Ravi Menon: Emerging Asia – restructuring for sustained growth

Remarks by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore, at JP Morgan Singapore's 50th Anniversary Dinner, Singapore, 31 October 2014.

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Mr Jamie Dimon, Chairman & CEO, JP Morgan Chase & Co

Distinguished guests, ladies and gentlemen

I am delighted to join you this evening to mark JP Morgan's 50 years in Singapore.

During these last 50 years, JPM Singapore has grown to become an important node in the bank's global network.

- It is the Asia hub for commodities and treasury services.
- It is the hub for FX and private banking in South and Southeast Asia.
- JPM Singapore entities together employ about 2,800 people. This is projected to increase to 3,500 over the next few years.

JPM has had an even longer presence in Asia – close to a century.

- JPM has thus had a front row seat witnessing Asia's remarkable transformation and shift in the global economic centre of gravity to the region.
- And it is now positioned to participate in the next exciting chapter of the Asian growth story.

As we approach 2015, the economies of Emerging Asia are at an inflection point.

- Externally, they have to deal with the normalisation of monetary policy and interest rates in the United States.
- Domestically, they have to sustain growth and macro stability amidst ongoing structural reforms.

The underlying long-term growth dynamics in Emerging Asia are good.

- The demographics are favourable, with the proportion of the working age population continuing to rise in most Asian economies.
- The emergence of a sizeable middle class and ongoing urbanisation will underpin a continued expansion in domestic consumption and investment.

These underlying factors alone should support healthy growth in Emerging Asia, barring serious policy mis-steps or crises. But if Emerging Asia also undertakes the necessary structural reforms and achieves greater regional integration, growth could be even higher. For example, successful reforms and further integration could boost ASEAN's growth from close to 5% currently to 6%.

Structural reforms will help unlock the productivity gains that Asia needs for its next phase of growth. This will be increasingly important as countries move up the economic value chain.

The structural reforms each economy needs are different. But what is encouraging is that these countries have moved economic restructuring to the top of their agenda.

- In China, the goal is to orientate the economy towards domestic consumption and strengthen the role of the market in allocating resources. The Third Plenum reforms offer a comprehensive blueprint to do this.
- In India, the critical task is to improve the business environment and build the infrastructure necessary for a strong manufacturing sector that will provide jobs and

raise incomes. The new government has signalled clearly that India is open for business.

- In Indonesia, the urgent need is to shift fiscal spending from costly food and fuel subsidies to infrastructure investment and human capital development. The newly-elected President Jokowi has just announced a "working cabinet" and a resolve to deliver on reforms.
- In Singapore too, we are in the midst of economic restructuring – to reduce our dependence on labour inputs, move into higher value-added activities, and increase productivity as the basis for sustained and healthy wage growth.

Structural reforms are often painful. They take time to bear fruit and entail significant adjustment costs in the interim. Growth may slow temporarily, as margins are squeezed and resources flow from declining activities to emerging ones.

Restructuring is a process of creative destruction, and quite often the destruction of the old must take place before the creation of the new. But if reforms are delayed, or worse still reversed, in response to short-term pains, the long-term health of the economy suffers.

Countries ranging from China to Singapore are facing this trade-off today, between the imperative to restructure the economy for more sustainable long-term growth and the need to minimise the transitory effects on short-term growth. Governments must get businesses and workers to understand these trade-offs, and work together to press on with restructuring while smoothening its rougher edges. But avoiding reform or restructuring is not a choice.

Financial development and integration is an enabler for the broader structural reform effort underway in Emerging Asia. The financial sector is key to mobilising Asia's large pool of surplus savings more efficiently and channelling it to investment opportunities in the region.

Situated at the heart of Emerging Asia, Singapore serves to intermediate the flows of savings and investments, helping to finance growth, manage risks, and connecting markets.

Singapore's financial centre is able to play this role because of four factors:

- the credibility of its financial regulatory framework;
- the competencies of its workforce;
- the connectivity it has with the rest of Asia; and
- the collaboration MAS has with the financial industry.

Let me say a few words about collaboration. Working closely with industry is an important part of MAS' work – be it in formulating regulatory policies or growth strategies.

Regulation must be appropriate to the risks they are meant to address. We have not flinched from imposing high prudential standards – sometimes above international norms – but have always consulted industry actively to make sure that the prudential outcomes that we want are achieved at minimal compliance cost.

Likewise, we have worked closely with industry to help create a strong financial ecosystem, deepening and broadening our markets, building critical infrastructure, and developing a skilled and competent financial sector workforce.

JPM has been an important partner in our journey together to develop Singapore as a dynamic and vibrant financial centre.

- JPM has made material contributions to Singapore's financial markets with developments such as the launch of the Singapore Kilobar Gold Contract with the SGX in October this year.

- JPM was one of the lead managers in Singapore's first RMB corporate bond issuance earlier this year, which helped to broaden the range of RMB product offerings in the market.

On this note, let me congratulate JP Morgan on 50 years of growth in and with Singapore. MAS looks forward to deeper partnership with JP Morgan in further developing Singapore's financial sector. I am confident that your strong presence in Singapore will serve you well as you extend your footprint in Asia.

Thank you for being part of the Singapore growth story.