon the existing ASEAN+1 free trade agreements (FTAs) FTAs by bringing together ASEAN's existing FTAs with its key partners into a single comprehensive agreement. RCEP will be one of the biggest FTAs in the world, covering 3 billion people and accounting for one-third of the world's GDP.

RCEP is a significant agreement for ASEAN. It is an ambitious attempt to deepen regional economic integration and to link ASEAN's various trading partners, many of whom do not have existing trade agreements with one another.

One key partner for ASEAN in RCEP is China. China will continue to play an increasingly important role in trade with ASEAN, and this will grow even further with its participation in RCEP. In 2012, ASEAN-China trade volumes reached a record high of US\$400 billion, and by 2015, ASEAN is expected to be China's top trading partner. As a result, in the next few years, we can expect a greater acceptance and use of the Renminbi (RMB) as a trade settlement currency, especially in ASEAN.

What does this mean for us? China has already signed bilateral currency swap arrangements with key ASEAN countries, such as Singapore, Malaysia and Indonesia. Corporates, investors and financial institutions need to be prepared if they are to capitalise on the opportunities brought on by the increasing internationalisation of the RMB.

In February this year, Singapore became the first country outside Greater China to have a Renminbi clearing bank when the Singapore branch of the Industrial and Commercial Bank of China (ICBC) was designated as such. This was followed by MAS and the People's Bank of China signing an enhanced bilateral currency swap agreement in April.

² Examples of these stronger and pro-business rules are: (i) The procedures for investors to register their investment in order to benefit from protection under the agreement, are outlined clearly so that the procedures are transparent to investors; (ii) Policy-makers can more easily consider the views and feedback of the business community, as the ACIA has a consultations mechanism giving ASEAN countries an official platform to stay engaged on ACIA matters and its implementation; and (iii) The ACIA has a robust Investor-to-State Dispute Settlement (ISDS) mechanism which will give investors additional recourse to seek redress or compensation if they have been treated unfairly by a government.

The appointment of a Renminbi clearing bank in Singapore brings new functionality to the Singapore financial system. The build-up of Renminbi liquidity in Singapore will encourage financial institutions in Singapore to develop and offer a wider range of Renminbi products and services. This will help meet the financing, investment, and risk management needs of the market. It will also strengthen the role of Singapore as a leading global financial centre that serves Asia and beyond.

Trans-Pacific Partnership (TPP)

Besides the RCEP, Singapore is also actively engaged in the Trans-Pacific Partnership, or the TPP. The TPP negotiations currently involve 11 countries: Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States. It aims to bring comprehensive duty-free market access as well as reduced restrictions on services, investment and government procurement. It also seeks to enhance regional connectivity by reducing behind-the-border non-tariff trade barriers and promoting consistency in regulation across all the member countries. Singapore views the TPP, along with the RCEP, as complementary tracks that will lead towards increased regional integration, and eventually, to a Free Trade Agreement of the Asia Pacific.

The recent decision by Japan to join the TPP will further reinforce the TPP as a platform for broader economic integration across the Pacific. With Japan's inclusion, the TPP's membership has now expanded to 12 countries. This represents nearly 40 per cent of the global economy and one-third of world trade.

As you all know, joining the TPP is a key element of the three-arrow strategy embodied in Abenomics. The prognosis for Japan has improved considerably compared to six months ago. After stagnating for much of last year, the Japanese economy rebounded strongly in the first quarter of this year, with GDP growth of 3.5 per cent on a pick-up in consumer spending. Growth forecast for the whole of this year has been progressively raised, with room for further upward revision. Sentiments have improved strongly since the announcements of aggressive monetary and fiscal policy measures to revive the Japanese economy. The sharp depreciation of the Yen has also helped to boost expectations for GDP growth and corporate profits. One example of this is Toyota Motor. It has reported consolidated operating profit of 1.3 trillion yen for the 2012 business year, about 3.7 times that of the previous year. Toyota's worldwide car sales have also increased by some 20 per cent to 8.9 million units.

As a result of the economic policies being implemented by the government of Prime Minister Shinzo Abe, we may increasingly see some spillover effects on ASEAN and other Asian economies. ASEAN, however, is unlikely to be too negatively affected and may instead benefit from a weaker yen given its role as a "downstream producer" for Japan. For example, countries that serve as a production hub for Japanese companies are likely to benefit from Japan's increased export competitiveness. Overall, stronger Japanese growth is expected to stimulate its imports from ASEAN.

In contrast, economies with a high degree of export similarity to Japan, such as Korea, and to some extent Taiwan, could face greater competition in the short run due to the negative substitution effect favouring relatively cheaper Japanese goods.

We may also see increased capital inflows into the region, as Japanese institutions are increasingly hard-pressed to secure adequate returns at home. As long-term interest rates decline further in Japan due to the Bank of Japan's new asset purchase programme, we can expect more "search for yield" activities. As interest rates are already very low in the region and asset price inflation is becoming a concern in many economies, ASEAN policy makers need to remain vigilant against a build-up of domestic financial and asset market excesses.

EU-Singapore FTA (EUSFTA)

Finally, as we seek to maintain an open economy and to stay relevant, Singapore will work on deepening our engagement beyond the Asia Pacific, for example, with the EU.

Negotiations on the EU-Singapore FTA were recently concluded. This is the first FTA which the EU has concluded with an ASEAN country. The EU-Singapore FTA can serve as a pathfinder FTA for EU's on-going bilateral FTA negotiations with other ASEAN countries, such as Malaysia and Vietnam, and it signals the EU's interest to engage with the region. When implemented, the EU-Singapore FTA will enhance Singapore's attractiveness as a gateway for EU companies seeking to tap the opportunities in our region.

Conclusion

So ladies and gentlemen, to summarise, Singapore is pursuing a strategy of broader and deeper economic integration with major economies through multilateral agreements, such as the RCEP, TPP and EU-Singapore FTA. In addition, we are enhancing our role as a trusted and modern financial hub by expanding into new services, such as offshore Renminbi trading. These initiatives will help investors and companies based in Singapore to "open doors" and "unlock value".

Let me once again express my appreciation to Deutsche Bank for holding the annual Deutsche Bank Access Asia Conference in Singapore and bringing together thought leaders, investors and policy makers together to find ways to tap the opportunities that are being created by Asia's economic growth. I wish you all a very fruitful conference. Thank you.