Ravi Menon: Expanding connectivity amidst rising trade tensions

Keynote address by Mr Ravi Menon, Managing Director of the Monetary Authority of Singapore, at the Singapore-China (Chongqing) Financial Summit, Chongqing, 2 November 2018.

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Mayor Tang Liangzhi, distinguished guests, ladies and gentlemen, good morning.

First, let me thank the Chongqing municipality for hosting this inaugural Singapore-China (Chongqing) Financial Summit.

- Your warm hospitality, efficient arrangements, and sumptuous dinner last evening have already gotten this Summit off to a very good start.
- This year, we are especially pleased to have with us guests not only from Singapore and Chongqing but also from ASEAN and China's Western Region.

This Summit marks a new milestone in the Chongqing Connectivity Initiative ("CCI").

- The CCI will begin to play a key role now in strengthening connectivity not only between China and Singapore, but between China's Western Region and ASEAN.

A Troubled Trade Landscape: Asia's Response

Our efforts to deepen connectivity have taken on added significance amidst the troubled trade environment we are witnessing globally.

Ongoing trade tensions will pose risks for Asian economies – which rely heavily on global trade.

- The immediate impact of the tariffs imposed to-date has been mild; they affect about 2% of global trade.
- They are estimated to shave off about 0.2% points from China's GDP growth in both 2019 and 2020.
- ASEAN's exposure to US-China trade flows amount to about 0.7% of the region's combined GDP on a trade in value-added ("TiVA") basis.

The effects of the tariffs will likely become more discernible as we go into 2019 - especially if the coverage of these tariffs is expanded.

- Even so, the longer term effects are not expected to be large, as supply chains reconfigure and production networks adjust.

If the current trade conflict persists, the more serious casualty is perhaps not trade but investment.

- Trade conflicts are bad for confidence, and businesses around the world may scale back investment amidst uncertainty.
- A decline in investment will reduce productive capacity, delay technological upgrading, and compromise productivity growth.

We hope that the trade dispute is resolved through dialogue and compromise and not be allowed to escalate into a full-fledged trade war.

But while trade tensions have clouded the short term outlook, the Asian growth story remains intact and offers great promise for the future.

First, the structural trends supporting Asia's long term growth are still in place.

- This includes rising education levels, rapid urbanisation, and a burgeoning middle class all across Asia.
- Yes, trade remains Asia's life-blood, but domestic demand is already emerging as a key driver of growth in the region.

Second, Asia is increasingly trading within itself – as a source for imports and a final destination for exports.

- Countries in Asia conduct substantial trade among themselves, in both intermediate inputs and final goods.
- In trade in value-added terms ("TiVA"), more than one-third of the exports from the five economies of Northeast Asia and the eight economies of Southeast Asia[1] ends up in the region itself – this is nearly twice their exports to the US.

ASEAN in particular is becoming a major economic force in Asia.

- It is a US$2.4 trillion market with over 630 million people.
  - Based on current growth rates, ASEAN is expected to become the fourth largest market by 2030, behind the EU, China, and the US.
- ASEAN has emerged as a key global manufacturing region, with extensive supply chains linking the individual economies and to China.
  - ASEAN is the world's fifth largest manufacturing economy in value-added terms.

So, in the face of rising trade protectionism, it is important for Asian economies to strengthen trade, investment and infrastructure networks to sustain long term growth.

- Indeed, the best response to trade restrictions is to further liberalise trade among willing economies.

And this is exactly what Asia is doing.

The Regional Comprehensive Economic Partnership ("RCEP") is a good example.

- It brings together the ten ASEAN economies and China, India, Japan, Korea, Australia and New Zealand.
- It signals the region's commitment to freetrade.
- Negotiations are ongoing, but when successfully concluded, the RCEP will create the world's largest trading bloc, covering one-third of global GDP.

And by the end of next month, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("TPP-11") will enter into force.

- It is not as big as the RCEP but TPP-11 will eliminate most existing tariffs among the eleven economies across Asia and Latin America, simplify customs procedures, and introduce strong provisions to boost modern services and a digital economy.

Trade and investment linkages between China and ASEAN, in particular, are deep and have been growing over the years.

- Bilateral trade between China and ASEAN has increased by an average 13% per annum since 2005.

- China is ASEAN's top trading partner and third-largest source of foreign direct investment.

In short, the fundamentals for growth in ASEAN and China are strong.

- And if we can deepen and broaden the integration between our two regions, it will help soften the impact of external trade protectionsim and sustain Asia's dynamism and long term growth.

Key Achievements of the CCI

Against this broader imperative to strengthen trade and investment connectivity between China and ASEAN, the CCI has made good progress.

Mayor Tang has highlighted the key achievements of CCI. Let me highlight just a few examples which may be of interest to our friends from China here.

Chinese firms continue to benefit from raising capital in Singapore's financial centre.

- As of August this year, 51 CCI qualifying cross-border financing deals worth US$4.2 billion have been completed.

The scope of cross-border financial services has extended beyond Chongqing to other parts of Western China, and new channels for cross-border financing have opened up.

- China Aoyuan Property Group Limited, a firm from Western China, listed two bonds, totalling US$700 million on the Singapore Exchange this year.
- China's first cross-border REIT containing outlet malls in the Western Region was launched on the Singapore Exchange this year, with a US$322 million IPO listing.

Raising capital in Singapore has allowed Chinese companies to diversify their investor base, taking advantage of Singapore's S$3.3 trillion pool of assets under management.

And as the largest REIT market in Asia ex-Japan, Singapore can help connect Chinese assets with a diversified pool of investors, including high net worth individuals from ASEAN and global sovereign wealth funds.

New Connectivity for New Growth: Western China and ASEAN

The CCI has made great strides in strengthening the collaboration between Chongqing and Singapore. Now is the time for CCI to take flight, and soar in reach of broader connectivity between Western China and ASEAN. Let me cite four areas where we can do this.

First, building robust channels for SME financing.

ASEAN and the Western Region can work together to develop more innovative SME financing solutions.

- Our financial institutions from both sides have started to collaborate in this area.
- One of Singapore's banks, OCBC, has partnered Chongqing Rural Commercial Bank to provide loans for SMEs in Chongqing.
- Lu International, a subisidiary of Lufax under the PingAn Group in China, and other Singapore institutional investors will be collaborating with Chongqing Financial Assets Exchange to help micro finance companies issue debt overseas.

Second, diversifying funding channels for outbound Chinese corporates.

Singapore can support the financing needs of Chinese companies expanding into Southeast Asia and beyond.

- Take for example, the New Hope Group, an agricultural and food processing company based in Western China.
  - It has been raising funds in Singapore for its overseas expansion.
- Or companies such as Chongqing Western Modern Logistics Industry Zone Development Construction and Chongqing Grain Group.
  - They have issued close to S$1 billion of bonds from Singapore.

Bond issuance by Chinese issuers in Singapore almost doubled in 2017 to reach S$18 billion.

- More than 25% of this amount was issued by first-time Chinese issuers in Singapore.
- Singapore' Asian Bond Grant Scheme will help such first-time issuers by offsetting a part of their typical issuance costs.
  - Haier Group, a leading Chinese consumer electronics player, benefitted from this scheme when it issued a US$1 billion perpetual debt security in Singapore.

Third, enhancing risk management for Chinese firms.

Chongqing and Singapore can explore joint projects to mitigate the economic impact of natural catastrophe risks in the Western Region.

- One example is through piloting a natural catastrophe insurance pool.
- Similar initiatives are underway in Southeast Asia – and we could share experiences.
- In May this year, ASEAN+3 Finance Ministers agreed to establish the Southeast Asia Disaster Risk Insurance Facility ("SEADRIF"), which provides disaster risk financing, and a regional catastrophe risk insurance pool for participating ASEAN member states.

Similarly, Chinese investors and developers in Belt and Road projects who are facing unfamiliar legal, credit, and environmental risks in Southeast Asian markets, can leverage on the insurance expertise in Singapore to help manage these risks.

A good example is the Belt and Road insurance consortium that was formed in Singapore last year.

- Comprising both Chinese and Singapore insurers, it serves as an avenue to jointly develop insurance solutions to meet the risk management needs of Chinese developers and contractors.
- The consortium aims to provide integrated insurance solutions across multiple countries, including for construction, project cargo,[2] political risk and structured trade credit.
- Thus far, the consortium has pledged US$1.2 billion in insurance capacity for construction and project cargo risks. It has insured four projects, in Vietnam, Indonesia, Turkey and Pakistan.

Fourth, strengthening FinTech collaboration.

There is great scope to leverage on technology to strengthen connectivity between the Western Region and ASEAN.

One potential application of technology solutions is along the Southern Transport Corridor ("STC") which is being established to connect Western China and Southeast Asia.

- STC can potentially shorten to 1 week the time it takes to transport goods between China and ASEAN, compared to 2-3 weeks using other routes.
- A successful STC will provide a further boost to increase trade and investment activities between the two regions.

Beyond reducing physical distance, we should aim to reduce friction in trade processes.

- There is friction in clearing customs, handling trade documents, checking for fraud in trade finance, and ensuring the safety and timely delivery of goods.
- This is because the approach to trade and trade finance is still manual and paper-based.
- We need to have end-to-end digitalisation of trade processes.

Chongqing and Singapore can work together to apply FinTech solutions to make the STC hassle free, safe, and cost efficient for all stakeholders.

Chongqing's interest to develop a Fintech experimental and demonstration zone in the Western Region is thus timely.

- The Fintech zone can serve as a source of technology solutions for the successful development of the STC.
- Several players have embarked on initiatives in this area.
  - For example, VCargo Cloud from Singapore has worked on digitalising the STC's work flows onto cloud services, synchronising and sharing the information provided by different parties from trade, logistics, and supply chain.

I am glad to share that there will be a signing of a four-party Memorandum of Understanding (MoU) later today at the Summit that will catalyse FinTech cooperation between Chongqing and Singapore.

- The MoU will cover enterprise and talent exchange, the establishment of an incubator platform and a regular communication mechanism.
- Under a separate MoU, OCBC Bank, Xiaomi Inc, and Hanhua Financial Holding Co will explore Fintech collaboration in the areas of retail and institutional financial services in China.
  - This collaboration will enable more than 300 million Xiaomi retail customers and business partners to have access to innovative financial services.

Conclusion

This Summit is a measure of how far we have come, and an aspiration to how much more we can do together. Let us continue to scale new heights and explore new frontiers of collaboration, for a more connected and prosperous Asia.

Thank you.

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[1] *China, Japan, Korea, Taiwan, Hong Kong; and Indonesia, Malaysia, Thailand, Philippines, Brunei, Vietnam, Cambodia, Singapore.*

[2] *Insurance cover against equipment/goods in transit*