Singapore Government
PRESS RELEASE
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Release No.: 08/OCT
08-1/87/10/02

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MINISTER FOR FINANCE, SINGAPORE, AND
CHAIRMAN, MONETARY AUTHORITY OF SINGAPORE,
AT THE SEMINAR ON
"SINGAPORE AS A RISK AND INVESTMENT MANAGEMENT CENTRE"
AT THE WALDORF ASTORIA, NEW YORK
ON THURSDAY, 1 OCTOBER 1987

I INTRODUCTION

It gives me great pleasure to be able to address such a distinguished audience today. Increasing attention is being paid to Asia-Pacific countries both in areas of trade and financial flows. Singapore has been grouped together with Hong Kong, South Korea and Taiwan, under labels like NICs, dragons and tigers, so that generalisations on economic behaviour could be made. When it comes to the detail, however, important differences distinguish us. Perhaps the most apt description of Singapore is that we are an open economy. Let me present to you an overview of the Singapore economy, before going on to talk about Singapore as a risk and investment management centre.

II OVERVIEW OF THE SINGAPORE ECONOMY

The Recent Economic Recession

As most of you would be aware, the Singapore economy has recently recovered from its first recession in two decades. The economy declined by about 1.8 per cent in 1985, a marked turnaround from a growth rate of about eight per cent a year earlier, and an average expansion of close to nine per cent in the first five years of the decade.

Indeed, the lowest annual rate of economic growth which we had experienced prior to 1985 was 4.1 per cent, during the first oil crisis in the 1970s.

In 1986, the economy recovered slightly to record an expansion of about 1.9 per cent. It was an uneven recovery, relying on a few key export industries. By the middle of 1987, however, the uplift in activity had spread to virtually all sectors of the economy except the construction industry. Economic growth averaged 7.2 per cent in the first half of the year. A continuing high pace of expansion is expected in the second half of this year, judging from the sharp pick-up in investment commitments in recent quarters. Overall, it would not be too optimistic to expect GDP growth to exceed 6.5 per cent in 1987.

The Recovery in Perspective

The recovery from the recession has served to underscore what is perhaps the fundamental tenet of economic survival and growth in Singapore - the importance of flexibility. The speed and robustness of the recovery could not have been so if not for the major economic adjustments, essentially of a supply-side nature, which served to redress the underlying causes of the recession. I would like to describe these adjustments very briefly, before going on to discuss some of the longer-term trends which have been incipient in the recent recovery.

The most important cause of the recession was the build-up of overly high wage growth expectations within the labour market. Such expectations were not surprising, given the virtually uninterrupted economic boom which Singapore had enjoyed, through to the first half of the 1980s. As a result, by 1985, unit labour costs in Singapore were almost one and a half times higher than those of its competitors in export markets, when expressed in a common currency.

A reversal of this loss of competitiveness in the export sector, the prime mover of the economy, was central to the restoration of growth.

An absolute reduction in wages, by over eight per cent in 1986 alone, was achieved through a combination of a cut in employers' compulsory contributions to workers' savings in the Central Provident Fund, and a generally successful campaign of wage restraint. Coupled with healthy growth in labour productivity, Singapore's export competitiveness was by the middle of this year back to the level which prevailed about six years earlier, as measured in exchange rate-adjusted unit labour costs.

The recovery was also aided by a range of other measures aimed at reducing business costs and restoring profitability. These included an adjustment in the corporate tax rate from 40 per cent to 33 per cent, an accelerated depreciation allowance that permits 100 per cent write-offs of investment in plant and equipment in three years, a host of reductions in government utility charges, and a property tax rebate of 50 per cent.

Transition to a More Mature and Efficient Economy

From a longer-term perspective, the 1985 recession also served to hasten the transition to a more efficient and mature economy. This has been reflected in the increasing reliance of economic growth on improvements in productivity, rather than on the expansion of the labour force. As a result, the recovery in output over the last eighteen months has required barely one-quarter as much new employment as would have been required in the first half of the eighties.

Underlying this move to a more mature state of economic development, have been two factors of a more gradual nature. The first of these is the substantial transformation which has been occurring in the quality of

the workforce, while the second reflects a reorientation in the role of the government in the economy. Let me elaborate on each of these in turn.

Fifteen years ago, over a half of the Singapore workforce was without any formal educational qualifications. By 1986, the proportion of the local workforce remaining without a formal education was down to 20 per cent. On present projections, this proportion would fall to 10 per cent within a decade. Accompanying this trend has been the shift in the composition of jobs, particularly in recent years, towards those generally characterized as being human capital-intensive - that is, towards professional, technical, managerial and entrepreneurial occupations.

Improvements in quality have also been marked within the human capital-related professions themselves. The proportion of such persons who possess university or other tertiary qualifications has increased from 18 per cent in 1970 to slightly over 30 per cent at present. There should also be a substantial increase in levels of expertise in coming years as an essentially youthful professional work-force gains in experience and know-how.

Role of Government

The second trend underlying the present transition has been the reorientation of the Government's role in the economy. Before I go on to discuss this shift, I should perhaps point out that perceptions of Singapore have occasionally tended to exaggerate the extent of Government regulation and restrictions in economic activity. Few serious observers would disagree that Singapore is one of the most open economies in the world; indeed one recent observer has labelled it the most open economy in the world. It was precisely the virtual absence of restriction on international trade and capital flows, and the principles of market competition, which have underpinned Singapore's rapid economic growth over the last two decades.

The role of Government has not been non-existent, however, even within the framework of an open, competitive economy. Indeed it would be naive to believe that it could have been so, given the stage of development which Singapore was in two decades ago, and the massive unemployment and economic chaos which prevailed at that time. With the basic institutions for macro-economic stability and growth already in place, however, a reshaping of the role of Government, to allow for an economy more fully reliant on private sector initiative and judgement, is both necessary and feasible. Let me now describe recent shifts in Government policy in this regard.

The Government has been reducing its role as a guiding hand in certain areas of domestic economic activity. For instance, there has been significant liberalization with regard to the use of workers' savings held in the government-controlled Central Provident Fund. Besides allowing members to withdraw their savings for the purchase of housing and medical services, recent measures have sought to encourage the public to invest a portion of their Provident Fund savings at their own discretion, amongst a range of approved investments such as trustee stocks and convertible loan stocks, unit trusts, gold, and in commercial and industrial property.

The Government's role in the workings of the labour market is also being reduced, with the intended decentalization of wage setting in the economy. This has already been evident in the revised nature of wage guidelines issued by the National Wages Council, on which there is Government participation. As in 1986, the Council's guidelines for 1987 essentially seek to link wage increases to company-level profitability and increases in labour productivity. They also recommend the introduction of variable compensation methods, such as having a portion of wage increases paid as a year-end lump sum bonus, to allow for greater flexibility of wages in future.

The Government's direct presence in the business sector is also being rolled back to provide greater room for private entrepreneurs. A framework for privatising Government-linked companies is in place. The objectives of the privatisation programme is to allow the Government to withdraw from commercial activities which no longer need to be undertaken by the public sector and to reduce competition with the private sector. Some 40 Government-linked companies are being considered for privatisation. The Government is also studying the possibility of privatising some of its statutory boards.

In the last two years, the government has fully divested its stake in ten companies, which had involved ownership shares of up to 50%. We have also partially privatised another six companies, with our average stake of 73 per cent falling to less than 44 per cent in such concerns. Over the longer term, we have plans to gradually divest our shares in the bulk of government-linked enterprises, except those which are critical to national interest. The latter would nevertheless be listed on the stock exchange, with the government continuing to hold a substantial interest.

I have so far attempted to give you some insights into our economic recovery as well as some longer-term trends in the overall Singapore economy. Let me now discuss briefly the developments in our financial sector.

III SINGAPORE AS A RISK AND INVESTMENT MANAGEMENT CENTRE

Over the last decade and a half, the financial sector has emerged as an important component of Singapore's economy. Back in 1970, it had contributed eight per cent to our Gross Domestic Product. By last year, this contribution had risen to 15 per cent of GDP. Growth of the financial sector has, in fact, outstripped that of the economy as a whole, both in good and bad years. Last year, when our

recuperating economy only grew by 1.9 per cent, the financial sector expanded by 6.1 per cent. In the first half of this year, the financial sector surged ahead 15 per cent, while the economy expanded by 7.2 per cent.

Asian Dollar Market

Singapore's financial services industry has managed to carve a sizeable niche serving the financial needs of the region. At the heart of this industry lies the Asian Dollar market, the Asian counterpart of the Eurodollar market. More than 180 leading financial institutions participate in this market from their base in Singapore. These institutions come from all over the world and their aggregate assets, which indicate the size of the Asian Dollar market, have approached US$220 billion. Amongst these institutions are branches and subsidiaries of the largest multinational banks in the US. They have contributed to and have reaped the benefits of Singapore's success as a significant hub of international financial flows. It is worth mentioning that the growth of the Singapore-based Asian Dollar market has not been marred by episodes of bank failures and scandals. This has been due to a conscious decision by the architects of our financial industry not to skimp on prudence for superfast growth.

Factors facilitating financial sector development

The financial services industry in Singapore would not have developed so rapidly had it not been for a happy confluence of characteristics. Some of the conditions that were conducive to financial sector development were the orchestration of Government. Yet others were natural factors. They remain present and relevant for the maturing of Singapore as a risk and investment management centre.

Geographically, Singapore is fortunate to be situated at the rim of the Asia-Pacific. With 57 per cent of the world's population and more than 20 per cent of world output, the Asia Pacific is one of the fastest growing regions in the world. It achieved growth of 5.4 per cent compared to world growth of 2.9 per cent last year. Within the Asia-Pacific lie countries at various stages of economic development. Some are the world's largest exporters of capital and goods, the foremost example of which is Japan. Yet others, like India and China, have only recently opened their doors to foreign investment. This diversity of investment and funding needs has provided ideal conditions for significant cross-border capital flows.

Crucial in today's turbulent financial environment, Singapore also provides a convenient bridge between Eastern and Western market places. Within our working day, institutions located in Singapore can deal not only with their counterparts in Asia and Australia but with major markets in Europe as well.

But besides these locational characteristics, financial institutions operating in the region will find valuable advantages in the stability of Singapore's government and institutions, its skilled English speaking workforce, a minimum of bureaucratic red tape, efficient and low cost communications, and a conducive fiscal regime. For the many financial institutions to which Singapore plays host, our island state is a cost efficient window to the Asia-Pacific.

Fund Management

Investment management is on the edge of becoming a truly global industry as banking had become since the early 1970s. The Asia Pacific stock markets now account for about 40 per cent of the world stock market capitalisation. Moreover, the weighted average savings rate of the Asia-Pacific,

at 29 per cent in 1985, was also higher than the average world savings rate of 21.6 per cent. The implications of this are becoming more evident. Risk and investment managers cannot afford to ignore the Asia-Pacific as they take on an international role and now that many capital markets in this vital region have opened their doors to foreign investment.

Singapore, in the midst of funds flows in the Asia-Pacific, offers to investment managers the same benefits and potential for success which had earlier attracted many of the world's top international banks to establish operations there.

Tax Incentive Scheme for Fund Management

Perhaps as important as the advantage Singapore has in being at the centre of the high growth region is the Singapore Government's commitment to a competitive and efficient financial marketplace. The Government's support for the investment management industry amply demonstrates this commitment. An incentive scheme was introduced such that investment income derived from the management of non-resident funds is tax exempt in Singapore. The associated management fees received by fund managers are taxed at a concessionary 10 per cent rate, instead of the normal corporate rate of 33 per cent. To date, 32 fund managers have been approved to participate in the scheme. Many of these are big international banks which have also moved to beef up their private banking departments in Singapore. A number of others are European and Japanese multinationals and insurance companies which have set up branches or subsidiaries to manage their group's funds.

More people in the Asian region are sitting for the US Chartered Financial Analysts qualifications in Singapore. The Singapore Chapter of the International Society of Financial Analysts has been formed. This will increase the pool of fund managers in Singapore.

Government Securities Market

In addition to helping fund managers directly, the Government has also moved to increase the range of investment alternatives available to them in Singapore. The Singapore Government securities market was recently revamped along the lines of the US government securities market. The Government expects to issue S$37 billion in securities, both short and long term, over the next five years. Besides providing an avenue for investment, this restructured market will also provide the benchmark needed to develop a full fledged corporate bond market.

Stock Market

Like many others in the world, the Singapore Stock Market is undergoing a period of profound transition. The competitiveness and soundness of the local securities firms have been significantly boosted through a series of events which started towards the end of 1985. Modelled on the US securities laws, a new Securities Industry Act, which raised prudential standards for stockbrokers, required higher standards of professional practice and heightened public accountability of the Stock Exchange, was passed last year. The closed-shop practice at the Stock Exchange was dismantled, as local and foreign financial institutions were permitted to buy into local stockbroking firms. In short order, the securities industry has become better capitalised, more competitive and has improved the range and quality of services offered. The market has applauded these moves with record trading volumes. Turnover in the Singapore bourse in the first eight months of this year, at S$17 billion, had already exceeded previous twelve-month record of S$13.5 billion achieved in 1981.

The Singapore Government's plans to privatise its stable of companies will provide a boost for the investment banking community. As I have mentioned earlier, the

privatisation programme is only at its early stages. The privatisation programme would further broaden and deepen the Singapore's stock market by introducing more new counters and releasing more shares in existing counters. It would multiply the number of quality stocks available to portfolio managers.

Futures Market

The claim of SIMEX to your interest lies in its menu of international contracts which caters for both the management of foreign exchange risk - through the currency contracts - as well as the management of investment risk - through the securities and gold contracts. Activity has surged - daily average trading volume has shot up from 750 lots in 1984 to over 12,000 lots currently. What is perhaps particularly relevant to you is the Eurodollar and Nikkei 225 Stock Average Index contracts. Though the Eurodollar contract had an earlier debut on London's Liffe market, its turnover on SIMEX is now higher than its turnover on Liffe. SIMEX's first options contract, Options on Eurodollar futures, has just been launched to supplement the Eurodollar contract. The trading volume in the Nikkei futures, which was launched only in 1986, has reached 3,000 contracts per day. I am confident that the Nikkei contract will display an increasing level of liquidity that promises to offer hedging possibilities for large institutions.

Financial futures trading in Singapore feeds off the burgeoning in Asian foreign exchange market. With the liberalisation of Japan's financial markets and deregulation in Australia and New Zealand, more financial activity has shifted to the Asian time zone. Foreign exchange trading in Asia now matches volumes generated in New York and London. In Singapore alone, the daily average foreign exchange turnover has reached US$35 billion.

Investors in Singapore's stock market will be interested to note that the Stock Exchange and SIMEX are working together to design a stock index futures contract to be traded on SIMEX. This contract, which will allow investors to hedge their investments in Singapore stocks, is expected to be launched some time in the second half of next year. It will be one more facet in Singapore's development as an investment and risk management centre.

International Linkages

An important feature of both the Singapore Stock Exchange and SIMEX is their outward orientation. Both have established international linkages. It is perhaps a tribute to the innovativeness and dynamism of your country that both international linkages have been with US institutions. SIMEX, and its imaginative partner, the CME, have pioneered the first truly international trading linkage which enables participants in the two exchanges to trade continuously and net off positions across time zones in a cost-efficient manner. The SES has recently forged a linkage with the National Association of Securities Dealers which will facilitate the trading of US securities in Singapore. In addition, it is working with the Luxembourg Stock Exchange towards the establishment of a system for the joint listing of bonds on both exchanges. The SES is also well underway in its discussions with the International Securities Clearing Corporation - the ISCC - on the development of a clearing and settlement system whereby the ISCC would provide custody services in Singapore dealing in US stocks.

Operational Headquarters (OHQs)

You would be interested to note that multinational companies have been encouraged to locate their regional operational headquarters or OHQs in Singapore. These OHQs would manage and provide a wide range of services, such as

fund management, treasury management, training, credit control, general management and planning to their network of subsidiaries and associates.

An incentive scheme is available which will allow income arising from the provision of qualifying services performed by the OHQ to be taxed at a concessionary rate of 10 per cent. In addition, dividend income received by the OHQ from its subsidiaries and associates would not be taxed in Singapore. The scheme has been well received by the manufacturing industry and has recently been marketed to financial institutions. A number of applications from major financial institutions to establish OHQs in Singapore, to act as their Asian focal point, have already been received.

Regulatory Philosophy and Investor Protection

Singapore is half a world away from New York. We are 12 hours ahead of New York time. This distance, however, belies the philosophical closeness of our countries. How else can you account for the speed by which cooperative ventures have been concluded between institutions of our two nations. One of the philosophies we share in common is regulatory philosophy. You will notice much similarity in our securities and futures legislation. The Monetary Authority of Singapore, which regulates the banking, securities and futures industry, has close rapport with its counterparts here in the US. As investors or operators in our market, you can expect to receive the same sorts of protection you have come to depend on at home.

Conclusion

The Singapore Government is well aware of the folly of resting on past laurels. We remain committed to the task of developing our financial services industry. That means maintaining a competitive overhead cost structure,

encouraging reputable institutions to set up in Singapore to offer their services in the region and facilitating the introduction of financial instruments which benefit individuals, companies and institutions. Risk and investment management in Singapore is poised for a leap. I invite you all to visit and see for yourself what Singapore has to offer. The members of SIMEX and the SES will be glad to be your hosts.

Thank you.

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