Singapore as a Leading International Financial Centre & Annual Update on ISEAS-NTU Financial Reforms and Liberalization of ASEAN 10 + 5 Economies (i.e. China, Japan, Korea, Hong Kong & Taiwan)*

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Presentation Outlines

- The state and progress of financial reforms and liberalization for ASEAN 10+5 Economies (China, Japan, Korea, Hong Kong and Chinese Taipei).
- What its means for being a leading financial center for a highly open and trade-oriented Singapore economy?
- What recipe makes a successful leading financial centre: Market forces versus role of the government?
- What it takes to be a world leading financial centre: Economic fundamentals and sequencing of financial development.
- How Singapore avoided currency and maturity mismatches which mitigated shocks from 1997 Asia financial crisis?

The State and Progress of Financial Reforms and Liberalization in ASEAN 10 +5 Economies?

- Globalization has two pillars, namely trade and finance, however, progress made in finance is slower than expected. Hence the prime objective is to construct a prototype analytical framework to annually quantify progress made in financial reforms and liberalization for ASEAN 10+ 5 economies.
- The ISEAS-NTU ranking index is a Peer Pressure System that is non-confrontational, non-negotiating, non-obligatory and non-committal. The modus operandi works through influences, soft persuasion, constructive consultations,& most important of all, to exert annual peer pressure through publicity and power of international media and press.
- In terms of financial reforms and liberalization, the ISEAS-NTU study is intended not as much to single out top economies, but more so to encourage weaker economies to identify areas in need of reforms through our “What If” simulation exercises.

ISEAS-NTU Ranking on Financial Sector Reforms and Liberalization for ASEAN 10+5 Economies

1. Financial Institutions' Stability and Soundness		2. Financial Markets' Development and Liberalization		3. Regulatory Authorities' Policies and Management Efficiency		4. Corporate Governance and Compliances	
1.1	Banking Institutions	2.1	Money Market	3.1	Exchange Rate Regime	4.1	Shareholders' Right
		2.2	Stock Market	3.2	Transparency and Regulations	4.2	Disclosure and Transparency
		2.3	Bond Market	3.3	International Financial Development and Openness	4.3	Board Responsibilities
		2.4	Futures Market	3.4	Efficiency of Management (Corruption and Nepotism)	4.4	Equitable Treatment of Shareholders

1. Financial Institutions' Stability and Soundness

1.1 Banking Institutions

1.1.01	Ratio of regulatory capital to risk-weighted assets	1.1.08	Ratio of liquid assets to liability base
1.1.02	Ratio of bank capital to assets	1.1.09	Ratio of foreign assets to total assets
1.1.03*	Ratio of nonperforming loans to total gross loans	1.1.10	Ratio of foreign assets to foreign liabilities
1.1.04	Ratio of provisions to nonperforming loans	1.1.11*	Ratio of foreign liabilities to total liabilities
1.1.05	Degree of sectoral distribution of loans to total loans	1.1.12	Ratio of banking sector assets to GDP
1.1.06*	Ratio of property related loans to total loans	1.1.13	Moody's weighted average bank financial strength index
1.1.07	Return on equity		

* Indicator in reverse order (i.e. the lower the value, the better is the indicator)

2. Financial Markets' Development and Liberalization

2.1 Money Market		2.2 Stock Market		2.3 Bond Market		2.4 Futures Market	
2.1.01*	Short-term money market rate (overnight)	2.2.01	Stock market efficiency	2.3.01	Ratio of bond market capitalization to GDP	2.4.01	Ratio of notional value of futures market to GDP
2.1.02	Ratio of volume traded for money market to GDP	2.2.02	Ratio of stock market capitalization to GDP	2.3.02	Ratio of annual bond turnover	2.4.02	Ratio of volume traded of futures market to GDP
		2.2.03	Ratio of stock value traded to GDP	2.3.03	Ratio of volume traded for bond market to GDP	2.4.03	Ratio of open interest of futures market to GDP
		2.2.04	Number of listed domestic companies	2.3.04*	Ratio of foreign currency bonds to total bonds outstanding		
		2.2.05	Growth on stock market index	2.3.05*	Aggregate effective currency mismatch index)		
		2.2.06	Stock traded-turnover ratio	2.3.06	Annual rate of growth of bond market		
		2.2.07*	Long-term interest rate (1 year deposit)				

* Indicator in reverse order (i.e. the lower the value, the better is the indicator)

3. Regulatory Authorities' Policies and Management Efficiency

3.1 Exchange Rate Regime		3.3 International Financial Development and Openness		3.4 Efficiency of Management (Corruption and Nepotism)	
3.1.01	Foreign reserves in months of imports	3.3.01	Foreign equity limits in existing local banks	3.4.01 *	Risk of political instability
3.1.02	Exchange rate stability	3.3.02	Current account liberalization	3.4.02	Central bank policy
3.1.03	Exchange rate policy	3.3.03	Capital account liberalization		
3.2 Transparency and Regulations		3.3.04	Interest rate liberalization		
3.2.01	Transparency				
3.2.02	Adoption of international best practices in regulation				

* Indicator in reverse order (i.e. the lower the value, the better is the indicator)

4. Corporate Governance, Rules & Regulations

4.1 Shareholders' Rights		4.2 Disclosure and Transparency	
4.1.01	Time of notice to shareholders before meeting	4.2.01	Legally required consolidated financial reporting
4.1.02	Thresholds for shareholders to convene extraordinary shareholder meetings	4.2.02	Frequency of periodic information
4.1.03	Types of channels for shareholders to vote	4.2.03	Disclosure of non-financial information
4.1.04	Shareholders' right to vote on appointment of directors	4.2.04	External auditing of financial statements
4.1.05	Shareholders' right to vote on removal of directors	4.2.05	Rotation of audit firms and auditors
4.1.06	Shareholders' right to vote on remuneration of board members	4.2.06	Conformity of auditing and accounting norms to international standards
4.1.07	Shareholders' approval of related-party transactions	4.2.07	Reporting of internal auditors to the audit committee
4.1.08	Shareholders' ability to place items on meeting agenda	4.2.08	Penalties attached to irregular information disclosure
4.1.09	Types of redress if shareholders' rights are violated	4.2.09	Information contained in the company's annual report
4.1.10	Penalties attached to insider trading	4.2.10	Requirement to disclose Top 10 shareholders
4.1.11	Shareholder's right to vote on Major corporate transactions (acquisitions, disposals, mergers, takeovers)	4.2.11	Requirement to disclose director shareholding
4.1.12	Shareholders' rights to nominate a candidate for director	4.2.12	Requirement for directors to report their transactions of the company stocks

4. Corporate Governance, Rules & Regulations (continue)

4.3 Board Responsibilities				4.4 Equitable treatment of shareholders	
4.3.01	Limit to number of boards an individual may serve	4.3.07	Establishment of nomination committee	4.4.01	Requirement of one-share-one-vote
4.3.02	Minimum number of board meetings per year	4.3.08	Requirements for directors to have professional experience[18]	4.4.02	Requirement for insiders to disclose their trading of company's stock?
4.3.03	Disclosure of attendance records of board meetings	4.3.09	Requirements for directors to have minimum education and training	4.4.03	Legal and regulatory framework requirement for disclosure of related-party transaction
4.3.04	Election of independent directors to the board	4.3.10	"Fit and Proper" test	4.4.04	Requirement for related persons to abstain from voting on the transactions
4.3.05	Establishment of audit committee	4.3.11	Disclosure of self-dealing transactions to Securities Commission or Stock Exchange[21]		
4.3.06	Establishment of remuneration committee	4.3.12	Approval of self-dealing transactions by securities commission or stock exchange		

ISEAS-NTU Overall Ranking of the ASEAN 10 + 5 Economies

Economies	STD Value	2005	STD Value	2004
Singapore	0.6735	1	0.6264	1
Hong Kong, China	0.5688	3	0.5129	2
Japan	0.5995	2	0.4665	3
South Korea	0.5001	4	0.4416	4
Thailand	0.3439	6	0.3416	5
Chinese Taipei	0.2735	8	0.3082	6
Malaysia	0.3251	5	0.2654	7
Indonesia	0.1712	9	0.2128	8
China	0.3151	7	0.0580	9
Philippines	0.1062	10	0.0576	10
Vietnam	-0.5152	11	-0.4313	11
Cambodia	-0.6667	12	-0.5681	12
Myanmar	-0.7897	13	-0.6738	13
Laos PDR	-0.8630	14	-0.7335	14
Brunei	-1.0692	15	-0.8843	15

1:ISEAS-NTU Ranking on Financial Institutions' Stability and Soundness

Economies	STD Value	2005	STD Value	2004
Hong Kong, China	0.5051	1	0.6053	1
Indonesia	0.3675	5	0.5189	2
Singapore	0.4686	2	0.4590	3
South Korea	0.4761	4	0.3300	4
Thailand	0.1866	9	0.2477	5
Philippines	0.3014	6	0.1975	6
Chinese Taipei	0.1945	8	0.1950	7
Japan	0.2461	7	0.1842	8
China	0.4210	3	0.1814	9
Malaysia	0.0685	10	0.1013	10
Cambodia	-0.0979	11	-0.1109	11
Vietnam	-0.4220	12	-0.4223	12
Laos PDR	-0.6206	13	-0.5724	13
Myanmar	-0.7472	14	-0.6710	14

2: ISEAS-NTU Ranking on Financial Markets' Development and Liberalization

Economies	STD Value	2005	STD Value	2004
Singapore	0.6702	3	0.7996	1
Japan	0.9021	1	0.7269	2
Hong Kong, China	0.7400	2	0.6408	3
South Korea	0.5475	4	0.5710	4
Chinese Taipei	0.3054	7	0.5241	5
Thailand	0.4573	5	0.4352	6
Malaysia	0.4018	6	0.3670	7
China	0.0245	8	-0.1074	8
Indonesia	-0.2791	9	-0.2040	9
Philippines	-0.3004	10	-0.4254	10
Vietnam	-0.5416	11	-0.4517	11
Brunei	-0.7319	12	-0.7190	12
Cambodia	-0.7319	12	-0.7190	12
Laos	-0.7319	12	-0.7190	12
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

3: ISEAS-NTU Ranking on Regulatory Authorities' Policies and Management Efficiency

Economies	STD Value	2005	STD Value	2004
Singapore	0.8418	2	0.8745	1
Japan	0.8967	1	0.8485	2
South Korea	0.4872	3	0.5620	3
Hong Kong, China	0.4767	4	0.5234	4
Thailand	0.3324	5	0.4863	5
Chinese Taipei	0.2271	8	0.2891	6
Indonesia	0.2191	9	0.2605	7
Malaysia	0.3866	5	0.2187	8
Philippines	0.0125	10	0.0980	9
China	0.3426	6	-0.1675	10
Vietnam	-0.2806	11	-0.2558	11
Myanmar	-0.7260	12	-0.7485	12
Cambodia	-0.9449	13	-0.8857	13
Brunei	-1.1619	15	-1.0177	14

4: ISEAS-NTU Ranking on Corporate Governance, Rules & Regulations

Economies	STD Value	2005	STD Value	2004
Malaysia	0.7509	2	0.7477	1
Singapore	0.7535	1	0.7410	2
Philippines	0.7164	3	0.7159	3
China	0.6295	4	0.6418	4
South Korea	0.5961	5	0.6062	5
Hong Kong, China	0.5377	7	0.5617	6
Indonesia	0.5834	6	0.5544	7
Chinese Taipei	0.4602	8	0.4444	8
Thailand	0.4548	9	0.3944	9
Japan	0.1064	10	0.2061	10
Brunei	-1.1178	11	-1.1227	11
Cambodia	-1.1178	11	-1.1227	11
Laos PDR	-1.1178	11	-1.1227	11
Myanmar	-1.1178	11	-1.1227	11
Vietnam	-1.1178	11	-1.1227	11

Singapore	1	0.6264	1	0.6959
Hong Kong, China	2	0.5129	1	0.6784
Japan	3	0.4665	2	0.5545
South Korea	4	0.4416	2	0.5184
Thailand	5	0.3416	5	0.4339
Chinese Taipei	6	0.3082	4	0.4532
Malaysia	7	0.2654	5	0.4030
Indonesia	8	0.2128	5	0.3516
China	9	0.0580	6	0.3137
Philippines	10	0.0576	7	0.2569
Vietnam	11	-0.4313	11	-0.1348
Cambodia	12	-0.5681	11	-0.2133
Myanmar	13	-0.6738	11	-0.3346
Laos	14	-0.7335	11	-0.3744
Brunei	15	-0.8843	12	-0.4671

	Simulation	Simulation	Simulation	Simulation
Singapore	1	0.6735	1	0.7837
Japan	2	0.5995	1	0.6112
Hong Kong, China	3	0.5688	3	0.5916
South Korea	4	0.5001	3	0.5576
Malaysia	5	0.3521	5	0.4797
Thailand	6	0.3439	5	0.4537
China	7	0.3151	5	0.4656
Chinese Taipei	8	0.2735	5	0. 4406
Indonesia	9	0.1712	5	0.3422
Philippines	10	0.1062	9	0.3438
Vietnam	11	-0.5152	11	-0.1632
Cambodia	12	-0.6667	11	-0.2466
Myanmar	13	-0.7897	11	-0.3756
Laos	14	-0.8630	11	-0.4188
Brunei	15	-1.0692	12	-0.5529

On The Singapore Economy: Some International Evaluations & Basic Economic Fundamentals

- World second freest economy: consecutively since 1994 (2007 ranking by The Heritage Foundation & The Wall Street Journal.
- Overall economic competitivness:1st Hong Kong, 2nd Taiwan, 3rd Singapore (2007 ranking by ARC-NTU on 79 Asian economies including ASEAN-10, 34 Greater China & 35 Indian States).
- Overall country risks:1st Singapore, 2nd Australia, 3rd Japan, 4th USA, 5th Hong Kong (2007 ranking by PERC)
- Least corrupt in Asia:1st Singapore, 2nd Hong Kong, 3rd Japan (2007 ranking by PERC)
- The People's Action party has been democratically elected consecutively since 1965 through five general elections.
- Some Economic fundamentals :

GDP Growth:	1987-1997	1998-2006
	9.3% p.a.	4.5% p.a.

GDP size:	1987	1997	2007
	US$21 billion	US$95 billion	US$110 billion

Projected potential output growth for 1998-2025: Singapore 5.5% p.a. (by ARC at NTU).

	1997-2007
Inflation (CPI);	0.8%
Unemployment rate:	3.3%

Per capita GDP 2006: US$29,838

What It Means To Have A Leading Financial Centre For A Highly Open Trade-Oriented Economy

- Financial services not just accounted for 12% of Singapore’s GDP in 2006, and its share of employment is approximated to be about 5% in 2006. It is a a vital sector with spill-over and multiplying effect.
- The positive economic externalities of the financial centre can not be underestimated as it allows Singapore to expand her economic space beyond her small physical size and re-enforces her regional political significance.
- The financial centre directly supports manufacturing activities, maintaining attractiveness of Singapore as regional operational headquarters for MNCs, and indirectly enhance Singapore as a regional logistic, transportation and tourism hubs.
- The financial centre allows Singapore to be inter-connected to regional economies and stay relevantly globally, one of the critical engine for extending Singapore’s ‘external economy”.

What Recipe Makes A Successful Financial Centre: Market Forces Versus The Role of Government

- Having sound economic fundamentals such as sustainable non-inflationary GDP growth, strong human resources, prudent public finances and financial information technology infrastructure are some of the prerequisites of a successful financial centre.
- Financial center, is similar to transportation hub such as sea and airports, which requires heavy seed investment for financial infrastructure, pooled resources and operates efficiently with the economy of scale.
- Healthy functioning of a financial center is critical because it affects a large domain of population in terms of personnel saving and investment, hence having a set of sound corporate governance, rules and regulations are paramount not just socially but also politically.
- The above observations endorse the facilitative role of the government as a market enabler, as very often investment projects with heavy capital outlay, long period of gestation and returns, or some may term it as natural monopoly, tend NOT to prevail through market forces.

How Singapore Avoided External Shocks & Mitigated Impacts From Financial Crises?

- If government is to play the role as market enabler, many of the textbook cases on how market forces work would have to be discarded or modified without apology.
- Some long standing policies, factors and conditions that mitigated double mismatches, i.e. maturity and currency mismatch.
- Begun with “correct” financial infrastructure, institutional framework and financial regulations
- The two-tier dichotomized financial entity, with on shore versus offshore financial activities.
- Conceptual correct rationales and policies for gradual internationalization of the Singapore dollar.
- Undertaken sequencing of financial development, avoided the “big bang” approach in terms of financial liberalization and markets reform.
- “Nurturing’ indigenous banking industry in the infancy stage, but entice foreign competition when local banks matured.

Economic Fundamentals & Sequencing of Financial Development Liberalization

- Liberalizing the pricing mechanism for basic monetary aggregates in the late 1970s
- Restructured monetary policy framework and policies in the 1980s
- Deepening further financial markets and revamping bond market activities in the 1990s
- Challenges from cross-border financial activities, cyber-banking and further banking deregulation measures beyond the new millennium.
- Mitigate external shocks and impacts of financial crises through pursuing sustainable non-inflationary macroeconomic policies, prudent government budgeting, maintaining profitability via corporatising state-owned companies with decades of quality, value-creation, clean and continuity of democratically-elected governments.
- Good geographical location and time zone are added advantages, but people with good command of English as the business language, good financial infra-structure, efficient telecommunication system and a widely connected first class international airport are more important.

The First Set Of Fundamental Lessons Learnt

- A pragmatic approach to financial liberalization best works according to the well established regulatory framework by considering changes from within by credible financial authorities or agencies
- An effective dichotomized financial system with effective policy instruments such as prudential safeguards, tax and fiscal incentives.
- A fine balance between Domestic Banking Unit (DBUs) and Asian Currency Unit (ACUs): Push factors such as ceiling on Singapore dollar loans, relative inaccessibility of local deposits and hence higher reserve costs, keeping foreign banks out of DBUs and pull factors such as abolition of withholding tax on interests income of non-residents need to be considered, waiver of statutory requirements and a wide range of fiscal tax incentives to encourage foreign banks to expand businesses in ACUs.
- "Nurturing" indigenous banks into bigger international players for "strategic national interests" *initially*, but "forced" modernization and innovation by enticing international competition would take over as local banks *matured*.

The Second Set Of Fundamental Lessons Learnt

- The sequencing approach adopted on financial deepening involves tradeoffs and policy dilemma, and thus priority of objectives must be identified.
- Prima facie evidences suggests that hypothesis known as the triad of incompatibilities, i.e. the non-coexistence of exchange rate stability, free capital mobility and monetary autonomy, does not hold.
- Restrictive usage of the local currency for non-residents, which basically is equivalent to “throwing sends into the wheels” of perfect capital mobility.
- Large pools of GLCs and MNCs, intended for other objectives such as economic benefits and employment creation but nevertheless contributed significantly to mitigation of double mismatches.
- Costly to curb financial activities directly and direct intervention tend to cause market distortion, therefore more efficient and less arbitrary to aim for resilient financial structure and markets.

The Third Set Of Fundamental Lessons Learnt

- Instead of trying excessively to fend off capital inflows or outflows, it is more pertinent for policy authorities to ensure macroeconomic conditions and political environments are not created to attract excessive inflows or exacerbate capital outflows
- While waiting for international monetary reform to take shape, initiatives to reform domestic financial framework consistent with international standards and global monetary order is more realistic.
- Weak financial institutions and rudimentary financial system evolve overtime and best be reformed via a gradual process of financial liberalization with effective mobilization of domestic financial savings to fund investment projects rather than external debt built-up.

The Central Provident Fund: Fund Flows & Fund Management Industry

	Holdings of SGS	Members' balances	Size of asset management industry
1995	$45b /	$66b	/ $86b
1996	$52b /	$73b	/ $125b
1997	$57b /	$80b	/ $124b
1998	$60b /	$85b	/ $151b
1999	$63b /	$88b	/ $274b
2000	$61b /	$90b	/ $276b
2001	$89b /	$92b	/ $307b
2002	$94b /	$96b	/ $344b
2003	$101b /	$104b	/ $465b
2004	$104b /	$106b	/ $500b
2005	$107b /	$110b	/ $550b

Central Provident Fund: Policy Implications and Related Issues

- As public housing ownership plateau since the 1990s at 86%, new avenues must be found to channel the CPF for consistent and good returns.
- New financial instruments must be found to unlocked housing equity in order to finance retirement through wealth management to over come the asset-rich cash-poor syndrome.
- As regional cost competition intensifies and as CPF contributions are progressively reduced, more cash will be left with individuals to manage through the existing alternative investment schemes in gold, shares, unit trust, bonds, currencies, deposits and investment-endowment insurance policies.
- Private sector participations in fund management, private banking, insurance etc are expected to increase.

Central Provident Fund: Policy Implications and Related Issues

- The pertinent issue for CPF members must be the improved and optimize returns on investments through privatization of funds as the central bank can not keep issuing bonds when there is no natural fiscal need when the government is able to run balanced budget over the business cycles.
- How to better satisfied the multi-pillar social security system (SSS) to achieve the tri-objectives as recommended by the World Bank:
- a. Income smoothing saving,
- b. Redistribution of incomes
- C. Insurance against risks
- The biggest challenge is for Singapore government to further fine-tune the CPF system with swifter fund divestment, which not only must fulfill the tri-objectives of the SSS but also serves to promote the fund management industry for the island state.

Central Provident Fund: Catalyst For Developing Fund Management Industry

- Through fund allocation incentive, increasingly the government has been encouraging foreign fund managers to set up offices in Singapore with objectives of forming a critical mass on fund pools and attraction of top financial experts and institutions to upgrade local human resource capital.
- Further liberalization of CPF divestment also mean bigger funds will be made available to fund managers who do have a proven track record.
- More financial products such as unit trust, retirement-nest, gold & equity investment schemes are now qualified for individual CPF account holders to consider investing in.

Banking Industry Consolidation, Meeting Corporate Sector’s Financial Requirements and Coping With Portfolio Investment Inflows

- “Nurturing” domestic banking institutions to compete globally, because to be strong is to be big, to be big is to be few, to be few is to go through a series of mergers and acquisitions (M&A).
- Meeting multinational corporations, government-linked companies’ financial requirements by effort to promote local bond market.
- Promoting bilingual capability of the financial workforce for growing Greater China markets. We must aim to secure more new businesses from mainland China, Taiwan and Hong Kong.
- Portfolio investment inflows into emerging economies such as China and India will be the next new wave and in fact it would be bigger than the foreign direct investment flows to mainland China which started in the middle 1990s.
- Setting up of government investment agencies such as Government Investment Corporation of Singapore (GSIC) and “Temasek Holdings” to manage accumulated surplus public funds are now being modeled by China, Japan, Korea, Malaysia, Brunei, Kuwait, Taiwan

How Singapore Stays Relevant, Navigate and Keeps Up With Changes

- Monitoring competitiveness, understand industry drivers, consolidate core capabilities, review institutional functions and regulatory structure.
- Identifying emerging issues, development trends and structural shifts in financial innovations, products and processes.
- The setting up of Review Committees such as The Financial Sector Review Group (FSRG) in 1997 and the Economic Restructuring Committee (ERC) in 2002 regularly to strategize further liberalization and deregulation of the financial system.
- Take the emergence of Shanghai as a potential onshore financial center seriously, and Singapore must leverage on the Chinese niche markets in private banking, bond issuance, initial public offers, commodity trading and corporate financing.
- Reposition Singapore to stay ahead of Hong Kong in foreign exchange trading, bond market activities, and to better compete with Hong Kong in the equity market.

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