

Goh Chok Tong: ASEAN – the third growth engine in Asia

Speech by Mr Goh Chok Tong, Senior Minister of the Republic of Singapore and Chairman of the Monetary Authority of Singapore, at the Gala Dinner of Merrill Lynch Pan-Asia Rising Stars Conference, Singapore, 9 May 2007.

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A warm welcome to Singapore. Thank you for inviting me to your dinner and share my views on what is happening here. I will make a few observations about developments in the region and Singapore, and hope that my remarks will help digestion, rather than cause indigestion.

Let me begin by thanking Merrill Lynch for organising this conference in Singapore. Such an impressive gathering helps our goal of making Singapore an important financial and business centre. I hope the conference will serve as a forum not just for the exchange of business ideas but also the conception of new growth opportunities.

This year will be the 10th Anniversary of the Asian Financial Crisis. Despite the widespread devastation, Asian economies have bounced back. According to a recent World Bank report:

“A decade after the financial crisis that devastated East Asia in 1997-98, the region is far wealthier, has fewer poor people and a larger global role than ever before. Led by continued strong growth in China, Emerging East Asia now has an aggregate output of over US\$5 trillion, double the dollar value just before the crisis. Real per capita incomes in the previously crisis affected economies (Indonesia, Korea, Malaysia, Philippines and Thailand) have significantly exceeded pre-crisis levels.”

– World Bank’s “East Asia & Pacific Update – Ten Years After the Crisis” (April 2007)

Asia is resilient. I am confident about Asia’s future.

I do not expect military conflicts as all countries are concentrating on economic growth and building cross-national and cross-regional ties. Tensions may arise in cross-strait relations due to forthcoming elections in Taiwan but so long as the US Administration maintains its clear stand that it will not support Taiwanese independence, the situation can be managed. Terrorism remains a long-term threat but will not topple governments or drag economies down. But an avian flu pandemic will be a different threat altogether. It will tank many economies.

Barring this unpredictable risk, Asia will continue to surge over the next 20 years, powered by the twin engines of China and India. The story of China is well-known and that of India becoming increasingly so. So I shall not elaborate on them. Instead, I want to remind you not to overlook the region that is strategically-positioned between these two giants – the ten Southeast Asian countries which form ASEAN.

Let me elaborate.

A revitalised ASEAN

ASEAN is being revitalised. In response to the Asian Financial Crisis, ASEAN countries took concrete steps to tackle weaknesses in their financial and corporate sectors and implemented structural reforms. These reforms have strengthened ASEAN’s economic fundamentals and financial stability.

More importantly, ASEAN has made two important strategic moves:

- First, deepening linkages with external partners; and
- Second, accelerating intra-ASEAN integration.

Enhancing links with external partners

ASEAN has stepped up its links and integration with external players and major trading partners.

ASEAN regards China and India as two powerful engines which will help the region lift off. ASEAN has already started negotiations for Free Trade Agreements (FTAs) with both China and India. We target

to complete them by 2010 and 2011 respectively. These FTAs will provide even greater connectivity and opportunities for businesses. They will increase trade and investment flows.

Besides China and India, ASEAN is also enhancing links with other economic centres. ASEAN signed a regional Trade and Investment Framework Arrangement (TIFA) with the US last August. It is negotiating FTAs with Japan, South Korea and Australia and New Zealand. And last week, ASEAN and the European Union decided to launch FTA talks. This shows that ASEAN is confident and outward-looking. These agreements will form the economic spokes radiating from the ASEAN hub.

Accelerating ASEAN integration

ASEAN knows that the hub itself must be strengthened if it was to grow and benefit from external linkages. Hence, ASEAN is pressing ahead with closer and deeper economic integration, and strengthening the organisation politically. This will also help ASEAN to overcome the challenges of globalisation and global economic competition. Our aim is to transform ASEAN into the third engine of growth in Asia.

To do this, ASEAN has advanced the target date of establishing an ASEAN Economic Community from 2020 to 2015. ASEAN Leaders will, at their Summit in Singapore in November, issue a legally-binding blueprint to implement the ASEAN Economic Community by 2015. You may think that the time-frame is not ambitious enough but remember that ASEAN is like a centipede in its movement where all legs must move in unison. Also, the 10 countries are at very different stages of development, with per capita ranging from a low of US\$210 for Myanmar to a high of US\$31,000 for Brunei. With the ASEAN Economic Community, ASEAN will eventually evolve into a single market with free flow of goods, services, investment and talent. An integrated ASEAN is expected to boost the region's GDP by 10%.

For businesses, an integrated ASEAN means greater market access and more harmonized rules and standards. For investors, an integrated market of half a billion people will be an attractive investment destination. ASEAN's combined GDP of US\$1 trillion is not insignificant. It is, in fact, bigger than India's US\$890 billion and more than a third of China's US\$2.6 trillion.

ASEAN Finance Ministers have identified capital markets as a key area to fast-track integration. ASEAN bond markets have tripled, from US\$110 billion in 1997 to US\$410 billion in 2007. From 2001 to 2006, ASEAN market capitalization has grown by more than 120%. ASEAN has in place further initiatives to harmonise and integrate financial markets and boost liquidity.

With further harmonisation of rules and regulations and increasing capital market linkages, we look forward to the deepening of ASEAN market liquidity. As financial and capital markets in the region become more integrated, there will be seamless flows of investments and capital.

ASEAN has also made a strategic decision to strengthen its organisation politically. ASEAN is finalising a Charter that will lay out a bold and visionary future for ASEAN. It will also provide an institutional framework for the grouping and transform it into a more effective and efficient rules-based organisation. The Charter will be signed at the Singapore Summit in November.

Singapore – a global city

As for developments in Singapore, we have used the last 10 years to remake ourselves, strengthen our competitiveness and expand our economic space. We have also continued with efforts to enhance Singapore's position as a gateway to Asia by transforming Singapore into a global city.

We have enlarged our economic space by aggressively pursuing FTAs. We have concluded 11, including with the US, India, Japan, South Korea and Australia. We are negotiating 11 more FTAs, including one with China.

We have progressively restructured and diversified our economy. Manufacturing will continue to play a key role but we are also moving into more technology- and knowledge-intensive manufacturing. Fostering world-class scientific research and strengthening Singapore's attractiveness as an R&D (Research and Development) hub is a key priority. More of Singapore's growth will come from innovation and knowledge.

In the services sector, we have strengthened the key areas of tourism, healthcare, education and financial services. We have been focusing efforts to become an international fund management and wealth management centre. More financial institutions are using Singapore as a regional hub to conduct their investment activities. Singapore's asset management industry has continued to grow, with assets under management surpassing US\$430 billion. This is complemented by the presence of an active financial research community.

Singapore is also a hub for innovative equity products, including REITS (Real Estate Investment Trusts), Business Trusts, derivatives and ETFs (Exchange Traded Funds). Singapore currently has 16 listed REITs and 5 listed Business Trusts with a total market capitalisation of about US\$20 billion. Given the huge developments taking place in Asia, more foreign capital will be required and Singapore could be the hub to raise capital for Asian real estate and infrastructure players.

We are mindful of rising business costs. Office rental has gone up because of the spurt in demand. It should stabilize as more office space becomes available in the next few years. This year we have cut our corporate tax rates to 18%. I can assure you that our corporate tax rates will always be competitive.

Talent, not just banks and investment houses, are drawn to a place where the living environment is clean, green, safe and buzzing with cultural vibrancy and business excitement. We will continue to make Singapore an attractive city where foreign talent will want to come to work and live and where they will feel at home.

Conclusion

Let me conclude.

ASEAN is entering a new and exciting phase. Individually, each ASEAN country possesses unique strengths and offers unique opportunities. Together, an integrated and revitalised ASEAN holds great promise to become the third engine of growth in Asia. Singapore will contribute to the power of this engine.

I wish you a pleasant evening and hope that you will have a fruitful stay in Singapore.

Thank you.