What next
for Singapore
as a financial
centre?

THE CHALLENGES OF THE FUTURE

Developments sweeping through the global financial markets present Singapore and other international financial centres with fresh challenges and unparalleled opportunities. As a key point in the network of international markets, Singapore must not only rise to the challenges posed by regional, political, economic and financial developments, but those resulting from global trends as well.

In Asia, capital requirements & economic growth potential provide opportunities for both financial institutions and investors in the next decade and beyond

The global developments shaping the new economic and financial order are :

- The shift in emphasis from political ideology to promotion of economic growth and development in Eastern Europe and the major socialist countries in Asia has unleashed powerful forces in the financial marketplace. The current drive towards market economy in the collective pursuit of economic growth has removed many of the barriers to trade and investment. This will result in economic and financial intermediation. In Asia, the pragmatic economic reforms implemented by China and India, the world's two most populous countries, and the resultant opening up of their markets are bringing about structural shifts of global capital flows. The sheer size of these markets, capital requirements and economic growth potential, provide opportunities for both financial institutions and investors in the next decade and beyond;

- The shift from retail to wholesale orientation in banking operations is taking place, driven by the need to improve productivity. Money market, mutual, stock and commodity funds represent early innovative attempts in this direction. The pooling of money into large funds managed by professionals seeks out better returns from more complex risks. Bundling and securitisation of debt have also become part of bankers' normal cache of products. This process, which started in the U.S., has permeated to all areas, spurred by deregulation of financial markets and application of technological innovation;

Deregulation of controls and development of financial markets will facilitate capital transactions

- The availability and the use of financial leverage on a massive scale is impacting volatility and the close relationship of global markets. Non-traditional players have emerged in financial markets, their investment power greatly enhanced by leveraged financing. They are able to move funds across borders and between financial markets with dexterity, affecting asset prices;

- There has been a fundamental change in the recycling of surplus funds. In the 1970s, petrodollars were recycled mostly into the U.S. and Europe, mainly in the form of portfolio investments. The 80s witnessed the massive build-up of Japan's trade surpluses which were largely recycled in two main ways : into government debt of the U.S. and European countries and the purchase of real assets. In the 90s, Asia has seen an increasing number of countries, in addition to Japan, accumulating substantial surpluses which have been deployed, not only in investments in G-7 countries, but also within the region. At the same time, a significant portion of the excess liquidity from the U.S. and Europe has moved to capture the relatively higher yields of new markets;

In the region itself, several evolving trends will influence the economic and financial order. These are :

- The move to deregulate and liberalise domestic financial markets and investments is spreading throughout the region. These would facilitate intra-regional capital flows as well as attract the inflow of funds from countries outside the region, given the economic dynamism of Asia and the prospect of better returns;

- The rapidly expanding Asian economies have seen significant growth in intra-regional trade. The intra-regional component of total Asian trade has reached 40% and is still rising. The re-location of production to countries with cheaper labour, started by Japan and closely followed by the Asian NIEs, has provided a fresh impetus to the growth of intra-regional trade;

- An increasing number of Asian corporations are becoming multinationals. Professionally-managed, they are seeking listing on stock markets and venturing out of their home countries. The financial services they require would be more sophisticated and complex compared with those catering to companies that have a purely domestic focus;

The interplay of global and regional trends challenges Singapore to remain relevant as an international financial centre

The interplay of these global and regional trends provide a challenge to Singapore in its efforts to remain a thriving and relevant international financial centre. Its success will depend largely on the ability to be catalyst and provider of services required not only by those in Europe and the U.S., but, equally important, by those in the region. Capitalising on existing expertise, infrastructure and competitive advantages, Singapore could develop its potential in the following areas:

- To serve the emerging markets in Asia in terms of providing both traditional and innovative financial products and services useful to the regional institutions, corporations and individual customer. This represents a natural progression from Singapore's established standing as a leading foreign exchange market and the centre for the Asian Dollar Market. It must extend its ability to trade, manage risks, make markets and execute transactions to the financial products of the newer markets;

- With close ties to regional countries and understanding of Asian market dynamics, regulatory and legal framework, Singapore should continue to serve as a major source of information flow for regional and international fund managers and investors. It must ever enhance its ability to interpret, transmit and translate this knowledge to those outside the region;

- Lead in adapting global products to regional users. The growth of Asian multinationals brings about different, even new financial requirements. The pool of reputable multinational banks in Singapore must meet these needs instead of simply marketing Western financial products into our zone. At the same time, skills should be harnessed to identify quality investments outside Asia for fund managers tasked to handle Asia's swelling surpluses;

A hub for fund management, an adaptor of global products...

- Become the regional hub for fund management. With huge pools of funds destined for Asia, their management will take place more and more in the region. Also, growing wealth and rising income levels coupled with increasing sophistication will lead Asian investors to demand investment products more innovative than traditional time deposits. The boom in the local equity and debt markets have accentuated this trend. There will be tremendous demand for asset management services, and those with the ability to package local corporate instruments for this enlarged investor base will profit from the opportunities provided by this trend;

- Have a supportive legal and regulatory framework and business environment. Local laws and banking regulations relating to international financial transactions must be consistent with international practice. They need frequent review, given the speed with which new products are introduced. Clear guidelines will ensure that business is not slowed down;

- Maintain international standards of manpower and technological infrastructure. The level of skills, telecommunication services and technology supporting the financial industry needs continual upgrading. Market-oriented manpower training and a close liaison between financial institutions and these related industries must be maintained to ensure the vital human and infrastructural needs of the financial industry continue to be met in the years ahead.