

KEYNOTE SPEECH BY MR CHAN CHUN SING, MINISTER FOR TRADE AND INDUSTRY, AT THE BUSINESS TIMES LEADERS' FORUM 2018 – ASEAN: NOW AND BEYOND, ON MONDAY 21 MAY 2018, 10.35 AM, AT SHANGRI-LA HOTEL SINGAPORE

Mr Warren Fernandez, Editor-in-Chief, English/Malay/Tamil Media Group, Singapore Press Holdings,

Mr Wong Wei Kong, Editor, The Business Times,

Ms Judy Hsu, CEO, Singapore and ASEAN Markets, Standard Chartered Bank,

Distinguished panellists and guests,

Ladies and gentlemen,

1. Good morning and thank you for inviting me to join you at this year's Business Times Leaders' Forum.

ASEAN's Operating Context

National Archives of Singapore

2. The global economy is recovering. Manufacturing activities, trade and investment are expected to pick up. Following a strong performance in 2017, ASEAN growth is expected to remain firm in 2018. This is supported by robust domestic demand, led by private consumption expenditure and investments. Export demand is

also expected to be resilient on the back of sustained global growth¹ and higher commodity prices².

3. However, ASEAN is at an inflexion point. The open and rules-based multilateral trading system, regional integration, and economic cooperation that have underpinned growth are under increasing pressure. Economic globalisation has lifted millions out of poverty, created more efficient markets, and led to increased investment activities globally. At the same time, technological advances have brought about a sweeping transformation of our economy, disrupting business models while creating new industries. The resultant uneven gains from globalisation have been exploited, resulting in nativism and inward-looking sentiments gaining ground, challenging the relevance and value of international platforms such as ASEAN. The manifestation of such tensions between major economic players have led to increased trade frictions, which will have spill over effects elsewhere, including on ASEAN.

4. Against this backdrop, ASEAN must reaffirm its resolve to abide by open regionalism, press on with deepening integration, and come together to make a strong statement for a free, open, rules-based and interdependent system. Our collective stance will be crucial as a bulwark against unilateralism and protectionism, to serve as a rallying call to remain open and connected even as we work together to overcome the challenges in today's global economic environment.

¹ The IMF has projected that global growth in 2018 will be 3.7%, higher than the 3.6% expected in 2017.

² The World Bank has forecast that energy and non-energy commodity prices will rise by 4.0% and 1.0% in 2018, following the 24% and 0.6% increase in 2017 respectively.

5. Against this backdrop, ASEAN will need to redefine our value proposition to ensure our continued centrality and relevance.

ASEAN's Positive Outlook Cannot Be Taken for Granted

6. It is clear that ASEAN is an attractive market. Since its founding in 1967, ASEAN has made tremendous strides becoming the sixth largest economy in the world today. ASEAN has a combined GDP of USD 2.55 trillion, a collective market of more than 600 million consumers, and sees USD 5.3 trillion of global trade passing through the region annually³. ASEAN is also a significant investment destination, holding over 20 per cent of all Foreign Direct Investment (FDI) stock in developing countries.⁴ In fact, ASEAN receives more investment than mainland China and India combined.⁵ ASEAN's youthful population, expanding middle class, and increasing urbanisation also bode well for its continued growth, which is estimated at an average of 5.2% over the next four years⁶.

7. However, ASEAN cannot take this for granted. Let me explain why.

National Archives of Singapore

8. ASEAN's traditional bases of competitiveness face the constant threat of erosion. For example, the inevitable climb in wages and growing adoption of automation necessitates finding other ways for us to remain a relevant and attractive

³ **Source:** East-West Center Publication, "*ASEAN Matters for America*", 2014.

⁴ **Source:** UNCTADStat.

⁵ **Source:** OECD Publication, "*OECD Southeast Asia Investment Policy Review 2018*", 2018.

⁶ **Source:** OECD Publication, "*Economic Outlook for Southeast Asia, China and India*", 2018.

investment destination. To this end, the significant barriers to business that still remain in ASEAN must be addressed. ASEAN has done well in eliminating tariffs and gradually reducing services barriers. However, non-tariff barriers still hinder the free flow of goods, and the investment landscape is uneven and lagging behind many other emerging economies.⁷ More work is also required to integrate our services markets and to achieve greater regulatory coherence.

9. Furthermore, the pervasiveness of digitalisation will continue to disrupt businesses and industries on an unprecedented scale. However, this disruption is not altogether a negative development. Digitalisation has enabled businesses to configure supply chains and investment flows with greater agility and precision than before. Information flows are also the currency of the digital world and digital connectivity is itself becoming the business, with the demand for data analysis and cybersecurity fast growing. Fundamentally, economic development and progress are no longer linear. Technological advancements mean that other parts of the world can more rapidly leapfrog what ASEAN has taken decades to achieve incrementally. If ASEAN does not collectively build a compelling vision for innovation and the digital economy, we will be left behind.

10. Lastly, research has shown that protectionist measures tend to linger long after crisis recovery, which can hamper long-term growth. However, ASEAN has defied this trend. In the aftermath of the 1997 Asian Financial Crisis and the dot-com bubble in 2000, ASEAN countries pushed ahead and fostered even closer trade cooperation and economic integration. The benefits were self-evident after the Global Financial

⁷ **Source:** OECD FDI Regulatory Restrictiveness Index.

Crisis of 2008. While the rest of the world experienced severe economic recession, ASEAN's growth only slowed, but did not contract – demonstrating a clear resilience against shocks.

11. ASEAN's experience demonstrates a valuable principle – that weathering the storms together is far better than going it alone. In fact, the vision for regional economic integration and connections with global partners, as embodied in the ASEAN Economic Community (AEC) Blueprints 2015 and 2025, has underscored that trade and investment is not a zero-sum game. The AEC has enabled ASEAN to grow our aggregate economic pie. ASEAN's economic performance and attractiveness as an investment destination also owes much to sustained policy interventions, built upon the common AEC vision. Initiatives under the AEC have lowered trade costs, expanded sourcing of input materials, increased choice for manufacturers, enhanced opportunities for businesses in a more integrated regional market, and improved consumer welfare through access to a greater variety of goods and services. Our integration is, in fact, necessary for us to leverage on each other's complementary comparative advantages to become a far more attractive market.

National Archives of Singapore

ASEAN Must Achieve Greater Coherence and Connectedness

12. Given the challenges, ASEAN must press on with regional economic integration, and strive to achieve a level of coherence and connectedness among us such that the world sees ASEAN as one market. On this, I would like to make the following three points.

13. First, we need to ensure that our trade architecture is continually updated and enhanced towards greater coherence. This will enable ASEAN to better leverage our complementarities, instead of dwelling on our differences. ASEAN needs to minimise trade protection and compliance costs by addressing non-tariff barriers, instil new and core multilateral disciplines in Services trade, and improve our overall investment landscape. Further, to anchor ASEAN in global trade and investment flows, ASEAN needs to continually strengthen our connections to our dialogue partners through deeper cooperation and new initiatives, and, at the same time, expand our connections to other parts of the world. A strong regional trade architecture that deals with these conventional issues forms the backbone with which we are able to grapple with the issues of the now and for the future.

14. Second, ASEAN needs to ensure that our economies are digitally connected and digitally enabled. The impact of cross-border data flows on world GDP has surpassed that of global goods trade.⁸ Supporting digital connectivity is crucial for harnessing its role as a business enabler and its ability to spawn new growth sectors. The pay-offs for ASEAN are expected to be significant if we are able to not only keep pace with digitalisation, but also execute well our ability to harness its potential. We thus must look within to address the issues that materially impact our capabilities to participate in the digital economy, such as policies that relate to data flows and localisation, intellectual property, cybersecurity, and digital trade facilitation.

⁸ **Source:** McKinsey Global Institute Publication, “*Digital Globalisation: The New Era of Global Flows*”, 2016.

15. Third, the capacity to innovate and create is critical for maintaining our competitiveness in the long-run, and in shifting our region up the value chain. ASEAN needs to redefine ourselves from being only a market and production base for goods, to also one of ideas. Besides being a key driver of business, innovation is also critical for economies to unlock new, scalable and sustainable means of growth. This is key for us in staying ahead and to avoid being leapfrogged by others. However, relying solely on domestic initiatives will not take us very far. Partnerships are particularly important for innovation, which often thrives best in the intersections of exchanges in knowledge, expertise and perspectives. ASEAN thus needs to proactively promote innovation. Facilitating the necessary cross-border linkages will help to foster a more robust innovation ecosystem. Bottom-line is very few external parties will look at ASEAN individually as sufficiently attractive but collectively, we can be a very attractive destination for talent, ideas for markets, for external parties.

16. We believe these initiatives will strengthen ASEAN's value proposition globally, and position us for future growth. Singapore is working closely with ASEAN Member States to deliver tangible outcomes in these areas during our chairmanship of ASEAN this year. At the 32nd ASEAN Summit in Singapore last month, ASEAN Leaders adopted a Joint Statement articulating the Common Vision for a Resilient and Innovative ASEAN. This statement reiterates our commitment to the principles of economic integration and openness, and sets out the direction for us to embrace new technologies and innovation.

Conclusion

17. The collective political will to integrate more meaningfully and with urgency is crucial to ASEAN's success. Knowing full well the risks of going our separate ways and also the benefits of integration – especially in the digital age – we cannot afford to dismiss initiatives that are difficult or incongruent with our past experiences. If we can align our interests even as we tackle longstanding or unfamiliar issues, ASEAN will stand a better chance at maintaining our growth trajectories, and staying at the forefront of the global economy. Our next lap of economic integration is complex, and will call on ASEAN to be even more united and creative in realising the benefits of closer economic integration and connection. For Singapore, this is an effort worth doing as one, and this is what Singapore is committed to do together with the rest of the ASEAN partners. Not only maintain our attractiveness as a location of choice for investment, trade and ideas but it is also for us to extend our current advantages that are already apparent. And on that note, thank you very much and I look forward to a very good dialogue with all.

Thank you.

National Archives of Singapore