Jacqueline Loh: Strengthening Shanghai-Singapore cooperation – anchoring stability and seizing opportunities

Welcome address by Ms Jacqueline Loh, Deputy Managing Director of the Monetary Authority of Singapore, at the 3rd Singapore-Shanghai Financial Forum, Singapore, 12 April 2017.

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Shanghai Municipal Government, Deputy Secretary General Mr Jin Xingming

Shanghai Municipal Financial Services Office, Director General Dr Zheng Yang

Distinguished Speakers and Guests

Ladies and Gentlemen

Introduction

1 Good morning, and welcome to the 3rd Singapore-Shanghai Financial Forum. It is a great pleasure to welcome our good friends from Shanghai, as well as our strong representation of local stakeholders joining us at the forum today.

Uncertainty is the New World Order

2 The second edition of the forum was held in November last year. Since then, global economic activity has firmed, led by robust consumption in the US and a pickup in China's underlying growth momentum. The Eurozone and Japan have also registered steady expansions on account of stronger domestic demand and exports, respectively. Concurrently, the turnaround in commodity prices last year, followed by an IT upswing in Q4, have improved the prospects for emerging markets, including the trade-dependent economies here in Asia. A range of indicators have picked up in tandem with the strengthening of manufacturing and trade in the region, and forward-looking surveys reaffirm a continued mild improving trend into 2017. Within the region, domestic demand has generally been resilient and overall growth this year will receive additional support from the stronger performances of export industries.

3 Yet amid this cautious optimism, we should acknowledge the continued unevenness in the strength of the expansion across regions in the global economy, as well as the persistence of policy uncertainties, which will weigh on firms' long-term spending commitments. We are also confronted with the seeming rise of nationalism and growing populism which can have unpredictable effects on policies and growth. Against this backdrop, the uncertainty over trade policies and the future of the multilateral trading system is another area of concern of trading nations in Asia, as it comes at a time when important underlying structural shifts in global production and trade arrangements are already taking place.

4 In the financial sector, the advent of FinTech – driven by unprecedented mobility, connectivity and computing power – possesses the potential to fundamentally change the way intermediation takes place in the financial sector.

5 Indeed, it seems that continuous shifts and unrelenting changes are the defining characteristics of the future economic and financial landscape.

Finding Opportunities amidst Uncertainty

6 While some degree of uncertainty is inevitable in this environment, there remain several broad trends which will unfold and present opportunities which Shanghai and Singapore institutions can leverage together.

7 First, China’s future direction in financial sector deepening and liberalisation is clear. President Xi Jinping announced at the G20 Summit last year that China would continue with efforts to make the RMB an international currency and further internationalize China’s financial sector.

8 To support such efforts in Shanghai, Singapore financial institutions can partner the Shanghai authorities and financial institutions to spearhead policy innovation supporting the liberalization agenda. For example, DBS participated in underwriting the pilot issuance of free trade zone (FTZ) bonds by the Shanghai Municipal Government last year, demonstrating how the complementarity of overseas networks that foreign banks provide can contribute to the internationalization of China’s capital markets.

9 Second, the Belt and Road Initiative (BRI) will remain a priority trans-national initiative in China. During the National People’s Congress meetings last month, President Xi suggested that the Shanghai FTZ could be a bridgehead for the BRI, to help domestic companies channel investment overseas and set up a legal framework in line with international trade and investment rules. As a hub for trade and investment flows in Southeast Asia, Singapore would be a natural partner to Shanghai in realizing this vision to promote trade and investment flows between China and the ASEAN region.

10 Third, technology will continue to present benefits and opportunities to the financial sector. As leading FinTech centres, there is great scope for Shanghai and Singapore to harness technology together in a purposeful way, while ensuring appropriate and responsive regulatory frameworks to safeguard against possible new risks.

Anchoring Stability, Leveraging Opportunities

11 Shanghai and Singapore can look forward to further strengthening collaboration and deepening mutual understanding in these as well as other areas. Indeed, Shanghai Pudong Development Bank (SPDB)'s decision to establish its branch in Singapore – the first for SPDB outside China – is testament to the bank’s confidence in deepening Shanghai-Singapore ties.

12 So how do we leverage the strengthening ties and the positive developmental trajectory to benefit Shanghai and Singapore as regional financial centres? Allow me to propose some suggestions, which I hope would lead to further discussion during the forum today.

13 **Amidst the current focus on developing China’s onshore capital markets to support capital market liberalization and RMB internationalization, Singapore and Shanghai financial institutions can work together in developing appropriate risk management and hedging tools.** A wider suite of risk management tools would address the needs of a larger pool of investors, which would in turn facilitate more investments into China’s capital markets.

14 **To support the Belt and Road Initiative, there is room for Shanghai and Singapore financial institutions to develop a comprehensive financial architecture** to support the wide range of financial needs related to the initiative.

a. **First, both can work together to encourage greater use of capital markets and direct financing channels.** To incentivise the use of bond markets for financing purposes, MAS introduced the Asian Bond Grant Scheme in Nov 2016, for first-time Asian bond issuers. To make it more attractive to tap international bond markets, the scheme offsets up to 50% of issuance costs arising from engaging related legal, arrangement and credit rating services. Shanghai and Singapore financial institutions can work together to encourage Chinese corporates to leverage the scheme and access direct financing for their BRI projects overseas.

b. **Second, the BRI also presents a good opportunity for promoting sustainable financing**, given the potential negative environmental impact from unsustainable forms of infrastructure development. China leapfrogged into top position as the largest issuer of green bonds globally in 2016[1]. There is much that Singapore can learn from. To encourage green bond issuances, MAS introduced the Green Bond Grant Scheme in March of this year to offset the costs of external reviews required for issuing sustainability-oriented bonds. Together, Shanghai and Singapore can grow the global green bond market and play important roles in furthering sustainable financing.

c. **Third, there is also room for Shanghai and Singapore insurers to provide better insurance coverage of BRI projects.** BRI projects can leverage insurance pools or consortiums to manage risk exposures of large-scale infrastructure projects. Shanghai and Singapore insurers can participate in regional insurance pools to provide more comprehensive coverage for a wider range of risks, while introducing new projects that would enhance the profitability of these insurance pools.

15 **In the FinTech space, Shanghai and Singapore can collaborate in creating a conducive eco-system for FinTech companies and start-ups.** The need for collaboration arises from the fact that technology companies are dynamic and continually looking to internationalize their businesses. For example, CXA Group, a health technology start-up established in Singapore, is expanding its services to China and is planning to partner Shanghai Zhongheng Insurance Brokers for its China expansion. There is scope for collaboration to enhance our mutual understanding of new business models and assist in negotiating regulatory hurdles for these companies.

16 One important aspect of enhancing the eco-system is the enrichment of the range of financing opportunities for FinTech companies. Venture capital (VC) managers are an essential component of the start-up eco-system, providing capital as well as expertise to start-ups and early growth businesses. China already has the largest concentration of VC funding globally[2]. Singapore also hopes to create a conducive environment for VCs by simplifying the approval process and regulatory regime for VC managers. At the same time, we hope to expand the range of funding options to cater to the varied needs of companies at different stages of development.

17 **Finally, there is also room to deepen information and knowledge exchange between Shanghai and Singapore industry participants.** To this end, MAS and the Shanghai Financial Services Office are discussing a customised training programme to encourage mutual exchange between financial sector players. Through such exchanges, industry participants can get a better understanding of each other's markets and enhance their knowledge of specialized topics.

18 And this marks only the beginning of our long-term relationship. We hope that such exchanges would pave the way for many opportunities for meaningful collaboration between both cities, resulting in synergistic outcomes that will elevate both cities through the new financial world order. Expressing this aspiration in mandarin: 新沪友谊深, 共创新思路.

19 These are some thoughts for everyone to consider. I am sure our strong panel of speakers will provide even greater insights during the discussions later. I wish you a fruitful day ahead at the forum.

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1 *China accounted for 39% of global issuance in the year, with USD 36.2bn (RMB 238bn) in labelled green bonds issued.*

2 *China accounted for more than half of all fintech investments globally in 2016, specifically in terms of venture capital.*