

Goh Chok Tong: Strengthening Singapore's position as a leading financial centre in Asia

Speech Mr Goh Chok Tong, Senior Minister and Chairman of the Monetary Authority of Singapore (MAS), at the 2005 MAS Staff Seminar, Singapore, 29 November 2005.

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Let me begin by welcoming you to the 2005 MAS Staff Seminar. It has been a busy but good year for the industry and MAS.

Positive global and regional outlook

2. Globally, 2005 looks set to end on a positive note. The IMF has projected world economic growth of 4.3% this year and sees the potential for further growth next year. The US economy remains resilient. It has withstood progressive interest rate hikes and the devastation caused by Hurricanes Katrina and Rita. While the oil market remains tight and the US current account and budget deficits continue to be cause for caution, the Greenspan era should end positively.

3. Asia is doing well. East Asia's combined economy has been growing by an average of 3.4% per year between 2000 and 2004. Take away Japan, East Asia's annual growth rate is even more impressive - 6.4%, well above the global average of 3.8%. East Asian countries have accumulated massive foreign reserves and now account for nearly 60% of global reserves. Global investors looking for better returns have shown strong interest in Asian equities, bonds and alternative investments.

4. The blockbusters in Asia's growth story are China and India. I have spoken about them in some detail last year. China and India, fast becoming global economic powerhouses, offer immense opportunities for Asia and the world.

5. But we should not overlook Japan. It is, after all, still the second largest economy in the world. Japan is experiencing renewed vigour after more than a decade of economic stagnation and deflation. Earlier this month, I was in Tokyo for the Nomura Singapore Seminar. The political and business leaders I met exuded a strong sense of confidence that Japan has turned the corner and is firmly on the path of sustained growth.

ASEAN is doing well

6. Prospects for Southeast Asia have improved. Despite the Bali bombings, regional economies remained stable. Unless there is an avian flu pandemic, we can expect ASEAN countries to grow at a steady 5% this year and next.

7. ASEAN has been deepening and quickening the pace of integration. ASEAN countries have agreed to form an economic community by 2020, with free flow of goods, services and investment. We are already seeing greater financial markets integration. The stock exchanges are exploring how to link up in terms of trading and benchmarking. The bond markets now have a regional index. The ASEAN sky will be freed up in a couple of years. Already, Low Cost Carriers have appeared on the scene. This will boost tourism.

8. ASEAN countries are crafting an ASEAN Charter. It is expected to be a visionary document that will chart the organisation's future direction. An Eminent Persons' Group (EPG) will be launched at the 11th ASEAN Summit next month. The EPG will be tasked to come up with bold and practical ideas on how to revitalise and strengthen ASEAN.

Singapore's prospects are bright

9. Given the favourable external environment, the outlook for Singapore is good. In the first nine months of this year, we have generated more than 78,000 jobs, almost 7,000 more than the whole of last year. Inflation has stayed low. This year, we expect GDP growth to be around 5%. Next year, growth should be between 3% and 5%.

10. Singapore's financial sector has grown strongly, averaging 5.4% over the first three quarters of the year, slightly higher than the overall expansion in the economy. This was supported by robust contributions from fund management and continued growth in the Asian Dollar Market.

11. Relations with our neighbours have strengthened considerably. Economic cooperation has further deepened. Singapore is the fourth largest investor in Indonesia. In February, we signed the Indonesia-Singapore Investment Guarantee Agreement (IGA), which serves to establish a framework for investors to operate in stability and confidence.

12. Political ties between Singapore and Malaysia have improved. Trade and investments across the Causeway continue to grow strongly. Malaysia is Singapore's biggest trading partner and Singapore was the second largest group of foreign investors in Malaysia last year. Temasek Holdings acquired 5% of Telekom Malaysia. In turn, Khazanah Nasional teamed up with Telekom Malaysia to take a 30% stake in M1. Such cross-border investments will further intermesh our two economies.

13. We are enhancing synergy with the Thai economy through the Singapore-Thailand Enhanced Economic Relationship (STEER) programme. Last week's second STEER meeting in Bangkok saw the signing of nine business agreements ranging from tourism to logistics. MAS and the Thai Securities Exchange Commission also signed a letter of intent for closer cooperation in capital markets.

14. Next month, Singapore and Vietnam will sign the Framework Agreement on Connectivity, which will help us leverage on each other's strengths and complementarities. Areas of cooperation include finance, ICT (Information and Communications Technologies), investments, trade and services, transport and education. Singapore is the second largest foreign investor in Vietnam, after Taiwan but ahead of Japan. The Connectivity agreement will further open up opportunities for Singapore firms in Vietnam.

Seizing the opportunities

15. Governments in Asia see the benefits of economic cooperation and are building closer links, both on a multilateral as well as bilateral basis. This will enable the private sector to take full advantage of the rich array of opportunities. I strongly encourage Singapore-based companies and financial institutions to ride the growth momentum.

16. Let me highlight a few such opportunities. As capital restrictions are gradually liberalised in their countries, Chinese and Indian individuals, financial institutions and corporates will begin to invest overseas. Singapore-based financial institutions could partner them to use Singapore as a base to expand into the region.

17. The Comprehensive Economic Cooperation Agreement (CECA) is a win-win outcome for Singapore and India. Singapore can offer a platform for Indian firms to build up their global exposure and branding. India is also a promising investment destination for Singapore firms. Under CECA, our domestic banks are allowed to open up to 15 branches in India, and they are in the process of preparing for expansion into this market. To deepen the linkage, MAS will allow Indian banks that meet our prudential standards to expand their presence in Singapore. We have approved the entry of two Indian banks which do not yet have a presence in Singapore.

18. The Japan-Singapore Economic Agreement for a New Age Partnership (JSEPA) has brought a new era of closer economic cooperation. Investments by Japan and Singapore in each other's markets have increased. Japanese companies which are looking to diversify some of their business operations into Southeast Asia can use Singapore as the gateway. Singapore-based companies can take advantage of not just the JSEPA but bilateral Free Trade Agreements (FTAs) Singapore has signed with other countries to expand into the region and beyond. When I was in Tokyo, I suggested that the JSEPA should be reviewed to see where it could be further broadened and deepened. The Japanese leaders were receptive.

19. The Middle East is another promising region. Middle Eastern investors are looking for suitable investment destinations and products both in their own countries and outside. Singapore has a good brand name in the Middle East and awareness about us is increasing. There are many opportunities for our businesses there.

20. During my visits to the Middle East, I sensed their interest in investing in Asia. Many are keen to engage China and India but their businessmen told me that they were not so familiar with doing

business in China. Singapore can serve as a bridge, given our knowledge and connections. Furthermore, Indian, Chinese and Singaporean financial institutions could tap into Islamic funds from the Middle East for infrastructural and other major projects in India and China.

21. As an international financial centre, Singapore is well placed to intermediate and facilitate investment flows between Asia and the Middle East. Already, funds managed in Singapore from the Middle East have increased by over 70% to S\$22 billion in 2004. But this is still a small figure, given the trillions of dollars of wealth in the Middle East. We should work with credible partners to offer a wider suite of Islamic financial services and products.

The role of MAS

22. MAS will continue to support and partner the financial industry to seize the opportunities. Last year, I highlighted three strategic priorities for MAS and our financial sector. They are first, strengthen our position as a leading financial centre in Asia; second, maintain excellence in a riskier environment; and third, leverage and build on our reputation. We have made good progress on all three fronts.

Strengthening our position as a leading financial centre in Asia

23. As MAS Chairman, I regularly meet CEOs of global banks and big companies. They give me a feel of how Singapore is viewed. One of the top bankers told me that he saw Singapore emerging as one of the top financial centres in Asia in the longer term. Our strong fundamentals will enable us to play a role in Asia's transformation. Another CEO told me that his bank found skill levels and costs in Singapore competitive enough for them to outsource processing work, including operations and IT development from Europe to Singapore.

24. In 2004, our treasury and capital markets grew strongly. For instance, the Singapore debt market grew by 20% to S\$123 billion. Our fund management industry has continued to flourish, with assets under management (AUM) rising to almost S\$600 billion. On the Singapore Exchange, the structured warrants market has seen tremendous growth.

25. A vibrant and dynamic financial centre depends on a vibrant and dynamic talent pool. In today's competitive environment, knowledge and talent are what will set businesses and even countries apart. In fact, one of the critical factors limiting the quick expansion of Singapore's financial industry is the availability of talent.

26. We seek to build up this talent pool in three broad ways. First, at the pre-employment stage, we ensure that the curriculum at our universities and polytechnics prepare their graduates well for entry into the industry. This is imperative if our graduates are to be relevant in a fast and ever-changing financial industry. MAS and the Institute of Banking and Finance have been facilitating closer interactions between various stakeholders to achieve this.

27. Second, emphasis is placed on continual skills upgrading. A key initiative is the Financial Industry Competency Standards (FICS). Launched in September, FICS will provide the national framework that benchmarks the competency level of our workforce against top international standards. This is an industry-led initiative. MAS is working on a funding scheme to support financial institutions that participate in this programme.

28. Third, we want to develop Singapore into a centre for financial sector research. Research can be a strategic enabler for financial institutions to develop innovative products, specialist skills and tap new markets. MAS announced a S\$10 million "Programme on Risk Management and Financial Innovation" scheme in June to support research in risk management. Going forward, MAS is seeking consultation to develop a broader industry framework to better steer and facilitate financial sector research.

29. As Singapore's small population is a constraint, we have to continue to attract global talent to complement Singapore's own. However, the competition for global talent is also very keen. We need to identify and reach out to new sources of talent and holistically profile Singapore as a country not just good to work in, but also to live, play and see the region.

Maintaining excellence in a riskier environment

30. We have continued to strengthen our macro-surveillance functions. MAS now publishes a Financial Stability Review report twice a year, in addition to the Macroeconomic Review.

31. Earlier this year, we sought feedback from financial sector stakeholders on MAS's performance in an External Perception Survey (EPS). Stakeholders have rated MAS favourably in most areas. For example, MAS' role in supervising financial institutions and bringing about a stable financial system in Singapore received positive feedback. I am heartened by this. More importantly, the industry also noted areas for improvement. Stakeholders, for instance, felt that MAS officers could be more attuned to commercial reality when formulating policies and decisions. MAS could improve the timeliness of its decision-making. MAS has taken note of the feedback and will work to improve its performance in these areas.

32. MAS' regular dialogue and consultation with the industry has worked well. We will now take this a step further by involving the industry at the early stages of policy formulation. This will give industry players the opportunity to shape policies. MAS will also be more open to suggestions of alternatives that achieve the same objectives. But for this new approach to produce results, both MAS and the industry must work together to build a high level of trust between them.

Leveraging and building on our reputation

33. Looking ahead, we must continue to build and deepen relationships with the industry and our foreign counterparts.

34. To showcase Asia to the international community, the centrepiece for next year is the 2006 IMF and World Bank Annual Meetings. In partnership with the private sector and relevant agencies, we are organising a host of seminars and events. Collectively, they are known as Singapore 2006 or S2006. S2006 is intended to create intellectual buzz and profile the dynamism and optimism in Asia.

35. A key event is the Raffles Seminar, organised by the Lee Kuan Yew School of Public Policy. It will gather leading thinkers to debate the issues and challenges countries face in achieving and sustaining good governance.

36. S2006 will require close collaboration between MAS, other government agencies and the private sector, in particular, our banks. Some of you are already working with the organising committee. I would like to thank you for your support. Together, we can make S2006 a success for Singapore.

Conclusion

37. Let me conclude. Winston Churchill said: "The optimist sees opportunity in every danger. The pessimist sees danger in every opportunity." We should be shrewd optimists - bold but not reckless, cautious but not timid.

38. For we are living in exciting times in Asia. The economic centre of gravity is shifting from West to East. This could be Asia's Century. No doubt there are serious challenges. But I believe if we are innovative, realistic and skilful, we can overcome them. And together ride the Asian wave to prosperity.

Thank you.