Mr Lee comments on what Singapore and other Asian countries are doing in post-crisis Asia

Speech by Mr Lee Hsien Loong, Chairman of the Board of Directors of The Monetary Authority of Singapore and Deputy Prime Minister, at the Credit Suisse First Boston Investment seminar, held in Singapore on 26 October 1999.

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Pre-crisis Asia: a mirage?

The Asian crisis swept through the regional economies like a huge tidal wave. The euphoria from more than a decade of boom in East Asian economies was abruptly punctured. Overnight, headlines switched from the "Asian century" to the "Asian disease". Some analysts questioned if the earlier prosperity had been real, or just a bubble. Others attributed the crisis to fatal flaws in the Asian model, which was masked by a classic asset bubble. Asia would not recover, and investors would not return, until these deep flaws were corrected.

This pessimism was exaggerated. The transformation of Asia in the last few decades was no mirage. It had sound fundamental underpinnings. Countries maintained high savings and investment rates. Education levels were rising. Economic policies generally became more liberal, outward oriented, and welcoming to foreign investments. Asia had all the ingredients for the takeoff that we witnessed. True, the crisis was a major setback but, compared to a decade ago, the regional economies are still way ahead in terms of development and already, most of them are beginning to bounce back.

Undoubtedly, the economies did have serious problems that contributed to the crisis. Domestic institutional and regulatory frameworks were weak. Banking systems were poorly operated or supervised. Transparency and the rule of law were lacking. What the Indonesians termed KKN – corruption, collusion and nepotism – was accepted as the way business was done, rather than seen as a serious flaw to be put right.

But the crisis cannot be blamed solely on its victims. It was also aggravated by weaknesses in the international financial structure. Unsound loans required imprudent lenders, or at least over-confident ones. The sustained Asian boom caused investors and lenders to over-reach themselves. When problems surfaced in Thailand, they stampeded for the exits across the board, creating a self-fulfilling panic. Non-Asian emerging markets, and even some developed world markets, also came under pressure. The problem was not just Asia.

Recovery of the region

Now, two years later, the Asian economies are stabilising. Macro-indicators show that the worst has past, much sooner than many expected, and the near term prospects are quite good.

Throughout the region, exchange rates have stabilised. Inflation has subsided. Governments have eased monetary policy and lowered interest rates. Financial systems are flush with liquidity.

Consumer sentiment has improved, and private consumption has recovered to pre-crisis levels. Exports are recovering, underpinned by the belated revival in Japan's economy, and continued strong demand from the US. Electronics and semiconductor exports are doing particularly well, helped by an upturn in the global electronics cycle.

Strong domestic consumption and export performance have stimulated industrial production. Inventories and over-capacity have fallen throughout the region. In South Korea and Malaysia, capacity utilisation has returned to pre-crisis levels in many industries.

Countries across the region have revised their growth forecasts upwards. For example, South Korea is expecting strong growth this year – 8%, while Singapore has forecast growth between 4 and 5%. Even

Indonesia's economy is stabilising, and its prospects have brightened now that Presidential elections have turned out well.

This recovery has given the Asian economies breathing space to address structural weaknesses. But the problems have not vanished. Countries must still press on, to deal progressively with hard issues of corporate and financial restructuring, and lay the basis for long-term growth. Otherwise their recoveries will remain incomplete and vulnerable.

The sustainability of each country's recovery will therefore depend on how it tackles its own problems. Countries differ significantly in the problems they face, and their strategies for overcoming these problems. Some will recover faster than others.

South East Asia

In South East Asia, the situation has stabilised. The mood has totally changed over the last 12 months. Thailand has made some progress in cleaning up and consolidating its financial sector.[1] NPLs peaked in May 1999 and are expected to decline steadily by next year, provided debt restructuring and recapitalization progresses. But significant problems remain, and analysts and rating agencies remain concerned about the state of the banking sector in Thailand.

Malaysia's economy has also stabilised, with strong balance-of-payments surpluses and growing foreign reserves. As PM Mahathir has pointed out, Malaysia's exchange controls have not harmed its economy. The Malaysian government has been working out bad loans in the banking sector, and getting banks to consolidate into core-banking groups. It is not clear how much corporate restructuring has taken place. But Malaysia's external debt is relatively low and it can afford a certain amount of very long-term infrastructure projects which may not offer attractive financial returns.

In Indonesia, Abdurrahman Wahid has just been elected as the fourth President, with Megawati as Vice-President, in Indonesia's first truly democratic presidential election in over thirty years. It is a good outcome, after two traumatic years of upheaval and chaos. But the road ahead for Indonesia is not easy. The new government faces many urgent priorities. It must work out a new political balance, redefine the role of the military, lay the basis of a civil society, and strengthen the rule of law. Then confidence will return and the economy will revive. In this arduous task of national reconstruction and reconciliation, Indonesia has the good wishes and support of its neighbours, including Singapore.

North East Asia

In North East Asia, Japan is finally recovering from its prolonged recession. Public investment, private consumption and housing investments are all improving. We are also starting to see real financial and corporate restructuring in Japan. Sony, Nissan and NTT have recently announced sizeable cuts in their workforces[2] – a significant departure from the lifetime employment system. And following the Big Bang measures, Japanese banks are merging, even across different *keiretsu* groups, forming two of the world's largest banking groups.[3] There has also been a wave of strategic alliances between Japanese and foreign financial institutions.[4]

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1 The government has nationalised three commercial banks and absorbed three others into the state-owned Krung Thai Bank. Four commercial banks have been sold to foreign investors thus far.

2 Sony, Nissan and NTT have planned to slash 17,000, 21,000 and 20,000 jobs, respectively. Other Japanese corporations such as NEC and Hitachi have also announced large layoff plans.

3 The Daiichi-Kangyo, Fuji and IBJ group, and the Sumitomo-Sakura group.

4 Including Travellers Group and Nikko Securities, Daiichi Kangyo Bank and J P Morgan, and Goldman Sachs and SocGen with IBJ and Nomura.

In Korea, financial sector restructuring is generally on track. Korea took a hands-on approach. The government aggressively bought and disposed of the non-performing loans in the financial system. It pushed for bank recapitalisation. Forced closures, mergers and acquisitions have removed many weak institutions from the financial sector.

Korea is also pressing for reform and restructuring of the chaebols. This will take time, effort and political will, as the difficulties with Daewoo show. Restructuring the chaebols involves a wholesale conversion of entrenched social norms and practices. The initial impact is painful for those who depend on the distortions that reforms seek to remove. Benefits are on the other hand more dispersed, less apparent and longer term.

China

One country which will have a major impact on East Asia's fortunes is China. China's reforms and opening up contributed to the excitement and optimism of the Asian boom. A stable China will contribute to confidence in Asia, and encourage investments and growth throughout the region.

The Chinese economy does face daunting problems. Non-performing loans of the bank sector are huge. The state-owned enterprises urgently need reform, which will put millions out of work and cause difficult social problems. Foreign investments have slowed down, the economy is experiencing deflation, and the Government is resorting to fiscal pump-priming to boost growth.

But there are important positive factors. China's policies of liberalisation will continue. These market reforms have benefited wide segments of the Chinese population, at all levels of society and government. They are far too entrenched to be reversed. The Chinese people are ambitious, and forward looking, and have high aspirations to improve their lives and strengthen their country. Their dynamism will propel and sustain China's economic development and modernisation.

Singapore: tapping new opportunities

In Singapore, we are making fundamental changes to keep ourselves competitive, to tap emerging opportunities and attract foreign investments.

When the crisis struck, our immediate priority was to reduce business costs and strengthen our competitiveness. Last November the government implemented a major package to do this. We lowered government taxes, rentals and charges. We also cut wage costs by 15%, by cutting variable bonuses, as well as employer contributions to the CPF – the government-run compulsory savings scheme.

These were urgently needed measures, but their focus was on cost-cutting rather than capability building. For the long term, cost cutting alone is not an adequate strategy. So we are also making basic changes to strengthen our economy. We are emphasising worker training and education, to help us become a knowledge-based economy. Many of our workers are still unskilled or semi-skilled, particularly the older ones. With the help of the unions, we are getting them to undergo retraining and skills upgrading, so that they can do higher skilled, higher value-added jobs.

Besides investing in our own people, we are seeking all the talent we can from around the world. To build a first class economy, with first class banks, companies, and government, we need top notch people. There are many talented Singaporeans, but not enough. We must find and deploy talent, whether Singaporean or foreign, to become a vibrant and dynamic city and outperform competitors.

We are getting our organisations to emulate the best US MNCs, which induct talent from many cultures and countries, and meld them into a single cohesive management team. Singapore will be a place where opportunities abound, where able and enterprising people want to live, work and enjoy themselves, and where foreigners are welcomed and treated as part of our extended family.

Besides upgrading the skills of our workforce and attracting foreign talent to Singapore, we are promoting entrepreneurship, particularly technology startups. We have launched a Technopreneurship

21 programme. Under this, we are changing the education system to lighten the curriculum, encourage creativity, risk-taking and a spirit of life-long learning among our young. Second, we are setting up a US$1 billion venture fund to coinvest with the private sector in startups, whether by local entrepreneurs or foreign talent attracted to Singapore. Third, we are improving the physical infrastructure for start-ups, such as technology park facilities. And finally, we are reviewing existing laws and regulations, for example those governing taxation of stock options.

A fourth area of change is the liberalisation of the financial sector. Our goal is to make Singapore a leading financial centre in our time zone, linked to other major financial centres of the world.

Over the last two years, we have progressively shifted our philosophy on financial regulation to a lighter, more market oriented approach. We have given fund management companies greater access to domestic funds, including personal savings in the compulsory pensions scheme, and the government's reserves hitherto managed by GIC and MAS. We are promoting the debt market, demutualising and merging the stock and futures exchanges, bringing corporate governance up to date, and introducing risk-focussed supervision and inspection of financial institutions.

We are also allowing more foreign competition in the domestic banking sector. We have just issued new banking licences to foreign banks. Keener competition will mean better banking services and stronger local banks that can hold their own in a rapidly changing industry.

While pursuing major economic priorities, we have not neglected to strengthen our social cohesion. Singaporeans today are more educated, better informed, and keen to take part in the national debate. The government is adapting its style and approach to fit these aspirations of a new generation of citizens.

Our strategic challenges have not fundamentally changed. We still have to make a living for ourselves, ensure the security of our homes and families, and build a better future for our children in an uncertain world. But the way Singaporeans mobilise themselves to respond creatively to these challenges has changed. The government will still play an active role, defining the issues, setting the agenda, and influencing opinions. But we also actively solicit opinions and proposals from outside the government. We are involving people much more in discussing and tackling national and community issues, whether it is managing their housing estates or reforming the financial industry. This will help strengthen Singaporeans' sense of ownership and commitment to Singapore.

Conclusion

I have focussed on what Singapore and the other Asian countries are doing to get themselves back on track. But the region's prospects also depend on the strategic backdrop – the relations among the major powers, namely the US, China and Japan, and particularly the role of the US. We have reasons to hope that US-China relations will remain stable. The US will not want a new version of the Cold War against China. And China's over-riding priority for some decades to come will be to modernise and develop its economy and society, for which it needs peace and the cooperation of other countries. In the region as a whole, the US plays a vital, constructive role, moderating tensions and keeping potential flash points from boiling over.

"Can Asia make it?" A year ago, many analysts and investors would have said no. The Asian miracle appeared to have been an illusion, built on flimsy foundations. Today, in light of the rapid economic rebound, the rank of the sceptics is thinning rapidly. My own view has been an unequivocal "yes". Asia will recover its former dynamism. Not automatically, and not all at once; but as countries rebuild and put things right, recovery will come. The fundamentals which supported two decades of high growth in Asia have not disappeared – a sturdy work ethic and high savings rates, skilled and disciplined workforces, and an entrepreneurial culture. In time, these strengths will enable the countries to grow and progress again.

The recovery will create new investment opportunities. Asian governments have recognised the need for foreign equity, and relaxed restrictions on foreign investments. Prices are down, and fundamentally sound companies facing difficulties are looking for strategic alliances. Investors should keep their eyes open, invest discriminately, and ride on the region as it picks up.

At the height of the crisis, I asked one European banker what his bank would do. He said that the bank had been in Asia for over a century. It had seen far worse upheavals. It would take the latest problems in its stride, and wait the storm out. It would not opt out of the region. Other investors may not have such a long history in Asia, but for you too, taking a long and informed view will be worth your while.