

Lim Hng Kiang: Impact of current issues to Asia's growth and the global environment ahead

Keynote address by Mr Lim Hng Kiang, Deputy Chairman of the Monetary Authority of Singapore and Minister for Trade and Industry, at the Merrill Lynch Asia Rising Stars Conference 2008, Singapore, 14 May 2008.

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Ladies and Gentlemen,

It gives me great pleasure to address this gathering of industry leaders and rising businesses in Asia. I find the term "Rising Star" a very apt description of Asia. It reflects the rising importance as the region, and its companies, many of which are growing rapidly and looking towards the world. The Asian story has taken on a more pan-regional character with a vibrancy underpinned by strong growth in intra-Asian trade and investments. Indeed, there are many rising stars.

Asia and its companies have featured strongly in an increasingly interconnected world. The globalization trend can be seen from many aspects – movement of products and services, capital and talent. Through these links, there is greater access to global markets and resources. At the same time, there is also greater interdependence and susceptibility to contagion effect during crises. This presents a unique set of challenges and opportunities to Asia and its companies.

This conference is a good opportunity to take stock of these challenges and opportunities. You will get to hear from many expert speakers on what holds for the rising Asian business and for the investors considering Asian opportunities. Let me share a few thoughts on some of the current issues which have a bearing on Asia's growth and the global environment ahead.

Rising global food prices

The first, and perhaps most pressing issue that the world faces, is spiraling inflation. Global food prices have spiked in the recent months due to a confluence of factors. Demand has increased to feed a growing global population with a rapidly expanding middle class in the developing Asian countries. This demand is compounded by competing uses for food sources to generate biofuel and feed. Meanwhile, sources of supply have been hit by rising energy costs, increased competition for arable land, and the erratic weather. As a result, prices of many food commodities including wheat, corn, and rice, a staple for all Asians, have soared.

The United Nations has declared the drastic increase in food prices "an unprecedented challenge of global proportions" and established a task force to tackle the food crisis. This is indeed a global issue and cannot be resolved overnight. Many of these factors are structural and will take time for the demand-supply equilibrium to be established.

On the Asia Pacific front, the Asian Development Bank has recently announced US\$500 million of immediate budgetary support to help countries that have been worst hit by rising food prices. With increasing food prices and high oil prices, mitigating the impact of strong inflationary pressures will remain a key priority for many Asian governments. In such an environment, companies too will have to carefully manage the higher input and other costs and how much of that to pass on to consumers, to preserve your margins without losing either competitiveness or affordability.

Subprime crisis and Asia's continued push to deepen capital markets

The second issue is the turmoil in global financial markets. The transmission of the crisis is a good illustration of how inter-connected financial markets are today. The problem started with US subprime mortgages, in fact a relatively small part of the US mortgage market, but it rapidly escalated into other securitized markets, to more generic debt capital instruments and eventually into the wholesale or LIBOR money markets. From there, as central bank surveys have shown, there is now a general tightening of lending conditions to end-borrowers, which are exerting a drag on the US and Western European economies.

Asia has felt some of the tremors of this crisis, but as yet we have been relatively unscathed. In the banking sector, a number of banks in the region wrote off losses on their US sub-prime mortgage related assets. Compared to their peers in the US and Europe, the impact on their balance sheets and profitability has been less severe. This can be attributed to a combination of factors. Following the Asian financial crisis, banks here had taken active steps to improve their credit standing by enhancing their capital base. We are also aided by the fact that we are more reliant on traditional banking rather than the capital markets for our debt financing.

Beyond the direct impact on banks, the general reduction in risk capital and financial de-leveraging will be felt in Asia, through higher costs of capital. This is the downside that many companies and investors will have to confront. On the upside, this should further spur the efforts of Asian countries to make their own financial intermediation process more efficient. This can be done through a lowering of barriers to global capital and the building of channels to facilitate the growth of this capital. Global investors will increasingly look to Asia for investments as Asia remains an attractive area for growth in the long term. On the other hand, Asian companies will continue to require funds as they extend their global footprint.

In this regard, lessons from the subprime crisis are timely. As Asian capital markets evolve, investors and risk managers alike will need to understand the innovations and the products as they develop. I believe that some key issues in the securitization markets will also have to be addressed, such as in origination standards. How investor confidence is restored will shape the ability of companies to tap capital market solutions in the near future.

US recession and Asia's growth story

Let me now turn to the third issue, which is the impact of the US recession on Asia. Faced with falling housing prices, and rising gas and food prices, consumer sentiment in the US has been significantly affected. There are strong links between US consumption and Asian production as a significant proportion of Asian exports is finally consumed in the US. However, there are different views on the extent to which Asia's domestic consumption can cushion the decrease in US demand. This is something which you may hear more about, over the next few days, on the extent of divergence between Asia and the rest of the world.

However, the Asian growth story remains strong. The region continues to be propelled by the twin engines of China and India. According to the IMF, China will continue to grow by 9.3% in 2008 and 9.5% in 2009, a slight decline from its double-digit growth rates in the previous years, but strong growth nonetheless. Beyond Asia, we have also seen a steady increase in exports from Asia to non-traditional markets such as Latin America, Eastern Europe, Russia and the Middle East.

In terms of trade links, Asian countries have to forge closer ties with each other and with other non-Asian countries. The recent signing of the ASEAN-Japan FTA and the signing of the ASEAN-Korea FTA Trade in Services Agreement last year, both represent a steady move towards greater economic integration within Asia. In this respect, Singapore is well placed to leverage on our extensive network of FTAs. Asian businesses keen on expanding beyond their home markets should capitalize on these links to extend their market reach.

Climate change and environmental sustainability

Another longer term issue that the world has to deal with is climate change. This is a topic of increasing importance and it is timely that Merrill Lynch has introduced the environmental theme in this year's conference. Many countries have come to realize that economic development without taking into account the environmental cost presents a classic case of the Tragedy of the Commons. Problems caused by climate change and global warming affect all of us.

As a country lacking in natural resources, Singapore sees a critical need to promote sustainable development. Singapore's National Research Foundation has dedicated significant resources to facilitate research efforts and encourage commercial spin-offs. R&D initiatives have been complemented by both domestic and foreign investment in the areas of sustainable water and solar energy projects. Some of you would have read about Renewable Energy Corp from Norway, which is building a Euro 3 billion plant in Singapore for the manufacturing of solar modules. By 2010, NEWater, our very own water recycling industry, will be able to meet 30% of Singapore's water demand.

Singapore has also adopted a model to promote sustainable urban design for housing development, environmental management and transportation. For example, Singapore is working with China on a project to help develop environmentally friendly townships via the Singapore-Tianjin Eco-city project.

Access to funding for such projects is the key to the success of developing a sustainable model of urbanization and production of renewable energy. In this respect, I am pleased to note that Singapore capital markets has already facilitated the funding of projects such as Hyflux water treatment plants in China via a SGX listed business trust IPO completed last year.

Underlying all the initiatives I have just mentioned is the potential demand for environmentally sustainable solutions. The promise of such solutions, besides in offering economic opportunities, lie in their potential to address the rising challenges of urbanization, increasing energy prices and shortage of clean water. Asian businesses should position themselves for the gradual shift towards greener living as such technologies are not only socially acceptable, but also socially demanded.

Corporate governance

Before I conclude, let me share one final thought. Asian SMEs, in their bid to become top Asian and global companies, should devote attention to corporate governance. A sound corporate governance structure will help to ensure proper management practices, robust internal processes, and prudent controls. In the long term, these practices will help foster a strong reputation and increase the franchise value of the company, paving the way for Asian SMEs to expand into global markets. Indeed, global competition will require companies to be held to such high standards, especially those demanded by institutional shareholders.

Closing

To sum up, Asia and Asian businesses are poised for exciting times in an era of rising prosperity and growth. There will be both challenges and opportunities. One need not be daunted by the challenges. However, there is a need to manage and mitigate the risks that come with the opportunities. Underlying these challenges is the fact that the world is becoming more interconnected and interdependent. Conferences such as today's forum will present useful meeting grounds to exchange information, establish new networks and to lay the foundations for regional cooperation and mutual learning.

On this note, I wish you a successful conference. Thank you.