

# Jacqueline Loh: Shanghai and Singapore - synergies amidst a dynamic Asian financial landscape

Keynote address by Ms Jacqueline Loh, Deputy Managing Director of the Monetary Authority of Singapore, at the Second Shanghai-Singapore Financial Forum, Shanghai, 30 November 2016.

\* \* \*

Ladies and Gentlemen

## **Introduction**

1 Good afternoon, it is my pleasure to join you at the 2nd Shanghai-Singapore Financial Forum (SSFF).

2 In November last year, the Monetary Authority of Singapore (MAS) and the Shanghai Municipal Financial Services Office (Shanghai FSO) launched the inaugural SSFF. That was a significant and important milestone. As the Chinese saying goes, 二人同心，其利断金. The SSFF is more than just a forum. It is a reflection and commemoration of the longstanding relationship and cooperation between Shanghai and Singapore. Following last year's success, both sides are keen to build on the good momentum achieved and bring our relationship to a higher plane.

3 The aspirations of both the MAS and Shanghai FSO are reflected in the theme for this year: **“Shanghai and Singapore – A Partnership for a New Asian Financial Landscape”**. Our hope is that both cities can work together to forge a stronger, more future-ready partnership ahead. This is important for both Shanghai and Singapore, which are international financial centres in the midst of a rapidly evolving Asian financial landscape.

4 Let me outline briefly what we have achieved together so far and highlight the synergies that we see ahead for both Shanghai and Singapore.

### **1. A Strong Foundation for Shanghai – Singapore Partnership**

5 Over the years, China and Singapore have developed a strong bilateral relationship. Trade and economic ties are robust and strong. This is a firm foundation for the Shanghai – Singapore relationship to grow from strength to strength:

- ♦ In 2015, Sino-Singapore bilateral trade rose 1.6% year-on-year to SGD 123.5 billion or about USD 90 billion. For the third consecutive year, China was Singapore's largest trading partner. Singapore was China's 3rd largest trading partner in ASEAN<sup>1</sup>. During the same period, Shanghai – Singapore bilateral trade saw steady growth to reach almost USD 13 billion.
- ♦ In 2015, Singapore's investments into China amounted to about USD 7 billion, an increase of 18.5% from 2014. For the third consecutive year, Singapore was China's largest foreign investor<sup>2</sup>. Singapore was China's 5th largest investment destination. Singapore's actual investments into Shanghai expanded an impressive 160% year-on-year to reach USD 2.2 billion in 2015.

6 In particular, financial cooperation between both countries has thrived. In September this year, President Xi Jinping met PM Lee Hsien Loong at the side-lines of the G20 meetings in Hangzhou. Both leaders noted the positive progress achieved in the latest government-to-government (G-to-G) project in Chongqing. Financial cooperation was highlighted as an area that has made strong headway. China and Singapore also achieved several new financial cooperation milestones in 2016. I would now like to highlight the key initiatives that both sides

have delivered this year:

**First, Singapore took key measures to deepen our commitment to China's markets:**

- ♦ **In January this year**, MAS was amongst the first group of central banks and sovereign wealth funds to sign up to participate in China's inter-bank foreign exchange market. In addition, the third China-Singapore government-to-government project was launched in Chongqing.
- ♦ **In June this year**, MAS announced the inclusion of RMB investments as part of Singapore's Official Foreign Reserves. This was done in recognition of the steady and calibrated liberalisation of China's financial markets, and the growing acceptance of RMB assets in the global portfolio of institutional investors.

**Second, we have strengthened supervisory cooperation:**

- ♦ **In April**, the inaugural China Securities Regulatory Commission (CSRC)–MAS Supervisory Roundtable was held to exchange views and perspectives on supervision of capital markets activities.
- ♦ **In July this year**, the China Insurance Regulatory Commission (CIRC) and MAS organised our first exchange session to facilitate deeper bilateral discussions in the area of insurance.

**Third, we continued to broaden financial cooperation:**

- ♦ **In March**, the existing cross-border RMB initiatives in Suzhou Industrial Park and Tianjin Eco-city were expanded to the cities of Suzhou, Tianjin and Chongqing.
- ♦ **In July**, MAS' Managing Director Mr Ravi Menon hosted the Singapore-China (Chongqing) Financial Conference. The event saw a good response of more than 400 participants.

7 Built upon a bedrock of strong financial cooperation ties, the Shanghai –Singapore partnership has flourished over the years. I foresee that our partnership will receive a boost under a more dynamic Asian financial landscape.

## **II. Evolving New Asian Financial Landscape**

8 Many observers have expressed their opinion that in recent years, a gradual shifting of the world's economic centre of gravity to Asia has taken place. With the shift, many expect a new Asian Financial Landscape to emerge, presenting tremendous new opportunities ahead. Let us look at how this financial landscape is expected to evolve:

- ♦ **Asia's economic size and rate of growth will pack a much stronger punch in the new era.**
  - ♦ In 1990, **Asia's share of global GDP** was 23.2%. By 2014, this had increased to 38.8%, much larger than the shares of the U.S. and the E.U. If current growth trends continue, Oxford Economics forecast that Asia's share will reach nearly 45% by 2025<sup>3</sup>.
  - ♦ OECD estimates<sup>4</sup> that the **size of the global middle class** will increase to 4.9 billion by 2030. The bulk of this growth will come from Asia. By 2030, Asia will represent almost two-thirds of the global middle-class population and almost 60% of middle-class consumption.
- ♦ **With increasing economic weight, Asia is expected to play a leading role in global financial markets.** I made similar observations in a speech last week at the ASIFMA Annual Conference in Singapore:
  - ♦ **Equity markets** in Asia recorded strong growth over the past ten years. Today, four out

of the top 10 global exchanges are in Asia<sup>5</sup> and Asia contributes nearly half of the total number of IPOs globally<sup>6</sup>.

- ♦ During the same period, Asia's **bond market** has grown at an annualized growth rate of 24% to reach USD 4.7 trillion in 2015, accounting for 9% of global corporate bond market outstanding volumes<sup>7</sup>.
  - ♦ Some analysts<sup>8</sup> estimate that the **size of the financial system** in Asia could reach USD 200 trillion by 2030. This is four times its current size and more than double the projected size of the U.S. financial system.
- ♦ **Developments in global markets will be increasingly driven by Asia's growing economic and financing needs.**
- ♦ This is well-evidenced in the **wealth management**<sup>9</sup> space. In 2015, as global high net-worth individual (HNWI) wealth grew at a modest 4% globally and just 2% in North America, Asia-Pacific wealth expanded by 10%. 2015 also became the year that Asia-Pacific overtook North America for the first time to become the region with the most HNWI wealth and population globally<sup>10</sup>. HNWI growth in Asia-Pacific has doubled over the decade and if the trend persists, Asia-Pacific will represent two-fifths of the world's HNWI wealth by 2025.
  - ♦ In **infrastructure financing**, Asian financial institutions will be well placed to meet the significant financing needs of around USD 8 trillion of infrastructure projects in Asia, as estimated by the Asian Development Bank (ADB).
  - ♦ In **commodity markets**, Asia's influence has also grown stronger. Demand from the U.S. used to be the key driver for global oil prices. This is no longer the case. Research has shown that the Asia-Oceania region is now the world's leading consumer of petroleum and other liquid fuels<sup>11</sup>. Recognising this, CSRC Vice Chairman Fang Xinghai accurately reflected in May 2016 that China is now "facing a chance of a lifetime to become a global pricing centre for commodities"<sup>12</sup>.

9 The emerging trend highlights that Shanghai and Singapore are facing an important crossroad ahead. As international financial centres in Asia, we can strategically position ourselves to play key roles in shaping the new Asian financial landscape. Both cities are the gateways to two of the most important economic regions in Asia – China and ASEAN:

- ♦ **The China story is a familiar and also fascinating one.**
  - ♦ By 2050, China could account for one-third of the world's economy. China's banking system could grow to become the largest in the world within 4 years by 2020<sup>5</sup>.
  - ♦ Today, global financial institutions are paying close attention to China's increasing importance in global markets. As China's financial markets progressively liberalise, their global influence will likely extend further.
  - ♦ For a start, China's 10 trillion stock market and 9 trillion interbank bond market, and this is in USD, will likely be included into global stock and bond indices over the next two years. Re-balancing of portfolios by global investors will lead to an upsurge of financial flows into China, enhancing the internationalisation of China's financial markets.
- ♦ **The ASEAN story is equally compelling as the region transforms into an economic powerhouse.**
  - ♦ With a combined GDP of USD 2.4 trillion in 2015, ASEAN was the third-largest economy in Asia and the sixth largest in the world<sup>13</sup>.
  - ♦ ASEAN is the second-fastest growing economy in Asia after China, expanding by 300% since 2001<sup>14</sup>. It is the 3rd largest market in the world with 622 million people in 2014

behind only China and India<sup>15</sup> and has the third-largest labour force in the world.

- ♦ Mckinsey<sup>16</sup> estimates that there are currently 67 million households in ASEAN which are part of the “consuming class<sup>17</sup>”. This number could grow to 125 million by 2025. This means that ASEAN will be a pivotal consumer market of the future.

### **III. Seizing Synergies between Shanghai and Singapore**

10 Against this backdrop, Singapore sees greater opportunities for collaboration with Shanghai. As international financial centres serving different but complementary parts of the Asian financial system, there is much scope for both sides to explore common interests for synergies.

11 Shanghai remains at the forefront of China’s financial reforms. Continuous strong pace of financial development and innovation is a hallmark of Shanghai’s success. To cite a few noteworthy initiatives: (i) a Shanghai Free Trade Zone (FTZ) bonds pilot scheme was recently announced<sup>18</sup>; (ii) the Shanghai Insurance Exchange was successfully launched in June 2016<sup>19</sup>; and (iii) the China Internet Finance Association was established in Shanghai in March 2016<sup>20</sup>. These initiatives demonstrate that Shanghai is a role model in pioneering financial innovation in China.

12 Going forward, I see strong potential for Shanghai and Singapore to synergize and collaborate in a few areas:

#### **(i) Collaborating with Shanghai Authorities on Free Trade Zone and/or Pilot Financial Policies**

- ♦ During their meeting in Hangzhou, President Xi remarked to Prime Minister Lee that Singapore could play “a useful role” in China’s newly announced FTZs. Singapore could also be a strategic partner to pilot financial policies implemented in the Shanghai FTZ.
- ♦ As a key offshore RMB centre, Singapore has always been supportive of China’s financial liberalisation and internationalisation policies. Singapore financial institutions are keen to work with Shanghai authorities and financial institutions. Their deep international and ASEAN experiences could contribute to effective calibration of the pilot schemes.
- ♦ Some good examples of Singapore’s involvement in implementing pilots include the following:
  - ♦ In February 2014, shortly after PBOC announced its support for more cross-border RMB transactions in the Shanghai FTZ, ICBC Singapore made two cross-border RMB loans to firms based here in the Shanghai FTZ.
  - ♦ In October 2015, DBS China was among the first batch of banks selected to participate in the Shanghai-based Cross-Border International Payment System (CIPS).
- ♦ Beyond banking, Singapore capital market players can also work with Shanghai authorities to pilot financial policies related to the asset management and securities sectors.

#### **(ii) Belt-and-Road Partnerships**

- ♦ China’s Belt-and-Road Initiative (BRI) offers another important area of collaboration between Shanghai and Singapore. This will also contribute to the fulfilment of China’s national objectives. Shanghai could tap on Singapore’s role as a regional infrastructure-financing hub in ASEAN to jointly access infrastructure opportunities in the region. Additionally, both financial centres can work together to develop innovative capital market solutions for infrastructure projects in China, ASEAN and in third countries.
- ♦ Key financial institutions in China are already working closely with Singapore on this front.

They have significantly scaled up their BRI-related activities in Singapore over the past two years. China and Singapore financial institutions are tapping on each other's strengths to help Chinese firms "go out". For example:

- ♦ In June 2015, Bank of China (BOC) issued four currency "Silk Road" bonds in Singapore, which included a SGD 500 million tranche and a RMB 5 billion tranche.
  - ♦ In August 2016, China Construction Bank (CCB) listed its first RMB 1 billion BRI infrastructure bond on the Singapore Exchange (SGX).
  - ♦ In September 2016, Industrial and Commercial Bank of China (ICBC) signed an agreement with the Singapore Exchange (SGX) to support Chinese companies looking to list equities or bonds on SGX. Both parties will also explore collaboration in derivatives trading, bond trading and market making of RMB-denominated contracts listed on SGX.
  - ♦ Since November 2015, three of China's top four banks (ICBC, CCB and BOC) have signed MOUs with International Enterprise Singapore to deepen BRI partnerships in ASEAN. These MOUs brought in more than SGD 90 billion worth of financing for BRI-related projects and to support Chinese and Singapore firms investing into BRI countries.
- ♦ I am confident that opportunities abound for Shanghai and Singapore to deepen collaboration on this front. I believe that BRI-related cooperation between both financial centres will become a distinguishing mark of the new Asian financial landscape ahead.

***(iii) Working Together on Future-Ready Initiatives in the area of Financial Technology (FinTech):***

- ♦ Both Shanghai and Singapore recognise the vital importance of harnessing new financial technologies for sustainable growth of their financial sectors. This is a critical ingredient for future-ready international financial centres in Asia. Shanghai is already home to some of the largest FinTech firms in the world<sup>21</sup>. It is proactively taking measures to achieve its vision of becoming a global centre of innovation, science and technology (IST), which will also bring synergies between the financial and IST sectors.
- ♦ Singapore, meanwhile, is committed to building a Smart Financial Centre where technology and digitisation is pervasive in the financial sector and beyond<sup>22</sup>. MAS has rolled out a range of initiatives with strong government support designed to grow and anchor a rich and diverse FinTech ecosystem in Singapore. There are now more than 200 FinTech start-ups in Singapore and a vast majority of them have opened in the past two years. According to a KPMG report in July, this was the fastest growth rate in Asia. In September, Singapore tied with London for pole position as a FinTech hub in a Deloitte report<sup>23</sup>.
- ♦ There is much that Shanghai and Singapore can work together on in terms of FinTech. While some start-ups or tech companies aim to disrupt or dis-intermediate the financial services industry, there are many others that want to work alongside financial institutions. Singapore, being home to more than 20 global financial institutions' innovation labs, offers a window for these companies to work with these institutions and gain global market access. Singapore, as a gateway to ASEAN and India and as a leading FinTech hub, is an ideal place for Shanghai-based FinTech firms to expand into as part of their internationalisation plans.
- ♦ Finally, Shanghai and Singapore authorities can also share knowledge in relation to balancing FinTech innovation with prudent regulation, governance and importantly, risk management, while nurturing progressive FinTech communities in both centres.

**IV. Conclusion**

13 MAS and Shanghai FSO are honoured that a distinguished line-up of panel speakers from Singapore and Shanghai have agreed to join us today. I am confident that you will enjoy the

interesting and important topics for discussions, presented with insightful perspectives. Let me end here with another Chinese saying 双轨并进，共创前程。I look forward to MAS working closely together with the Shanghai FSO and the industry to make the Shanghai-Singapore Financial Forum even better in the future. On this note, I wish you a very fruitful forum ahead. Thank you.

- 
- <sup>1</sup> Singapore was China's 10th largest trading partner in 2015, globally.
  - <sup>2</sup> Singapore was China's 2nd largest external investor (after Hong Kong) in 2015.
  - <sup>3</sup> Oxford Economics, Global Economic Databank, November 2015
  - <sup>4</sup> [oecdobserver.org/news/fullstory.php/aid/3681/An\\_emerging\\_middle\\_class.html](http://oecdobserver.org/news/fullstory.php/aid/3681/An_emerging_middle_class.html)
  - <sup>5</sup> WFE 2015 and 2006 data
  - <sup>6</sup> EY global IPO Trends 2015 and PWC Asia IPO Survey Report 2007–2011
  - <sup>7</sup> Dealogic data
  - <sup>8</sup> Based on a March 2014 report by ANZ Research titled "Caged Tiger: The Transformation of the Asian Financial System". [bluenotes.anz.com/posts/2014/03/unleash-the-tiger/](http://bluenotes.anz.com/posts/2014/03/unleash-the-tiger/)
  - <sup>9</sup> Statistics are based on Capgemini's 20th World Wealth Report released in June 2016.
  - <sup>10</sup> Asia-Pacific held USD 17.4 trillion in wealth with a 5.1 million HNW population compared to North America's USD 16.6 trillion in HNW wealth and 4.8 million in population.
  - <sup>11</sup> US Energy Information Administration, Short-term energy outlook (Table 3d), November 10, 2015.
  - <sup>12</sup> CSRC Vice Chairman Fang Xinghai made these remarks at the Shanghai Futures Exchange annual conference in May 2016.
  - <sup>13</sup> [asean.org/storage/2015/11/AECat-a-glance-2016\\_web\\_version2.pdf](http://asean.org/storage/2015/11/AECat-a-glance-2016_web_version2.pdf)
  - <sup>14</sup> [www.usasean.org/why-asean/asean-economy](http://www.usasean.org/why-asean/asean-economy)
  - <sup>15</sup> "Fact Sheet on ASEAN Economic Community (AEC)" published by ASEAN Secretariat, December 2015.
  - <sup>16</sup> [www.mckinsey.com/industries/public-sector/our-insights/understanding-asean-seven-things-you-need-to-know](http://www.mckinsey.com/industries/public-sector/our-insights/understanding-asean-seven-things-you-need-to-know)
  - <sup>17</sup> Households with incomes exceeding the level at which they can begin to make significant discretionary purchases.
  - <sup>18</sup> Recently, Shanghai FTZ launched a pilot scheme to give foreign investors greater access to RMB-denominated bonds in the FTZ. The Shanghai government will soon issue the first batch of FTZ bonds worth RMB 3 billion.
  - <sup>19</sup> The Shanghai Insurance Exchange, China's first insurance asset trading platform was launched in June 2016. With an aim of improving insurance asset management channels, its first two insurance asset products were launched a few weeks ago.
  - <sup>20</sup> In March 2016, the China Internet Finance Association was established in Shanghai by the People's Bank of China. This is the highest-level national self-regulatory organisation for the burgeoning internet finance sector in China.
  - <sup>21</sup> 3 of the top 5 FinTech companies globally (ranked by FinTech Innovators) are based in or near Shanghai. Top-ranked Ant Financial is based in Hangzhou, while 4th ranked Lu.com and 5th ranked ZhongAn Insurance are based in Shanghai itself.
  - <sup>22</sup> For example, one strategic thrust is to help businesses digitise their processes and integrate them with electronic payments solutions, so as to maximise productivity and efficiency gains.
  - <sup>23</sup> Based on Deloitte's report released in September 2016 titled "Connecting Global FinTech: Hub Review 2016".

