

Goh Chok Tong: Staying ahead of the Asian curve

Speech by Mr Goh Chok Tong, Senior Minister of the Republic of Singapore and Chairman of the Monetary Authority of Singapore, at Barclays Asia Forum, Singapore, 1 November 2007.

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I extend a warm welcome to all of you, especially to those who have not come to Singapore in recent years. I would also like to thank Barclays for organising this Asia Forum as well as this weekend's Singapore Open. I hope the Singapore Open will grow in prestige as you expand your presence in Singapore and Asia.

Singapore's economic growth rates in the past few years have surprised many, including ourselves. We did not expect to be able to consistently achieve growth rates of above 6% per annum as we are a mature economy. Yes, we have remade our economy but the good growth was also due to the buoyant world economy and a surging Asia. Singapore's future growth will depend not only on our own efforts but also on our ability to anticipate trends in our external environment and stay ahead of the curve.

This morning, I would like to share with you how we see developments in Asia and the challenges before us.

Political outlook

Let me start with the political outlook.

I believe that Asia will remain stable and the regional environment conducive to growth.

Post-9/11, the world had to adjust to new insecurities posed by terrorism. In Southeast Asia, some radical Muslim groups tried to turn the region into an Islamic caliphate through terrorist acts, including suicide bombings. This threat remains, despite recent successes by security agencies in foiling attacks in Indonesia and elsewhere. However, the extremists will not succeed in their political and religious goals. More importantly, although terrorist acts may disrupt our economy, its impact pales in comparison to the structural shifts in the international order led by the re-emergence of China and India.

China's reach is now global, in search of friends, influence, markets and resources. India is also seeking to expand its links and influence abroad. The US and Japan will try to co-opt India as a countervailing weight to China. But India, while seeking to balance its relations with all three, will preserve its own independence. Both China and India will compete but they will be careful not to collide. Both desire stability for their continued growth.

Japan has adopted a more conciliatory foreign policy under Prime Minister Yasuo Fukuda. He has eschewed controversial issues such as visits to the Yasukuni shrine. He will endeavour to cultivate ties with China and India while staying steadfast with the US.

Nonetheless, there are several potential wildcards in the region.

First, the road to denuclearising the Korean Peninsula remains long and difficult.

Second, cross-strait relations between Taiwan and Beijing are entering a critical phase. Beijing is concerned that in the run-up to the Taiwan Presidential Election in March next year, President Chen Shui Bian may make one last throw of the dice which may compel China to act. How the US handles this issue will be crucial in maintaining stability across the strait.

Third, Myanmar cannot return to the status quo ante after the government's crackdown on monk-led protests. Instability in Myanmar can affect its immediate neighbours and hurt the reputation of ASEAN. National reconciliation and an agreement on phased changes and

power sharing is the only way to prevent another widespread protest, which may end up in a bloody uprising to bring about change. Therefore, ASEAN and Singapore, and so too China and India, fully support the mission by the UN Secretary General's Special Advisor, Mr Ibrahim Gambari, to help the various parties in Myanmar work towards genuine dialogue and compromise. However, this compromise is not so easy to achieve. Myanmar's military rulers, the many ethnic groups and the political players deeply distrust one another. The rulers are also highly suspicious of the outside world. This psyche of distrust was borne out of the violent and divisive history of Myanmar after World War II, its complex national make-up of many diverse ethnic groups and, until the recent agreements on ceasefire, the fighting with insurgents. There is no quick and easy solution. Negotiations will be long and complicated. We will need to give Mr Gambari some time to start the process and make patient progress.

Asia's rising share in world GDP

However, Myanmar and the other flashpoints I have mentioned are unlikely to derail Asia's growth. There is a sense of *déjà vu* that this is Asia's century. The statistics speak for themselves.

In 1980, Asia accounted for just 19% of global GDP in PPP terms. Today, it is 36%, almost doubled. By 2020, it is expected to reach 45%.

For many of you, figures on global wealth held by High Net Worth Individuals in Asia-Pacific may be more interesting. The region now accounts for 23% of global wealth held by these individuals. Merrill Lynch forecasts that Asia-Pacific's annual growth rate in private wealth will be 8.5%, and that this wealth will reach US\$12.7 trillion by 2011.

The region has learnt well from the devastating experience of the 1997 Asian Financial Crisis. Asian Governments have since built up their foreign reserves, reined in Government debt, strengthened their financial systems, and made their exchange rates more flexible.

Lessons from sub-prime crisis

Nonetheless, the current sub-prime crisis shows that we cannot afford to be less than vigilant in the financial industry. There are some lessons we can learn here.

First, a major reason why Asia has escaped the sub-prime crisis relatively unscathed is because it has not yet moved into sophisticated structured credit financing in a big way. However, I believe that Asia should press on with its efforts to develop their capital markets in order to complement the banking system and improve the robustness and efficiency of its financial system.

Second, as we pursue financial sector development, we will also see more sophisticated products coming to the fore. Market players and regulators alike must refine their understanding of the attendant risks; in particular, how shocks may be transmitted through such products. We must then develop tools to manage such risks. Indeed, much of the recent financial dislocation stemmed from opacity in the distribution and pricing of risks for derivative products. The key lessons include the need to monitor off-balance sheet exposures and to institute better management and supervision of liquidity risks. Addressing these issues will not be easy as we must avoid imposing excessive regulatory burden on market players or stifling financial innovation.

Third, as growing inter-dependence is a reality, the central bank, the financial regulator and the guardian of the public purse must work in close coordination. They must also work with key counterparts in other jurisdictions. One key issue which requires particular attention is the establishment of crisis management and resolution frameworks to minimise systemic fallout should financial institutions run into trouble.

Other challenges to sustained growth

Looking ahead, Asia faces other challenges to sustained growth.

First, global financial imbalances pose political and economic risks. Large capital inflows into Asia have resulted in excessive growth in money and credit in several countries, thus creating inflationary pressures and asset bubbles in the stock and housing markets. At the same time, there are concerns that Asia's large trade surpluses are based on undervalued exchange rates which have given Asia an unfair competitive advantage. While there is little justification for such concerns, they may result in protectionist responses from the US and the EU. A related development is that more countries in Asia and the oil-rich countries are establishing sovereign wealth funds to invest their excess reserves. The US and Europe may react nationalistically over the prospect of losing their strategic assets to foreign sovereign investors. Asia therefore needs to work with G7 countries and multilateral institutions to address these policy and political challenges posed by global financial imbalances and sovereign wealth funds.

Second, Asia's rising affluence has been accompanied by increasing income disparity. By and large, this is not a case of the poor getting poorer. But because the rich gets richer faster than the poor, the widening income gap may nevertheless erode social unity and political stability which are the very pre-requisites of growth.

Third, unrestrained economic growth often leads to environmental degradation. With heightened global consciousness over global warming, Asia will have to find ways to grow rapidly and sustainably. It has to address problems like inefficient energy use, carbon emissions and depletion of natural resources like water supplies and agricultural land. However, the responsibility is not Asia's alone. Maintaining ecological sustainability requires global initiatives, advances in technology, and changes in policies and consumption patterns.

To its credit, China is serious over environmental issues. The recent 17th CCP Congress reaffirms Chinese leaders' pursuit of "harmonious development". It also explains why Premier Wen Jiabao agreed readily to my proposal that Singapore and China jointly build an eco-city in China – a city where people, economic activities and the environment co-exist in harmony. We are in the process of choosing a non-agricultural site which lacks water, so that the eco-city there could be a model for China's new cities.

Priorities of ASEAN

Southeast Asia is an important piece of the regional structure and will play its part. Later this month, the ASEAN and East Asia Summits will be held in Singapore. Singapore, as ASEAN Chair, has identified climate change and the environment as key agenda items. This will sustain the momentum of discussions on such issues until the December UN Framework Convention on Climate Change Meeting in Bali. In practical terms, Singapore and Malaysia are working with neighbouring Indonesian provinces to tackle peat land fires and develop sustainable land-clearing practices.

While Myanmar will no doubt grab media attention at the ASEAN Summit, it will not be the most important story for ASEAN. Of greater importance is the fact that ASEAN leaders will sign a politically-binding declaration to establish an ASEAN Economic Community by 2015. ASEAN will evolve into a single market and production base with free flow of goods, services, investment and skilled labour. ASEAN, with its half a billion people and a combined GDP of more than US\$1 trillion, will then be a competitive investment proposition. ASEAN leaders will also sign the landmark ASEAN Charter which will transform ASEAN into a more cohesive, effective and rules-based organisation.

Singapore: remaking itself

As Asia rises, Singapore will not content itself with being lifted by the rising tide. It will continuously remake itself – strengthening the hull, refitting with a more powerful engine, refurbishing the interior, acquiring new knowledge and learning new skills.

To reduce dependence on the global electronics cycle, we have built strong growth momentum in areas such as financial services, tourism and biomedical sciences. Our growth will increasingly stem from knowledge- and innovation-intensive activities.

This necessitates more investment in human resource development and the creation of a workforce capable of keeping up with the demands of new economic activities. Singapore is therefore planning to build a fourth publicly funded university.

Concurrently, we are enhancing our connectivity with our major economic partners and increasing our economic space through FTAs. We have FTAs with 11 countries, including the US, India, Japan, South Korea, Australia and New Zealand. Negotiations are underway for 11 more, including agreements with China and the Gulf Cooperation Council (GCC). These FTAs will enable investors and businesses to leverage on Singapore to reach out to our FTA partners.

We will press on to develop the financial sector. We are already an important centre for asset management and the trading of financial products like foreign exchange and derivatives. We have made good progress in developing as the regional hub for innovative equity products, business trusts, exchange-traded funds (ETFs) and project finance. We envision Singapore as a centre of excellence for financial training, education and research. Hence, we are deepening specialist capabilities in fields such as risk management, financial engineering and actuarial science.

In growing our financial sector, we are mindful of industry concerns over the sharp increase in office and housing rentals and the growing waitlists for places at international schools. We are actively addressing these concerns.

Finally, Singapore is sprucing up its image as a vibrant, eclectic city with a thriving nightlife and arts scene. We know the importance of an attractive living environment for Singaporeans and foreign investors. We will take a holistic approach to become a more cosmopolitan society, a place that is clean, safe and fun for people from all over the world who can make a contribution to Singapore.

Conclusion

To conclude, the growth of China and India has energised Asia. Challenges remain but I see none which is insurmountable. All countries here share an interest in maintaining stability in the region and want to focus on economic development to give their people a better life. For Singapore, we are optimistic and are confident that we can stay ahead of the curve.

I wish all of you a fruitful Asia Forum and an enjoyable stay in Singapore.