DBS ASIAN INSIGHTS CONFERENCE 2014

GAMECHANGERS SHAPING THE ASIA OF TOMORROW

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DBS ASIAN INSIGHTS CONFERENCE 2014

POST CONFERENCE REPORT

The DBS Asian Insights Conference 2014 brought together the region's top government and business leaders to discuss complex game-changing issues that could accelerate or disrupt Asia's growth. Rapid urbanisation and digitisation; the rise of mass affluent consumers across Asia; and the rapid growth rate of the region in itself will inevitably bring challenges and opportunities, revolutionising the way businesses are conducted, how investments are made and the way we live, work and play.

A highlight of the event was the DBS Asia Leadership Dialogue with the Deputy Prime Minister and Minister for Finance of Singapore, Tharman Shanmugaratnam, hosted by DBS CEO Piyush Gupta. Distinguished speakers from the region included: Professor Tommy Koh, Ambassador-at-Large at the Ministry of Foreign Affairs, Singapore; Dr Duvvuri Subbarao, 22nd Governor of the Reserve Bank of India; Jusuf Wanandi, Co-Chair of the Pacific Economic Cooperation Council; Dr Liu Thai-Ker, Chairman of the Centre for Liveable Cities Advisory Board; and Liew Mun Leong, Chairman of Changi Airport Group. The programme also featured DBS Asian Insights from a team of economists and analysts.

With more than 600 top management executives, private investors and thought leaders in attendance, this was an excellent platform for building relationships and the exchange of ideas. As a bank born and bred in Asia, DBS prides itself as knowing Asia best.

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ASIA LEADERSHIP DIALOGUE

DEPUTY PRIME MINISTER AND MINISTER FOR FINANCE THARMAN SHANMUGARATNAM

The DBS Asia Leadership Dialogue brings the region's movers and shakers for a candid tête-à-tête with Piyush Gupta, CEO of DBS Group Holdings and DBS Bank, on the critical issues that confront Asia. This year, Deputy Prime Minister and Minister for Finance of Singapore, Tharman Shanmugaratnam, speaks his mind and shares his insights on what he sees as the definitive gamechangers that will shape the Asia of tomorrow.

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PIYUSH GUPTA

WELCOME

A very warm welcome to the DBS Asian Insights Conference on Gamechangers Shaping the Asia of Tomorrow.

At DBS, we have based many of our strategies on megatrends we believe will have a significant impact on the region. For our conference this year, we have chosen to focus on some of these themes, such as the rapidly growing middle class, the unrelenting pace of urbanisation and the speed of digital adoption, which are, in some ways, defining Asia more rapidly than the West.

First, we have a session on political and economic developments afoot in Asian powerhouses, which are important to both our immediate and longer-term future – what is happening in China, India and Indonesia will have a profound impact on Asia and the rest of the world.

It is also clear that the pace of urbanisation in Asia is significant. In China today, just as many people live in cities as in the countryside. In India, only a third of its population now live in urban areas, but creating planned cities is a big part of the government's agenda. Urbanisation will undeniably drive important shifts in buying behaviour, in opportunities, as well as in other areas such as the environment.

We will also look at what's happening in China and India in the digital context, and how the likes of Jack Ma, the founder of Alibaba and Mukesh Ambani, the Chairman of Reliance will redefine the concept of value and wealth creation in the next five years.

Finally, we will be discussing something that's important to me, which is doing good business and doing business with a purpose. Rising inequality, I believe, necessitates every corporation to think about how you can do business in a socially responsible way.

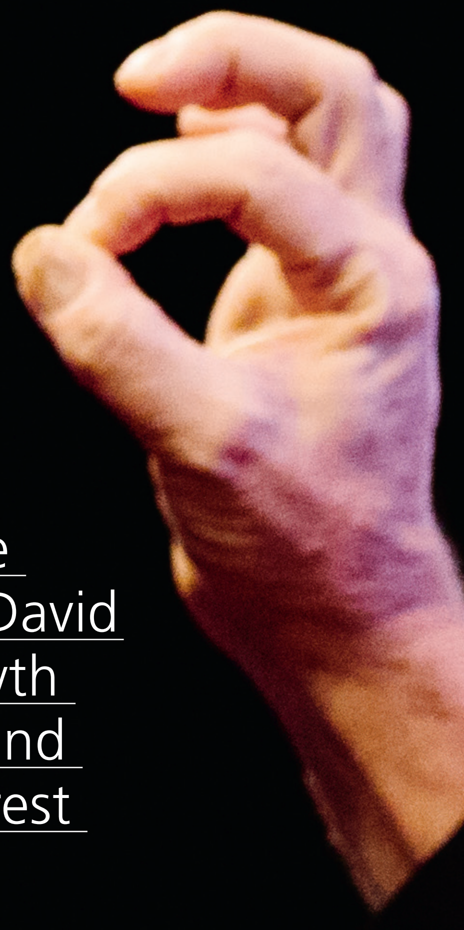
We at DBS have had a good track record over the last few years. We've been named Asia's safest bank for five consecutive years, and this year, for the first time in Global Finance's 21-year history, an Asian bank has been named the best bank in Asia Pacific. We've also been voted Singapore's most valuable brand for the second year running.

One of the ways we therefore try to serve our clients and partners better is by sharing our insights. Today, with the help of technology, we're able to pull together our resources and make it available to our clients. We do this through our publications, and increasingly via our websites, social media and events of this sort.

DBS Asian Insights is a large part of our ability to differentiate what we do as we grow our relationship with you. We hope the insights shared at this conference will give you an edge as you lead and manage your business here in Asia, and hope you have a successful day ahead.

Piyush Gupta
Chief Executive Officer
DBS Group Holdings and DBS Bank

WHY THE 21ST CENTURY BELONGS TO ASIA



In setting up the context of key regional trends and trajectories that will shape the Asia of tomorrow, DBS Chief Economist David Carbon gives his take on why Asia's growth story is the biggest gamechanger today and what that means for the region and the rest of the world in the foreseeable future.

DAVID CARBON

'The shift in economic gravity from West to East is nothing new but we've reached a tipping point," said David Carbon, Chief Economist of DBS Bank. "We've now gotten to the stage where Asia is no longer too small to matter."

In the four years that bookmarked the front and the back of the 2008 global financial crisis, Asia grew by 8% a year with no help from the US, Europe or Japan, Carbon explained. In other words, Asia put an entire Germany on the global economic map during the biggest crisis in a century.

It used to be that if the US consumer sneezes, the rest of the world catches a cold – but that no longer seems to be the case. In 2008, Asia was put to the "ultimate test" of holding up its GDP and accomplished what most argued was impossible, while major economies languished.

China's slower growth

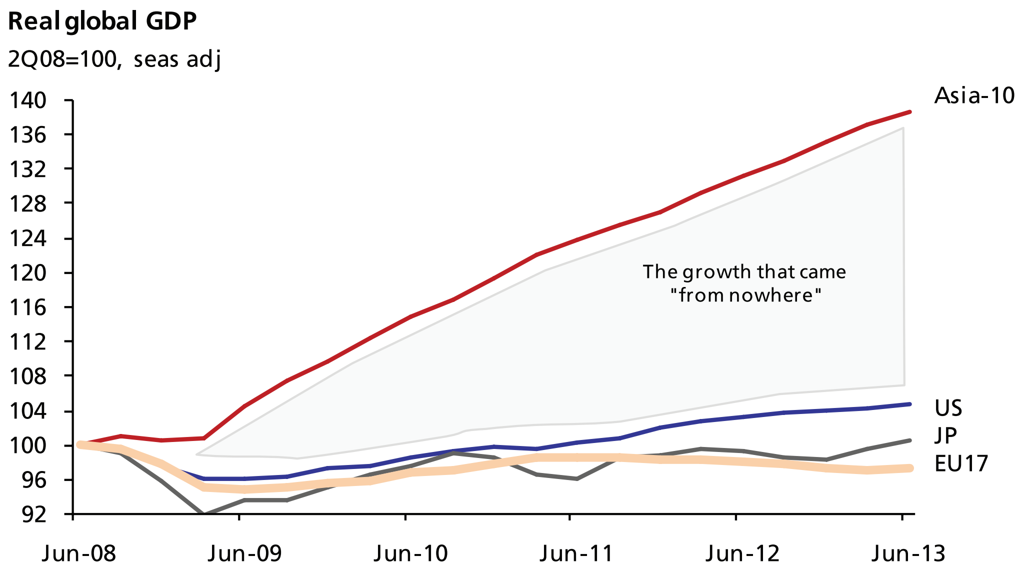
To be sure, Asia's economic growth *is* slowing. With China's glory days of double digit growth over, Asia's GDP growth has averaged 6.25% for the past three years, down from an average of 7.5% growth over the past 25 years. Going forward, a reasonable assumption might be that growth continues to fall to 5% over the next decade and to 3.5% over the subsequent 15 years.

But incremental growth in Asia, with China at its centre, means that the region is still capable of putting a Germany on the global economic map in three-and-a-half years. Five years from now, it'll do the deed in three. The time it takes Asia to repeat this grows shorter every year.

"There's no magic, no hocus-pocus, but just simple grudging, grinding growth year after year," said Carbon.

Who's driving global growth?

Asia's GDP, which stands at $16 trillion, is already as large as the US'. Not only does Asia drive its own growth, as it clearly demonstrated during the global financial crisis, but it is also the engine of global growth.



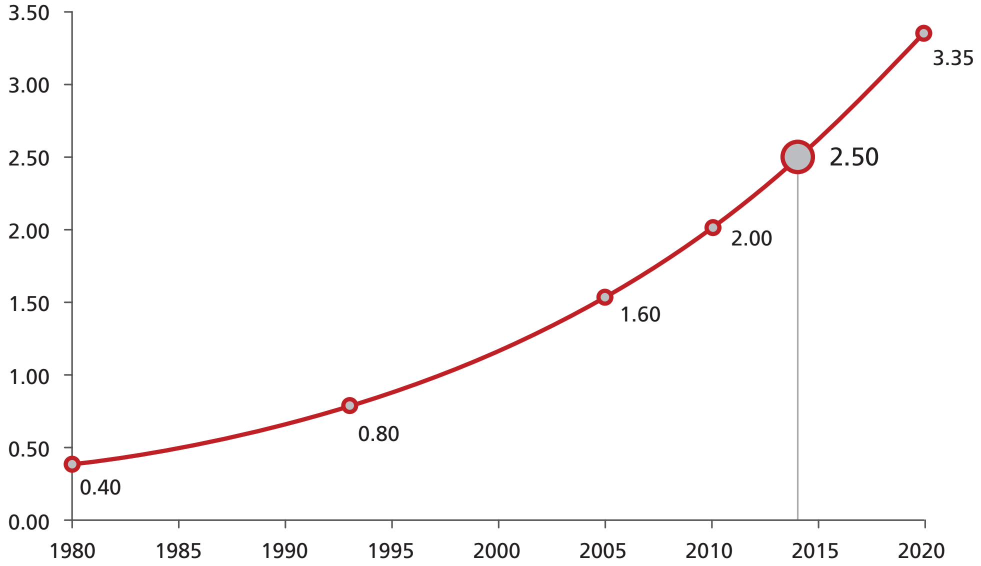
"For every dollar the US puts on the global stage today, Asia puts out $2.50," Carbon said. However, it was a completely different picture just over 30 years ago. "Back in 1980, for every dollar that Asia was putting out, the US was putting out three times as much. Today, the tables have completely turned."

This concept, stretched out over five to ten years, is why it now takes less time for Asia to put a Germany on the map, and why it'll take even less time going forward.

Summarising his argument, Carbon said that 25 years from now, Asia will put out the equivalent of three Eurozones on the global economic map, right here in Asia. The region will add the first Eurozone by 2023, nine years from now, the second by 2031 and the third more quickly yet around 2038. By that time, Asia's GDP will stand at about $54 trillion.

We've now gotten to the stage where Asia is no longer too small to matter

Asia10 - incremental domestic demand growth
dollars of new demand created by Asia per dollar created by the USA



The Asian Century

Asia's incremental growth, which will be seen and felt year-to-year, is bound to bring about enormous change. This fundamental force driving the rise of Asia's giants – China, India and Indonesia – will imply new geopolitical realities, and have big implications on consumption patterns, energy demand and the rise of the middle class, Carbon argued.

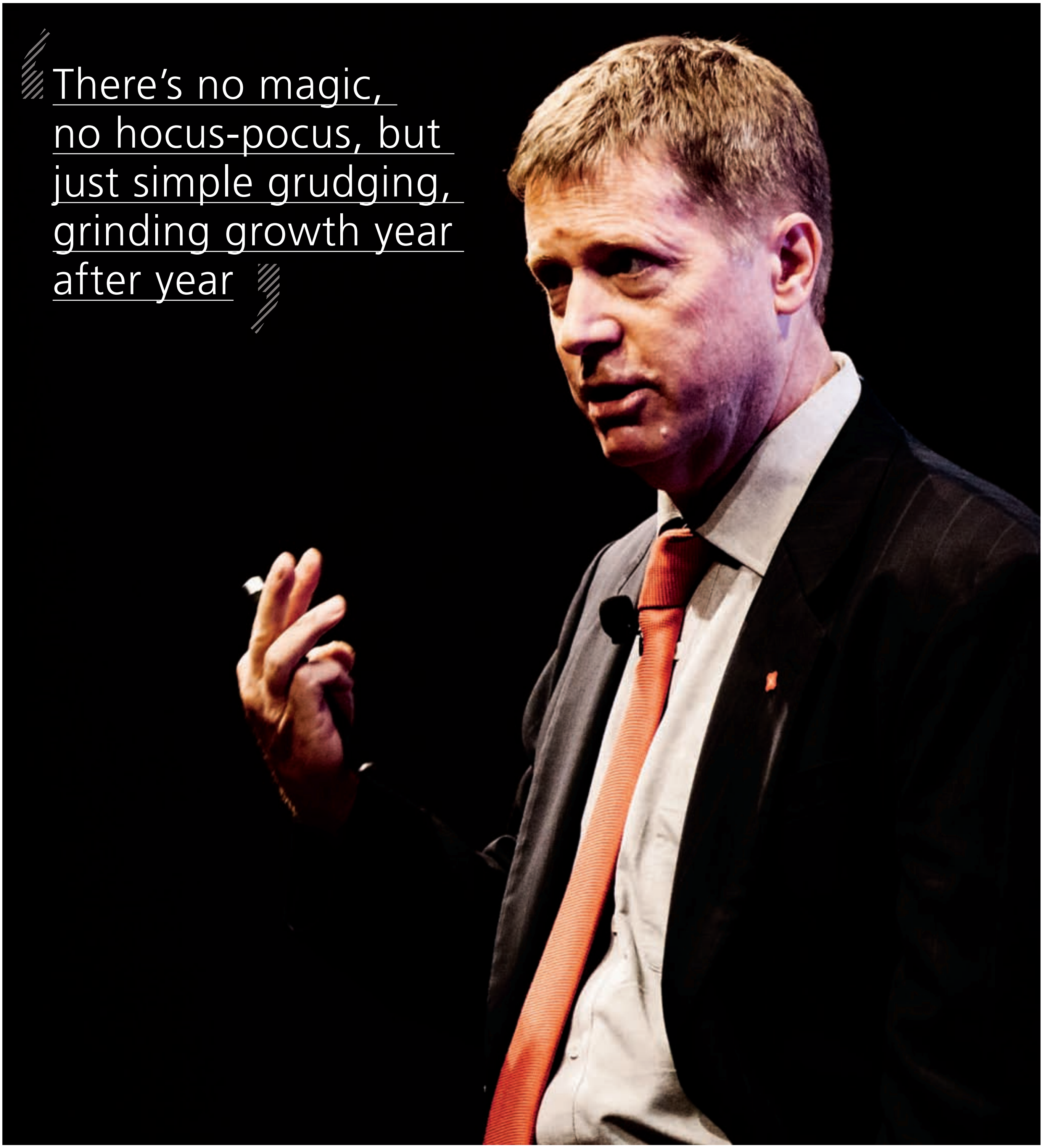
This growth will also be concentrated in big cities, and Asia is expected to add 500 million more people to its population by 2039, nearly twice the current US population.

As Asia's cities grow, so too will trade. China is already the world's biggest importer and exporter. And the world's second largest economy is expected to further entrench its trade position in the years to come. Against such a backdrop of growth, the world will soon need a globalised renminbi "because there simply won't be enough dollars to go around".

Asia's speed of growth on a large base means it has finally caught up with the West after lagging for 150 years. It's only a matter of time before its influence on the global stage grows, too.

"The shift from West to East is the biggest structural change in the global economy today," said Carbon. "It may be the biggest gamechanger out there."

For more on David Carbon's thoughts on Asia's growth potential, please visit **www.dbs.com/insights** and download *Asian Gamechangers: A Germany Every Three Years.*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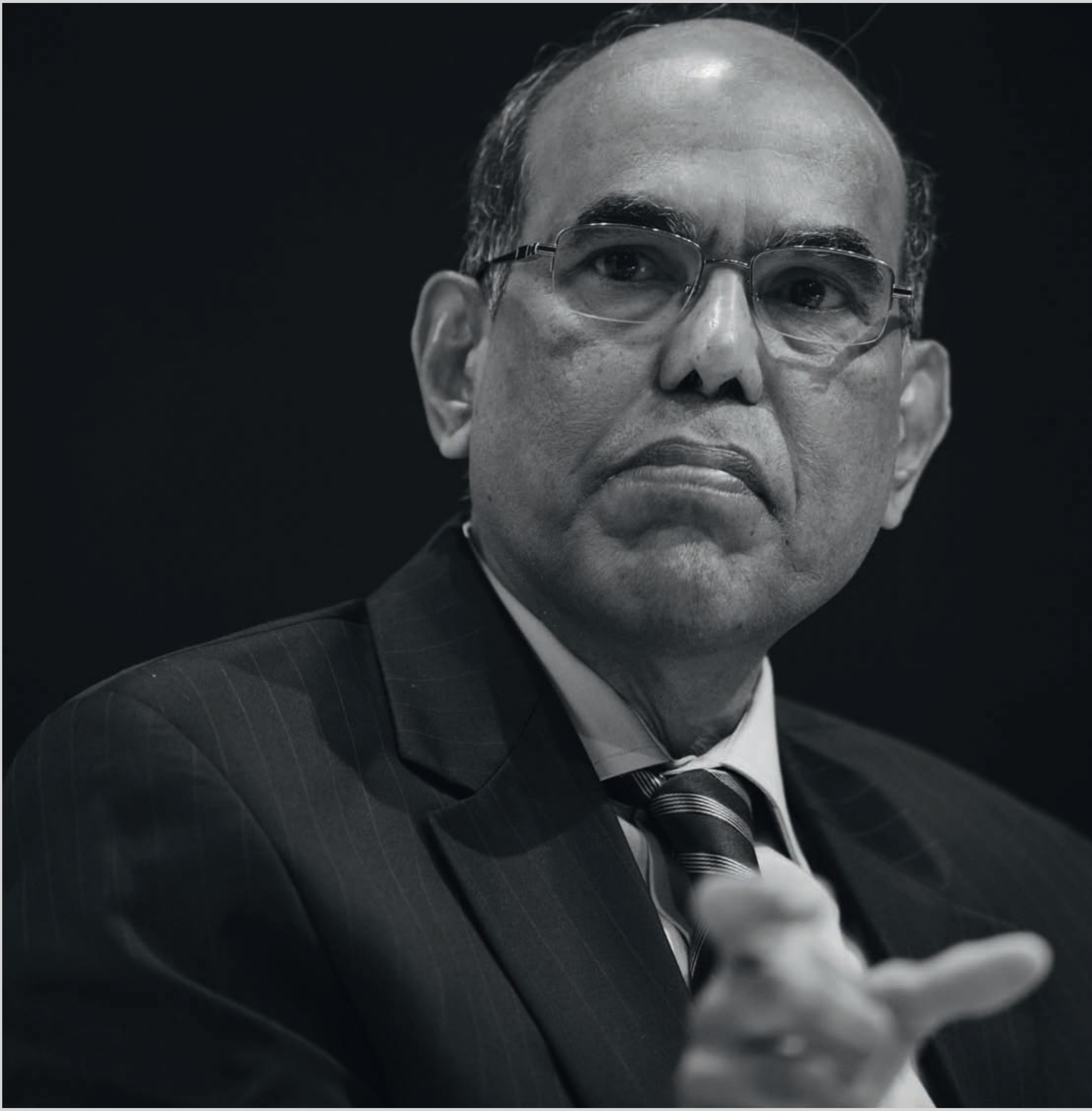
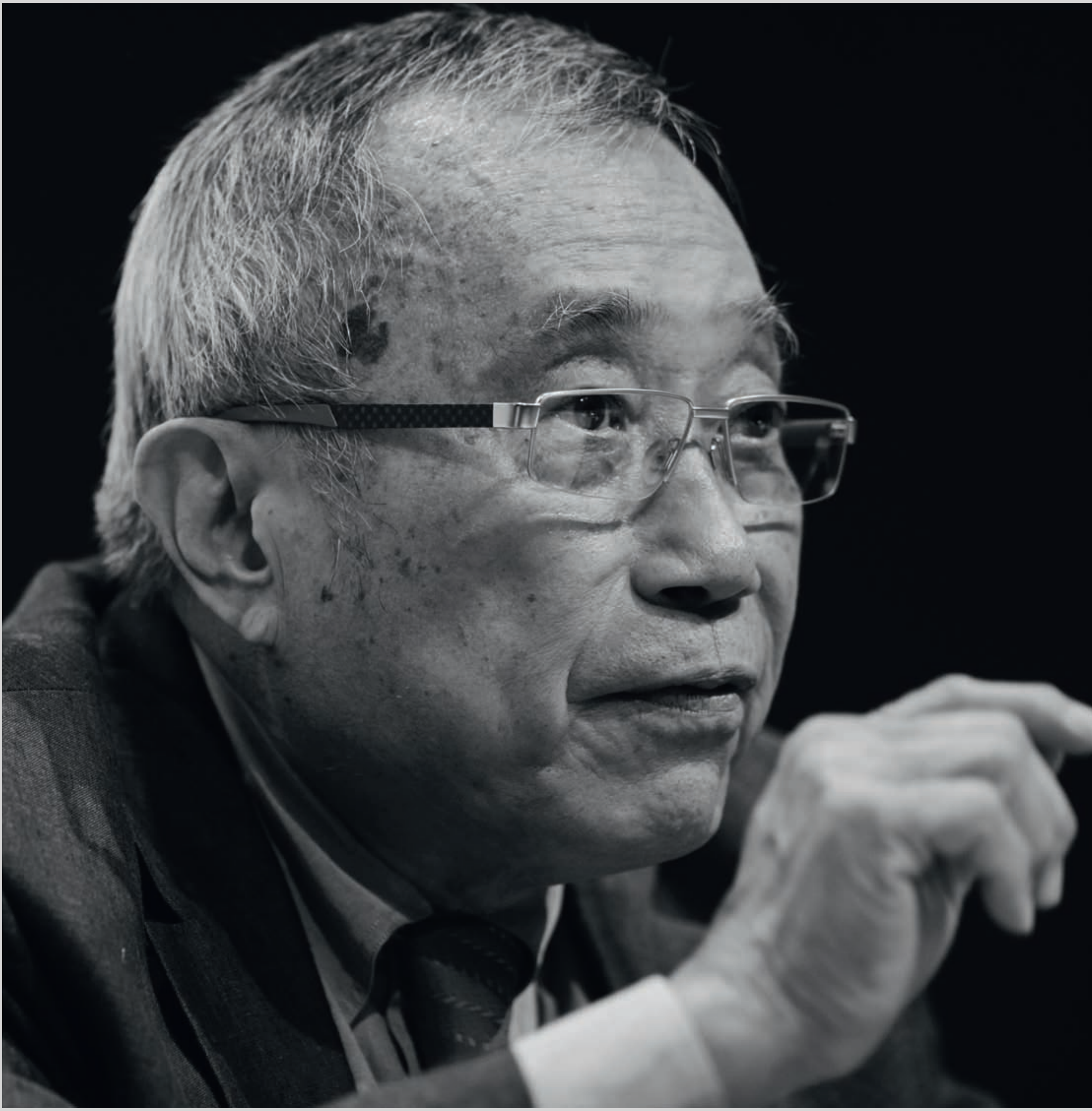

DR DUVVURI SUBBARAO

GROWTH TRAJECTORIES OF THE ASIAN GIANTS

Four seasoned policy experts discuss the challenges faced by the largest countries in Asia – China, India and Indonesia – as they continue to move up the development ladder. Their actions in the coming years will steer the trajectories of their own economies and that of Asia as a whole.

'Asia risks falling into the middle-income trap," warned Dr Duvvuri Subbarao, former governor of the Reserve Bank of India. Countries grow out of poverty quickly. "But once they reach that middle-income level, they find that they are unable to move up because they've exhausted the capacity for catch-up growth, they've exhausted their comparative advantage and they're unable to move up the value chain."

The outsourcing trend, which has helped Asia grow in the past 25 years, is being reversed, as changing business models, rising transport costs and lower wage growth in the West have led to "reshoring". The way out of the middle-income trap, argued Subbarao, is for Asian growth to come not from more labour or capital, but from greater innovation.



JUSUF WANANDI

Asia risks falling into the middle-income trap

Structural reforms in Asia

Bringing the focus in on China, Dr Li Mingjiang, Coordinator of the China Programme at the S Rajaratnam School of International Studies, said the country's biggest challenge is a successful reform programme. The strong policy consensus in the country and the authority of President Xi Jinping mean that chances for successful reform are good.

Li also noted that most Chinese are not worried about China settling into a period of moderated growth, viewing this as part of the economic restructuring process. The priority is the quality, not rate, of growth. "In the past, the government said the growth rate had to be 8% and the primary reason was unemployment, but that is no longer the case."

Reform is at the top of the agenda in India too, and new Prime Minister Narendra Modi's decisive win has led to supercharged expectations. It is clear that economic and governance reforms are needed to achieve GDP growth, control inflation and widely share the benefits of broader economic growth; but what needs to be done will be politically painful for Modi.

"Modi should think and act like a single-term prime minister, as if he's very nonchalant about getting re-elected. Then I think he will do all the right things, and indeed get re-elected," said Subbarao.

While Modi has a credible economic track record from his time as chief minister in the state of Gujarat, Subbarao warned that India's diversity means that the Gujarat model may not be replicable across the country. While land is abundant in Gujarat, for example, its scarcity in much of the rest of the country is a contentious issue.

Modi may also find his new role as prime minister more limiting than that of chief minister; and he cannot achieve his goals in federal India, said Subbarao, without the cooperation of the chief ministers.

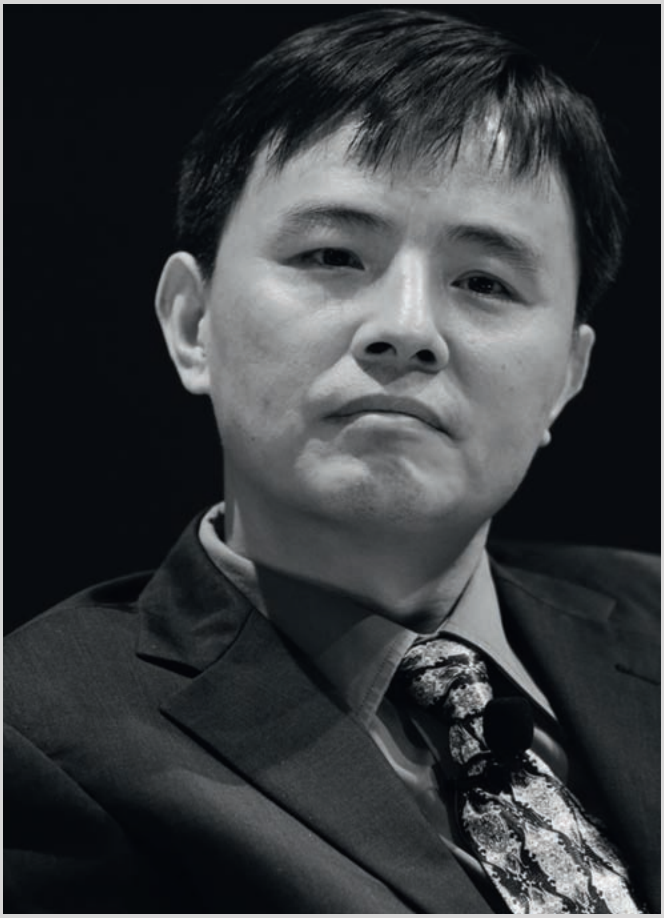
On the issue of structural reform, Singapore's Ambassador-at-Large, Professor Tommy Koh pointed out that Japan is still the third largest economy in the world and the second largest in Asia, and that Japanese Prime Minister Shinzo Abe's third arrow of reform warrants close attention. Abe's efforts in driving radical and ambitious changes in the Japanese economy should not be written off, despite Japan's lacklustre record in adopting reforms.

With the Indian elections over, many observers have shifted their attention to the Indonesian presidential election on July 9.

Jusuf Wanandi, Co-Chair of the Pacific Economic Cooperation Council, proffered the view that a win for Prabowo Subianto in the presidential election in Indonesia would be a setback after 15 years of democratic progress, and that Prabowo's authoritarian rule would signal a return to Suharto's New Order. Joko "Jokowi" Widodo, on the other hand, would deepen democracy in Indonesia. He represents a shift in politics, as he is not from the elite.

"The supporters are mainly lower and middle class… For the first time, they have a leader that they can identify with," Wanandi emphasised.

On the campaign trail, while nationalistic statements by


DR LI MINGJIANG

An 8% growth rate is no longer necessary

both candidates have worried investors, Wanandi argued that Jokowi is more likely to follow the outward-looking example set by former president Megawati Sukarnoputri.

Geopolitical hurdles

While Asian countries are becoming more cooperative on the economic front, there are also growing tensions between China and Japan, between China and the US, and between China and some of the Asean countries. "There is this disconnect between growing economic interdependence on one side and growing political divisiveness on the other," Koh observed.

The situation is further exacerbated by the threat that the rise of China poses to the US. "We live in a very dangerous moment in history, when an incumbent superpower faces a challenger," Koh said. While US President Barack Obama and Chinese President Xi have agreed to manage their differences with maturity and wisdom, history has shown that the risk of war between the two countries cannot be precluded.

How will China the superpower behave? Li argued that the Chinese exercise of power would be no different from the American one in that China too will try to dominate international, and, in particular, regional affairs. One divergence, however, is that China is likely to prefer more subtle means to achieve this dominance.

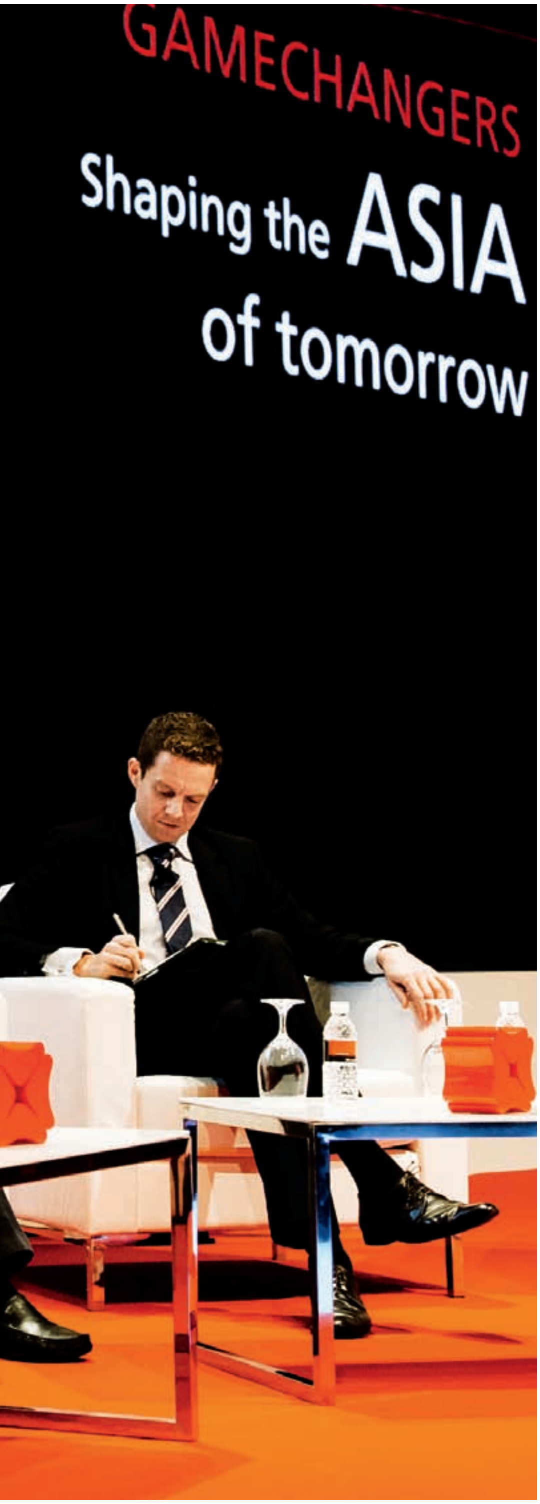
Responding to Li's expectations that China will remain aggressive with respect to ongoing South China Sea territorial disputes, Koh warned that China's recent actions risk pushing countries like Vietnam and the Philippines closer to Washington and Japan.

"There is a danger that there will be a new realignment of forces in our region… We don't want the countries in the region to be split into groups which are pro-China, and groups which are anti-China."

For more insights on Asian Giants, please visit www.dbs.com/insights

PROFESSOR TOMMY KOH


DBS
ng, Breathing Asia



URBANISATION: THE ENGINE FOR ASIAN GROWTH

Experts and practitioners discuss the trajectory, opportunities and risks of Asian urbanisation with Jeanette Wong, Group Executive, Institutional Banking Group, DBS Bank.

Urbanisation has been driving economic growth for more than 300 years. What is unprecedented, said Dr Fraser Thompson, Senior Fellow at McKinsey Global Institute, is the scale of urbanisation in Asia. "What is happening today is the transformation of urbanisation – it's happening at over ten times the pace and over a hundred times the scale of anything we've seen previously."

The biggest growth is coming not from the megacities, but from the mid-sized ones – places like Dalian in China, Surat in India and Surabaya in Indonesia. "These 450 cities in the emerging markets are going to drive roughly half the world's growth in the next 15 years."

An opportunity for business

This urbanisation trajectory provides huge opportunities. Fraser pointed out that Asean countries require US$2.4 trillion worth of infrastructure by 2030. If the bottlenecks of financing and effective scoping of projects can be ironed out – a big challenge for governments – this will be an infrastructure windfall for businesses.

JEANETTE WONG

Urbanisation also creates opportunities in retail – where the increasing per capita GDP of cities has created very attractive consumer markets; and agriculture – where more efficient production, better supply chain techniques, and improved yield will be needed as more farmers migrate to cities and urban demand for food grows.

However, accommodating the massive numbers who are moving from rural areas to cities is a mammoth task. In the coming years, China will have to build the equivalent of three Americas, India five Americas, and Indonesia one to two Americas in order to do this. "If it's not done properly, it will affect not only these cities, but Asia's environment and the whole world's environment," warned Dr Liu Thai-Ker, Chairman of the Centre for Liveable Cities Advisory Board and renowned pioneer of Singapore's urban development.

Liu added to Fraser's assessment, saying that the responsibility for setting the stage for successful private sector involvement in urbanisation lies with the government. "Without the government's commitment to make the city very efficient and very workable, it actually hampers the creativity of the private sector."

Singapore: An urban laboratory

Liu brought the focus of the discussion on to Singapore, which has undergone a huge transformation since 1960, when 1.3 million people of the 1.9 million strong population lived in squatters. The country has also seen its per capita GDP rise from US$400 to US$52,000. Liu attributes the success of Singapore's urbanisation to a government that placed rationality above any other sentiment.

Singapore was also an urban laboratory for the young professionals that built the city. They were continuously seeking feedback and conducting research on completed projects, and ploughing their findings back into public planning and design.

Liu has few regrets about the Singapore urbanisation story. There are a few buildings that he wishes had been conserved; and he does think that efforts could have been made to establish a better channel for communication with citizens. He cited cities like Bilbao and Melbourne as having very successfully co-opted citizens into the planning process, resulting in fewer complaints.

Singapore has one of the world's highest population densities. How much larger can it grow?

Liu noted that it is unrealistic to believe that population growth can be stopped, and that it is, in fact, necessary in order for economic growth to continue. "If we are going to stay forever as a country, we are going to have to go to at least 10 million… After we have accepted that, we find the ways to deal with it."

Agreeing with Liu, Liew Mun Leong, Chairman of Changi Airport Group, reiterated that the cities Singapore is competing with have much larger populations. "If you remain at 5 million people, you don't have the critical mass to compete."

Chinese cities: Driving growth and political stability

Compared to Singapore, China's urbanisation is of a completely different scale. China has, in the past 30 years, moved an unprecedented half a billion people from rural areas into cities.

Urbanisation continues to be a priority for Chinese Premier Li Keqiang, said Liew. The production output of cities is three to four times that of rural areas, and economic

DR FRASER THOMPSON

growth is the primary reason why urbanisation is at the top of the agenda in China. Cities are also a political engine, ensuring greater satisfaction for the masses, by providing a better standard of living, with access to better education, healthcare, transportation and jobs. China's 12th five-year plan is geared towards a people-oriented urban strategy.

When he was CEO of real estate developer CapitaLand, Liew took Singapore's public housing model and applied it to the Chinese private housing market, producing standardised affordable housing within easy access to cities and public services. There are still huge opportunities in the Chinese affordable housing market, said Liew. China needs to build 30%-40% more housing, and most of the housing currently on the market is too expensive.

Planning and paranoia: Building liveable, resilient cities

If cities require a critical mass to realise their potential, a delicate balance needs to be struck between both high density and liveability – defined as respect for the environment, control on pollution and congestion, and providing good employment opportunities.

"If you look at the Surabayas and the Bandungs and so forth, they are making strenuous efforts to improve the liveability of the city. But the question is how will that look in the next ten years when they really start to increase their density and the scale of the city," said Fraser.

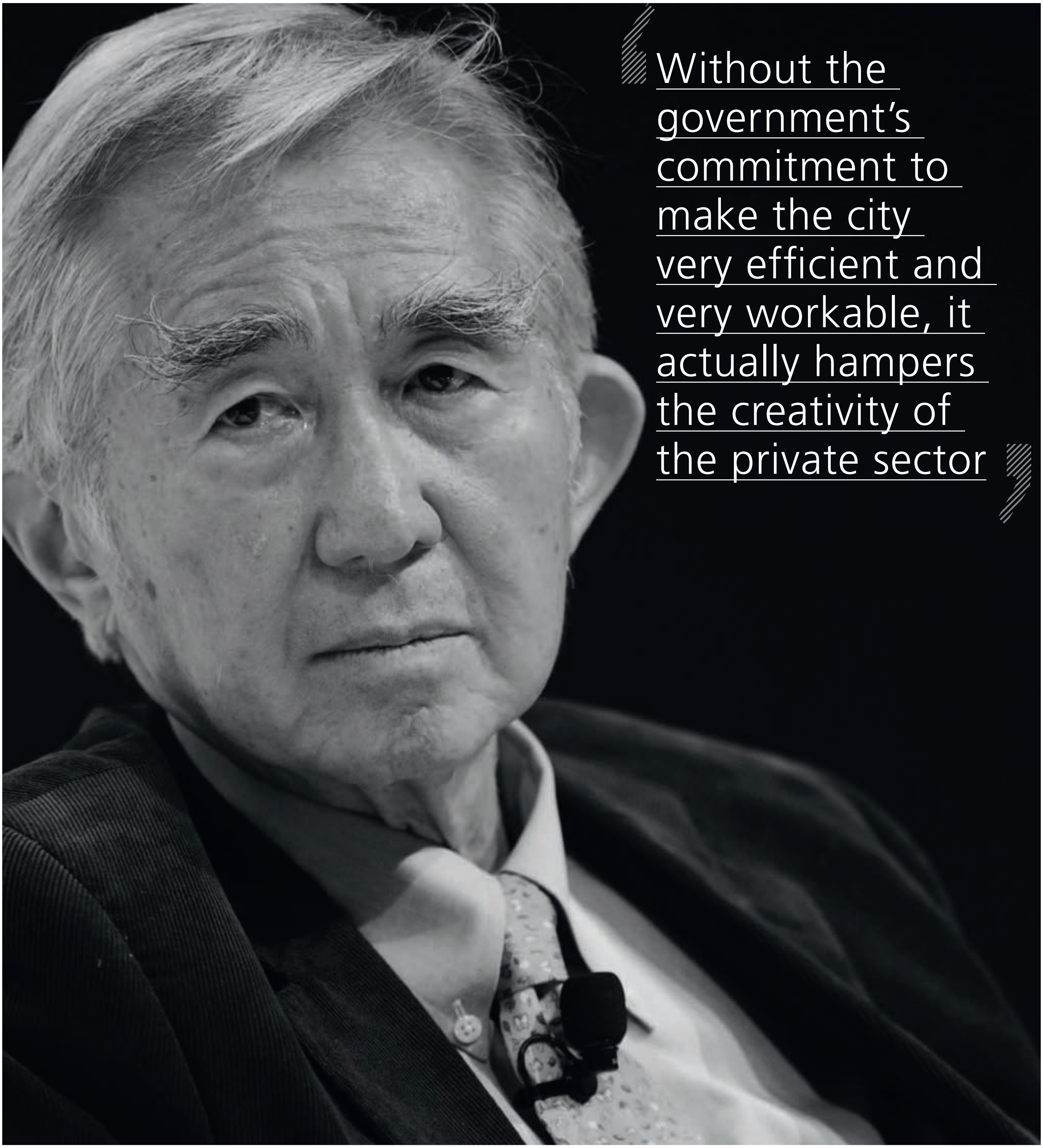
And how do you build a city that is resilient to crises, whether economic, natural or terrorist?

Liew says the key is paranoia. "I think resilience is a function of how we plan for and how paranoid we are about the crisis." The Singapore Public Utilities Board, for example, has responded to flooding in Singapore by revising their planning from one in 100 years scenarios, to one in 1,000 years and one in 5,000 years scenarios.

For more insights on Asian urbanisation, please visit **www.dbs.com/insights** and download *Going to Town – Urbanisation in Asia.*

> Asean countries require US$2.4 trillion worth of infrastructure by 2030

LIEW MUN LEONG



DR LIU THAI-KER

BIG DATA'S BIG POTENTIAL

The power in big data is not the data itself, but in the learning that companies can glean from it, industry watchers tell Tan Su Shan, Group Executive, Consumer Banking & Wealth Management, DBS Bank.

TAN SU SHAN

Tan Yinglan, Venture Partner at Sequoia Capital, stood up to show off four separate data-tracking devices that he was wearing. "This measures my sleep and movement, this watch tells me what messages I have on my phone, and this keeps track of my blood pressure," he said, ticking them off.

The goal of measuring this data isn't a means unto itself, but there is potential in forming a bigger data graph across the devices, he said.

Pointing to Sequoia Capital's investment in Indian online medical record site Practo, he said the value of a company like that is the ability to sync up disparate sets of data. With electronic medical records, a patient could feed his daily step activity rate and blood pressure readings into the database, and during checkups a doctor would have a much fuller picture of the patient from this data, compared with what an annual check-up could provide.

Feon Ang, Regional Director of Talent Solutions at LinkedIn, Asia-Pacific, said the business-oriented social network has its analytics engines crunching the millions of user profiles on the site and providing deeper insights to the region for subscribers.

Each day, the site sees 50 million profiles and 1.5 million job listings viewed by users around the globe. "This spells millions and millions of interactions across the world. All of this data depicts an economic graph that allows institutions, governments and individuals to make better decisions about where the jobs, opportunities and skills are," she said.

And as more mobile devices get web-connected, we can only expect this trend to continue escalating.

Jayesh Easwaramony, Vice-president and General Manager Asia-Pacific, Middle East and Africa for InMobi, pointed out that online services are bleeding over to traditional "offline" experiences such as supermarket shopping. These are coming to people by way of multiple screens, and data that can be exchanged between services stitched together on the cloud.

"We've just started on this journey," he said.

InMobi's mobile advertising network already touches about 800 million users each day, across the many applications in its partner network. This adds up to close to 900 billion "events", or taps and clicks that users do on their phones, that are captured by InMobi and processed on the backend, said Easwaramony.

Eventually, the systems that make sense of these events should have the smarts to single out the data findings that matter to the company, said DBS Chief Innovation Officer Neal Cross. "By the end of the decade, machines will think more on our behalf than at our behest. But how will they think and filter data?"

Tan agreed, adding that all the data collected today is helping the decision-making of tomorrow. "Big data is not just about the 'what' and the 'how', it's the 'why'. The learning is much more important."

Balancing privacy with the smart web

Does all of the increased tracking hurt data privacy? Tan doesn't think so.

One way around this is for services to be able to make out a user's general profile without specifically identifying the individual, he said. This can be done by triangulating a user's preferences based on different demographic slices from disparate services, eventually resulting in a "pretty good" idea of what a user might like or how he might be spending his money, without invading his privacy, he explained.

JAYESH EASWARAMONY

Big data is not just about the 'what' and the 'how', it's the 'why'. The learning is much more important

FEON ANG

TAN YINGLAN

The underlying benefit of connecting data sets is the ability to move user experiences to the next frontier, said Cross. Many of the leading e-commerce services online use data "exceptionally", he said.

Using the typical internet banking experience as illustration, he said banks have data on where the user lives, what they do, and how much they earn and spend. "And yet, if I want to apply for a credit card, I'd get a blank form. No e-commerce vendor would do that. That form would be prefilled," he said.

And brands are using these data smarts to understand users better, and create brand loyalty by pushing products tailored for them, he noted.

"Twenty years ago, no one would compare banking with retail. But today, consumers wonder why internet banking doesn't give them the same experience as e-commerce," he said.

User experience was one of DBS' goal when it created its new PayLah app. Relating the experience, Cross said he paid his dinner companion when the cheque came, and the latter received the payment in his account before the credit card returned to be signed.

"This is the thing about the mobile space. It's so accessible, and we need to [enable] that. People are passionate about their phones. How do we remove the friction?" he said.

Tan said the maturity of e-commerce sites in a market typically mimics that of the offline business. Southeast Asia remains plagued by delivery logistics and cashless payment options, where credit card penetration remains lower than that of Western markets.

Jana, a mobile advertising platform, conducted a survey last year that revealed an average 32% credit card usage across Asian, South American and African emerging markets.

This lower accessibility of cashless payment makes it harder for e-commerce businesses to thrive, he said. "Right now, the maturity here is far behind that of the West."

But the silver lining is that businesses in Asia have been innovative in overcoming these barriers, he added.

In China, cash-on-delivery is a common workaround, and many buy goods off travelling merchants on bikes, said Tan.

Asia's digital potential

While cashless payment is still an issue for the region, Cross said that the flood of users coming to the internet here is forcing a seismic change in how businesses operate.

New startups are finding alternative methods of payment via mobiles, for instance, and Asian services like Alipay are evolving beyond the Western-based services that formed their initial frameworks, he noted.

"It's a phase of maturity, and I personally think the East will overtake the West eventually in the future," he said.

Ang offered statistics from LinkedIn: "There are roughly 600 million professionals [on the site], and 200 million come from Asia. Our recent surveys show that seven out of ten of the top tech skills are in Asian cities, and the tech landscape will keep evolving, too."

Tan agreed, saying that the depth of tech talent in countries like India is unmatched globally.

"There is big room to grow in India," he said. India's IT market is dominated by systems providers like Tata and Wipro, and there remains plenty of potential for smaller firms to rise up, Tan added.

For more insights on digital Asia, please visit **www.dbs.com/insights** and download *Sink or Swim: Business Impact of Digital Technology.*

NEAL CROSS

Twenty years ago, no one would compare banking with retail. But today, consumers wonder why internet banking doesn't give them the same experience as e-commerce

GLOBAL MACRO AND ASIAN MARKETS OUTLOOK

The global economy has not taken off like many had hoped at the start of 2014. What then are the implications for Asia's economies, currencies and regional equity markets amid an environment of moderate growth, cheap money and low volatility? DBS experts share their views on the macro and markets outlook for the rest of the year.

It's time to get back into Asia. The equities run isn't done yet. And if you're trading FX, we're broadly bearish on the greenback. Those were the messages from a panel of experts on their macro and markets outlook in the second half of 2014.

"The battles between the bulls and the bears have intensified to the point where this coiled energy is about to be released either way," said DBS Chief Investment Officer Lim Say Boon. "And my inclination is to give the benefit of the doubt to Asia ex-Japan equities. That is where the coiled energy is more likely to be released on the upside, a breakout for Asia ex-Japan equities."

Already, DBS remains overweight equities in relation to other asset classes. That's on a combination of moderate growth, cheap money and low volatility. But where should you be investing in equities? Lim told the gathering of over 600 top executives and financial experts that it has to be Asia because:

1) Of its economic growth fundamentals
2) Benchmark US Treasurys are more stable at the moment, resulting in a lower risk of fund outflows
3) Of its better valuations

He brushed aside concerns the bulls were tired of running and said they were just ageing. The opportunity to reposition equities back to Asia is there. And we should seize it.

"It is only in this part of the world that you get growth at a reasonable price, 1x for MSCI Asia ex-Japan, 1x for the Chinese market, 1x for the Indian market," said Lim, referring to price to earnings growth ratios. "Cheap."

The DBS CIO Office is overweight Asia ex-Japan and China equities on a 12-month basis.

The sentiment was echoed by DBS Regional Head of Group Research Timothy Wong, who said that China's sniffles and the kerfuffles over its headline GDP numbers have made the rest of Asia sick the past 18 months. That's not the case anymore and DBS Group Research is looking at 16% returns on Asian equities this year, Wong said. At current levels, Asia adds an entire Germany to the world's economic map every three-and-a-half years, the conference heard. In four years, this amount of wealth creation drops to three years.

China contributes around 70% of Asia's growth, which means market watchers are skittish every time Beijing sneezes. Its contribution to Asian growth is six times more than India's, the continent's number two, Wong said, adding that a fear of further softening in its economy or even a rapid descent are overblown.

There has already been a soft landing, typically used to describe a market's fall from highs, Wong said. Because the China soft landing is out of the way, it appears unlikely there'll be any form of hard landing anymore. While Beijing has shied away from discussing any stimulus or intervention in the economy, authorities have said they would tweak whenever necessary. Wong said the government is moving from its reliance on exports and investments to a domestically-driven consumption-based model.

The battles between the bulls and the bears have intensified to the point where this coiled energy is about to be released either way

LIM SAY BOON

TIMOTHY WONG

The truth is: Seven-odd percent GDP growth annually isn't really all that bad. And global investors are beginning to realise that the "glory days" of GDP growth above 10% from the early- to mid-2000s are gone. So, the medicine has been prescribed for China, and while that is being treated, the rest of Asia has been healing in its own way, too.

A few years ago, there were strong outflows from Asia because of a reduction in US Federal Reserve bond-buying (i.e., the "taper"), a China "slowdown" and debt levels in the Euro area. Then, the knee-jerk reaction was to sell emerging market economies in Asia like India and Indonesia. But they have improved their balance of payments and made themselves more resilient to such shocks through a variety of measures.

There's more. Asia's industrial production is growing at around 5% per year post-global financial crisis. Inflation is low and has been flat the past three to four years, according to Wong. This equates to a good investment environment in Asia.

So, while China is poised to lead an emerging markets swing upward, there are indications the US economy isn't doing as well as we had hoped for at the start of 2014. This relative underperformance is also impacting its currency, said DBS Senior Economist Philip Wee, adding that we are broadly bearish on the greenback. DBS Group Research has a 1.20 target for the Singapore dollar against the US dollar by the 2015 June quarter, from 1.24 currently.

"How did we achieve the strong Singapore dollar policy?" asked Wee. "By being stable and absorbing weakness in other currencies like the Japanese yen, Indian rupee and Indonesian rupiah… At the end of the day, we have managed to maintain competitiveness, while insulating ourselves against volatility."

PHILIP WEE

ANDREW HEWITT

DOING WELL BY DOING GOOD

Profits and social responsibility aren't at polar opposites for corporations, says Andrew Hewitt, a leading expert on social good.

A corporation doesn't have to sacrifice profitability in its efforts to do social good, according to the founder of an institution which examines organisations' social purpose.

Andrew Hewitt, founder of GameChangers 500, said that contrary to common misconception, social good can be achieved in tandem with profitability, and in some cases even drive profit up by raising the public profile of the firm.

"Profit can increase if you execute on social good well. There's just been a lack of a model for people to follow," he said.

He illustrated the classical model of private versus public firms, where the former maximised profit at the expense of corporate responsibility. Government firms, in theory, are meant to strive to benefit society while paying little to no attention to profit.

The new world order of socially responsible firms, however, is turning this dichotomy on its head.

Pointing to firms like Nike and Zappos, Hewitt said these have achieved plenty of social good while staying ahead of their peers financially.

Does your firm hit the mark?

Across different industries, firms that have strived to do social good have several common defining characteristics, and companies keen to raise their social responsibility quotient should re-examine how many of these goal points they hit, said Hewitt.

One is that these companies have a clearly-defined mission, he said. "They have determined their direction, and have developed metrics to measure their progress."

These companies also care about the impact they're making to the industry in which they play. He raised Tesla as a recent example, where the company decided to open source its clean energy patents in the hopes of invigorating other firms towards making further advancements in clean vehicles.

The attitude towards employees is also a huge factor in how these companies are seen by the public. For many "game-changing" firms, they had work environments that emphasised fun and were inspiring.

Mindvalley in Malaysia, for example, has a colourful themed office environment with different nooks and crannies for workers to be comfortable. They have a hot desking setup that allows workers to pick a new spot each day and be inspired, avoiding the drudgery of repetition.

The result of its efforts? The company has been able to attract workers all over the world, from some 20 different countries, said Hewitt.

Companies that cared about employees also often had policies such as profit-sharing and generous benefits. They emphasised constant learning, and many cycle their employees to new roles every half a year so that they keep learning, he added.

Eco-friendliness is the third broad area of social good. Many companies that do well in this area start from within, by using earth-friendly supplies and minimising waste. Others invest in eco-friendly designs, which aim to make little or no impact to the planet.

Chinese firm Huawei, he said, created a new eco-friendly packaging strategy it calls "6R1D". The six "R"s stand for right, reduce, returnable, reuse, recycle and recovery, while the "D" stands for degradable.

Huawei reported that in 2012, it shipped 93,200 products with green packaging and reduced wood consumption by 19,900 cubic metres. This made up 77.7% of the packaging used for large equipment.

Social responsibility not just for young firms

Nike, said Hewitt, is a particularly robust example of a firm that made the turnaround to social good despite its size and age.

"Some people say social good is for companies that are new and can start (building the culture) from the ground up. Look at Nike. It's harder when it's an old company, but it's possible," he said.

Nike spent the better part of the 70s through to the 90s being dogged by accusations of sweatshop conditions at its Asian factories. The company decided to turn this around in the 90s by establishing a code of conduct for its factories, and between 2002 and 2004, reportedly audited its factories some 600 times in an effort to eradicate poor working conditions.

Other milestones in its march to better social good include lowering toxic substances by eliminating polyvinyl chloride (PVC) from its footwear and apparel by around 2004, and investing in organic cotton, increasing the percentage of its apparels using it from 22% in 1999 to 47% in 2004.

Asian firms lag behind social responsibility

Consumers, it seems, are willing to put their support behind socially conscious companies.

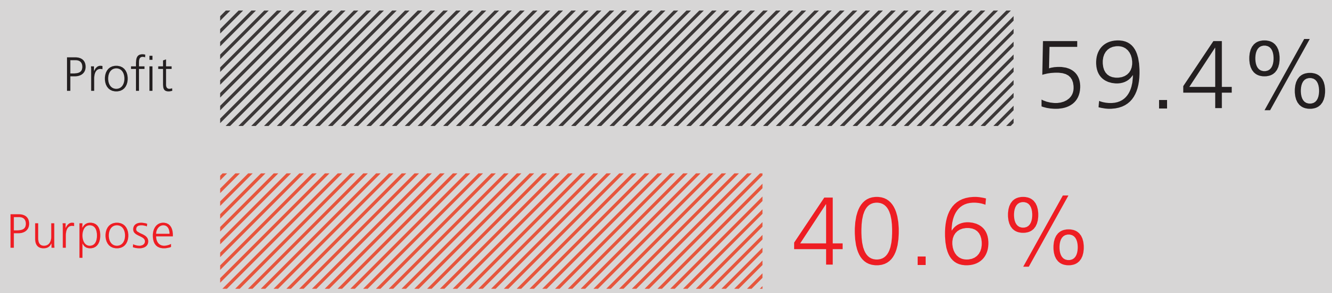
According to a Nielsen study that came out in June, 55% of global consumers across 60 nations say they will pay more for products and services coming out of companies that are committed to positive social and environmental impact.

This propensity was the strongest in Asia, at 64%, followed by Latin America, and the Middle East and Africa, at 63%.

Hewitt highlighted a Cone Communications study that supported this: India had the highest reported proportion of consumers who bought a product with environmental

AUDIENCE POLL

Why are you in business? Do you put profit or purpose first?



> Asian consumers are most keen on social good. This represents a huge opportunity for Asian companies

or social benefit, at 88%. This was followed closely by China, at 86%. The global average, in comparison, was just 67%.

But while Asian consumers responded above the global mean towards social good, companies here are not heading in the same direction.

Hewitt's firm found that in its global ranking of the top 500 socially responsible firms, just 10% were in Asia.

"Asian consumers are most keen on social good. This represents a huge opportunity for Asian companies," he said.

He said Asian companies should seriously look to being conscious of the world around them. "This is a really good business decision. It's not just good for the planet."

AUDIENCE POLL

What do you think is the impact of your business on your customers' lives?

Brief	13.6%
Meaningful	48.6%
Enormous	16.2%
Revolutionary and lifelong	21.6%

ASIA LEADERSHIP DIALOGUE

The DBS Asia Leadership Dialogue brings the region's movers and shakers for a candid tête-à-tête with Piyush Gupta, CEO of DBS Group Holdings and DBS Bank, on the critical issues that confront Asia. This year, Deputy Prime Minister and Minister for Finance of Singapore, Tharman Shanmugaratnam, speaks his mind and shares his insights on what he sees as the definitive gamechangers that will shape the Asia of tomorrow.

Piyush Gupta (PG): DBS' proposition is that the shift in economic gravity from the West to the East is the biggest gamechanger in Asia. This is based on the premise that the Asian economy is now as big as the US' and its growth rate of 6% implies that there will be a lot of demand coming from Asia in the next two to three decades. But one of our panellists earlier cautioned that many countries have tended to get caught in the middle-income trap. What are your views on Asia's prospects and promise, and do you think this middle-income trap is a concern for us?

Tharman Shanmugaratnam (DPM): My own sense is that we have finished one phase of this shift from the West to the East, and that was the relatively easy phase. The phase where you boost domestic demand, where the demographics just push things forward – more people

> Domestic demand drives spurts of growth, but it's not a basis for long-term growth

entering the workforce, more people becoming middle income, there's more demand for motorcycles, for better refrigerators, etc. Everything that constitutes lower middle and middle class lifestyles has been on the ascent.

I think a bit too much has been made of that story. Domestic demand, at the end of the day, doesn't drive growth over the long term; it drives spurts of growth, it drives cycles, but it's not a basis for long-term growth. Long-term growth has to rest on improving the way we do business, improving our skills, having more innovation and therefore productivity growth. Across Asia, productivity growth is well below potential. We are talking about a region [developing Asian countries] whose level of productivity is somewhere between 10%-30% of the level in the US, or the most advanced countries. So there's tremendous scope for catch up, for transformation, for moving up, but the progress has been inadequate.

If you look at the progress in moving from 10%-30% to let's say 20%-40%, very little of that has happened in the last decade. Likewise, if you look at Latin America, they are stuck at more or less the same levels as where they were some time ago. So demand is growing, there's a lot of money being made, but it doesn't sustain growth over the long term. You've got to transform the way business is being done and the way skills are being applied on the job. And that means it's the supply side, and not the demand side, that matters critically in this next phase of growth. If you want to see a continued shift, a continued rebalancing of the global economy from the advanced to the developing and emerging – from the West to the East – the easy phase of domestic demand driving that shift, I think, is more or less over.

The more difficult phase, which involves tackling entrenched interests and some important but painful liberalisations and reforms, has now started. It requires tremendous political commitment and is not a surety. There are bumps along the way and not every country will make it.

PG: Looking at per capita incomes of countries like Brazil, Mexico, Hungary, Poland and Malaysia, it's all at $10,000 per capita. China's is $6,000, Indonesia's is $3,000 and India's is $1,500. Surely there is room over the next decade for these countries to get up at least to the level of Brazil [and its peers]. Is there a possibility that there is a ten-year window for phase one, as you define it, before phase two becomes imperative?

DPM: I'm not sure. First, this may be a personal bias but I very rarely look at per capita income. For instance, for Singapore, I very rarely look at per capita income. What matters is the median income level – the average worker's salary – and his actual productivity. Per capita income can be skewed by corporate profits, by many factors that add to aggregate value added and profits but don't necessarily reflect the true state or true level of advancement of an economy. That's why I say, just as a digression, that Singapore is not yet a truly advanced country. It's basically an upper middle income society and an upper middle productivity economy.

If you look at Latin America, its level of productivity compared to the United States' today, is the same as where it was in the 60s. It's remarkable that the catch up hasn't happened. The catch up that took place in Singapore, Hong Kong, Korea and Taiwan has not been replicated anywhere else except in China for the last 25 years. It just hasn't happened. China started from a very low base but it has been catching up every five years.

PG: So you're saying that in all of these countries, you need some incremental degree of domestic reform, be it political, institution building, innovation or productivity. So if we look at the three Asian giants – China, India and Indonesia – what are your thoughts about the challenges in each country and the prospects at this stage of them making it?

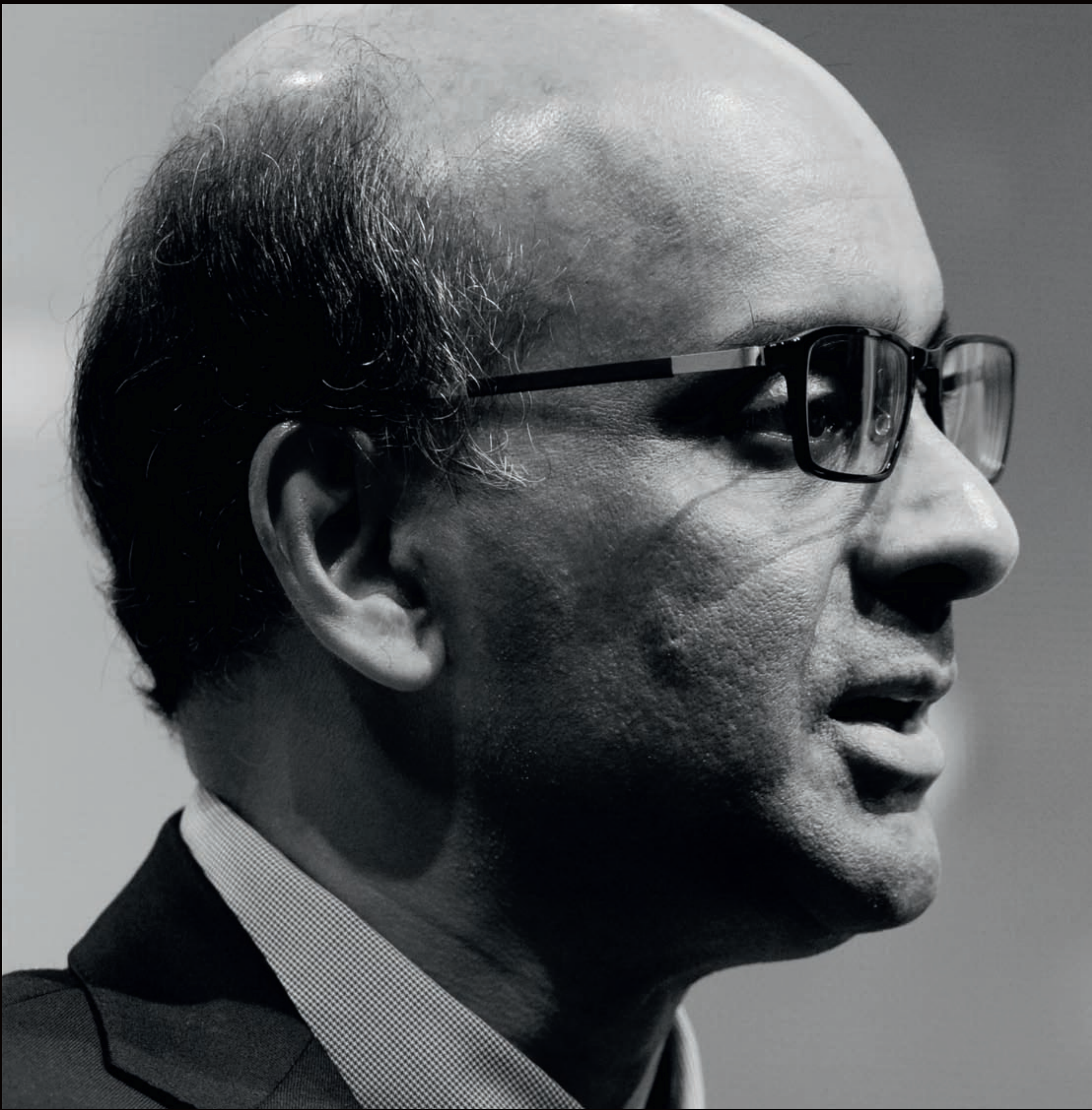
DPM: I think China is a unique country facing unique challenges, entirely different from the rest of the BRICS or the emerging countries at large. China is facing a demographic challenge; very sharp slowdown in its domestic labour force, plus the gradual ageing of its population. And its challenge is to move from above-potential rates of growth towards a more sustainable rate of growth. So it's consolidating, and that requires major structural reforms that we can come to in a minute.

India and Indonesia on the other hand are underperforming their potential growth. It's a very different situation – they are underperforming the level of growth that should exist, including underinvesting. Plus, they are very young societies. About 25%-30% of their populations are less than 15 years old. Remarkably young countries with huge advantage but only if you educate, train and create good jobs for people. If you don't, then the demographic dividend becomes a demographic challenge, to put it mildly. India and Indonesia also have structural reforms on their agenda that are very different from China's.

So, it's a structural reform game in all three cases, and in fact, across the world I would say. China needs to slow down and to sustain growth over the next ten to 20 years without seeing major social disruption; India and Indonesia need to catch up to their potential. Both are possible, but both these paths are going to be complex and fraught with risks.

PG: In the context of China, there has been global concern (which I personally think is overdone) over the slowdown in growth rates from 9%-10% to 7%-7.5%. I've been on record to say that these are large numbers and as you grow bigger, growth rates have to come down. Is that something that particularly concerns you given the potential spillover effects in the rest of the region?

DPM: Well, first I think we have to recognise that the economic policy task facing China is the most complex in the world. Certainly, it faces the most complex economic challenges among the large economies. It also has, in my opinion at least, the most competent and capable economic team among the large economies. They are moving in a direction which I think is far-sighted, but there are risks all along the way. They are not only dealing with the stated challenges of the reforms unveiled during the Third Plenum – of moving towards a market-based economy, especially with regard to access to and the pricing of capital so as to achieve a more level playing field between state-owned and private enterprises, and to give households a better return on their savings – but they have to move in that direction while doing a few other major things.



> China is a collection of very different economies, which complicates the process greatly because the relationship between the centre and the provinces requires major renovation

First, dealing with legacy, and it's a very heavy legacy that they face, in the way that the last crisis was dealt with, which has led to a burgeoning of credit in certain sectors and over investment leading to large stocks of inventory that are now being destocked. Shadow banking is another part of the legacy – a significant sized problem that is not unravelled easily. Another very important legacy is entrenched interests in the state-owned sector that will shape reform all along the way. Dealing with legacy while you're moving forward with the marketisation of the economy is a very complex process.

At the same time, there's another dimension to their reforms that is very challenging, which is that China is not really one economy as such. If you look at the nature of their provinces, it's really many different economies combined into one. If you look at Europe today, you have the European Union but you don't actually think of Europe as a relatively uniform or homogenous economy. The peripheries are entirely different from Germany or Sweden or even Belgium. So, China is a collection of very different economies, which complicates the process greatly. The relationship between the centre and the provinces requires major renovation. When you talk about shadow banking and a range of other problems, at the heart of it is the inadequacy of current fiscal relationships between the centre and the provinces. The provinces don't have enough revenues, but they have to spend money. And moving ahead with all the reforms we are talking about, whether it is marketisation or dealing with legacy problems, requires a major alteration in that relationship. The centre has to take on more expenditures, while the provinces need more revenues so that they don't need to rely on shadow banking and sale of land for purposes that are not entirely productive, and can therefore move to a more efficient platform. This itself is a major reform that will occupy them in the next decade.

And finally, China is never far from the risk of social disruptions. They are acutely aware of that. When you think of economic restructuring in many countries, developing or developed, you usually accept that the economy will go through a period of retrenchment. Some firms, whole industries and many groups of workers will be retrenched. The economy slows down but then you bounce back up, and that's what happened to Greece, Spain and Portugal; it's what happened to Latvia. Major restructuring usually means you take a hit and you go through retrenchment before you come back up. China can't afford to do quite the same – it can't afford to take that dive in growth, reorder economic relationships, restructure, and have new enterprises and industries come up – because the risk of social disruption is a very serious one. They've had it once every 25 or 30 years; I don't think they want it again, and I don't think they can take that risk.

PG: So you could argue that President Xi Jinping has consolidated power more completely than anybody in the last 20-30 years after Deng Xiaoping. If you were a betting man, what would you say is the capacity of the administration to negotiate these pitfalls successfully over the next three to five years and manage the transition without major accidents?

DPM: I think the configuration [in China] is closer to ideal than anything they've had in a long time, both in terms of capability as well as the ability to make decisions. But it is, I have to repeat, a very complex task. If you ask me, I am optimistic; I don't think they're going to get a hard landing, I don't think they will get a crash. But if they can achieve three quarters of what has been set out, that's a transformation in China and that's a huge plus for Asia and the world economy.

PG: China is flexing its muscles politically – through its geopolitical ambition and agenda in the South China Sea – and economically, with the internationalisation of the renminbi. Do you think there is a thought through agenda behind this? What is the ambition and could the military or political ambitions of China be a derailer?

DPM: It could be. The first phase of China's ascendance has been primarily economic, and it's been by and large a plus for the world. That process will hopefully continue. It takes time to develop the soft power that is needed to sustain economic ascendance and to reach a new equilibrium in the region and in the world. It took time for all the previous global leaders to develop soft power. Some of them did it through colonial arrangements, which were not particularly soft, but they eventually developed soft mechanisms. Some of them just took a long time to develop relationships with the rest of the world that were by and large comfortable to everyone involved. China's challenge, which I think it is aware of, is to develop that soft power, not just hard power. And that includes of course, having respect for international rules of law.

PG: Let's switch the focus to India. There has been a tremendous degree of anticipation and optimism with the new government. Prime Minister Narendra Modi's got a unified government, so the prospects seem to be positive. Do you have a view on its challenges and prospects?

DPM: The first thing that PM Modi has focused on, which is not something that's written about in economic textbooks, or much discussed, is simply the issue of clarity and getting things done. It's a very important issue in governance. India has lacked clarity, and even when it has been clear about its policies, it has not implemented them. And PM Modi is I think quite focused on streamlining approvals for projects, especially infrastructural projects; on reducing the number of agencies you need to go to at both the federal and state level; and on just getting things done. Regardless of your policy orientation, staying the course, providing certainty that you are going to get from point A to point B is an extremely important factor for businesses – and not reversing course, or worst of all, having retroactive application of policies.

So that itself is a very significant improvement. The new policy directions will face challenges. India is a very complex country to manage, particularly because you have states having power and authority over many issues, but it's the best chance that they've had in a long time. Moving from what's around 5% growth to 7% growth is within their

China's challenge, which I think it is aware of, is to develop that soft power, not just hard power. And that includes of course, having respect for international rules of law

reach, but it's going to be a challenge and again just like China, there's a legacy problem. They have a very significant and unsustainable fiscal deficit. Some of the ways they've been trying to improve it have been the easy ways – getting special dividends from the state-owned enterprises, auctioning off telecom licences, those are one-offs. The difficult tasks are reducing fuel and food subsidies, having a fair fiscal system and having a nationwide consumption tax rather than a whole multitude of different taxes at the federal and state levels. PM Modi has spoken about these priorities; he'll face challenges along the way, but I think they are going to move very much in the right direction.

PG: One of the things that has been advocated is an aggressive privatisation agenda, similar to Margaret Thatcher's. Now, privatisation can be a double-edged sword and some would say we have over privatised some sectors in Singapore, for example. Do you think it's a legitimate agenda for addressing the fiscal deficit situation and what are the pitfalls, if any?

DPM: The principal focus of privatisation should be to gain efficiency in the Indian economy and also to ensure a level playing field. It shouldn't be used as a means of solving the fiscal problem, although there will be some fiscal advantages in the short to medium term. India faces major structural reforms, as challenges but also as opportunities. If they can get the larger state enterprises onto an efficient footing, and if they can loosen labour regulations to make possible large scale manufacturing – take advantage of economies of scale, for example, which is an obvious advantage India has but has not used – I think the economy

would be able to move from what is something like 10% of the level of US productivity to a significantly higher level.

PG: As for Indonesia, the economy has slowed and the end of the commodity super cycle seems to be creating some headwinds. How do you feel about the prospects of Indonesia particularly since it has a very significant influence on Southeast Asia?

DPM: I am optimistic, but it depends on whether structural challenges are addressed head on. As I mentioned earlier, it can't be just with domestic demand gain; it has to be about educating a very large young population. They have lots of young people, but the transition from primary to secondary school in Indonesia is one of the lowest in the region, in fact, even lower than India's, which is very low to begin with. The transition from secondary school to some form of tertiary education is also extremely low. So, what should be a demographic advantage – lots of young people coming into the workforce and willing to pick up some new skills, do new jobs – depends on whether they are educated and trained. Today in Indonesia, about a quarter or more of their young population is what they call NEETS (not in education, employment or training). That's a very serious challenge. And that's the key task of governance; it's about providing the hope that comes out of people having skills and being able to get a good job.

They also have very large infrastructural challenges that come out of a complicated regulatory landscape. I think there's scope for streamlining there, just like in India. But Indonesia is a country that has been doing reasonably well. It's a country with some moderation in its politics; it has problems, but I think it has great promise. And what has great promise for Indonesia also means great promise for Southeast Asia.

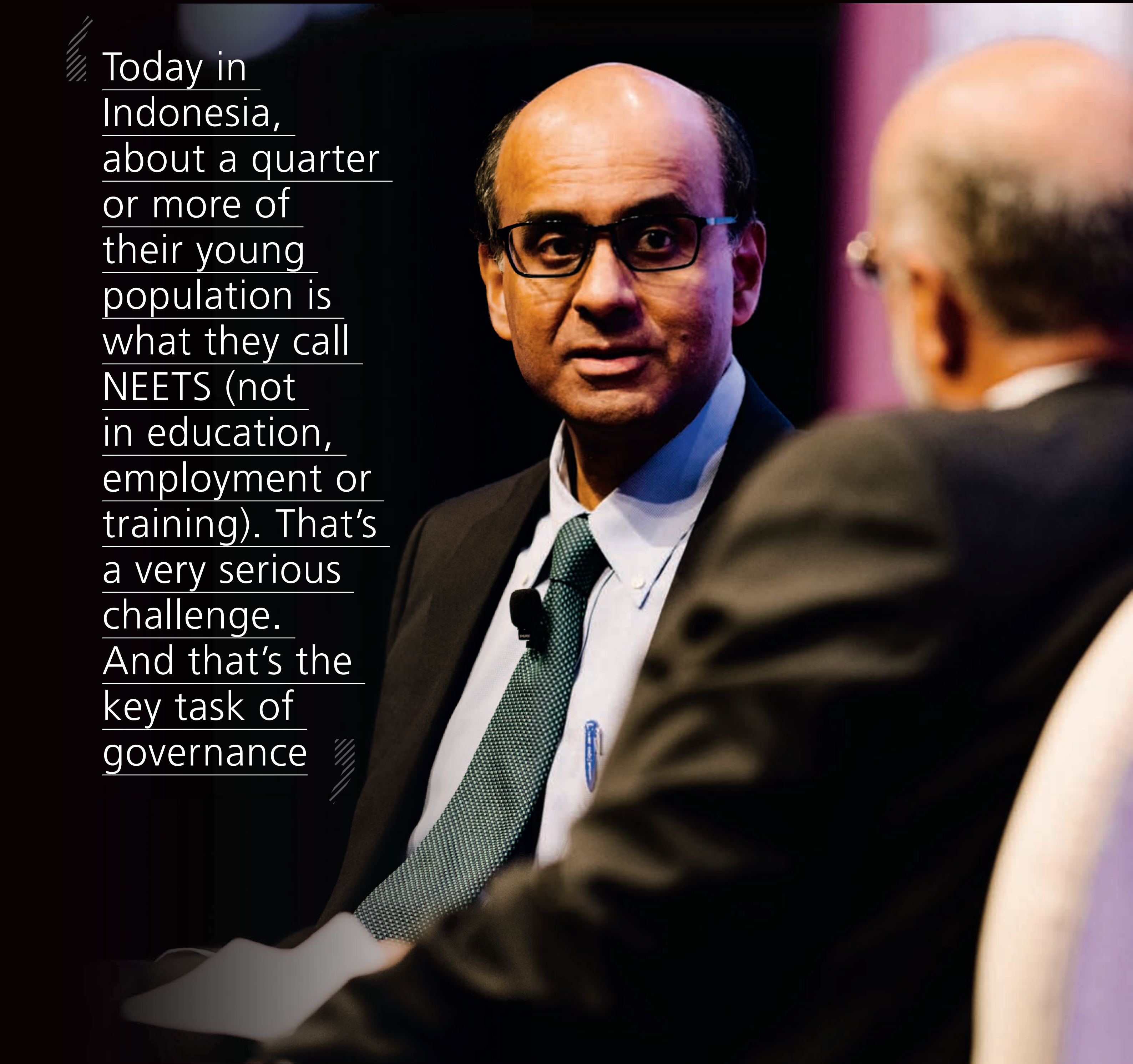
PG: Let's switch gears and go out West. The data for the US economy is quite confusing. The GDP growth rate will be sub-2% again this year, but the mortgage data last month and the latest job data were very strong, so it's a little mixed. The markets for ten-year bonds are 2.5%-2.6% so they seem to be pricing in a longer period of slow growth. Where do you come out in the debate? Do you think there is good momentum in the US, do you think it is still a question mark, and then from there, what do you think about Europe as well?

DPM: I think it is very much a question mark. I don't think the advanced economies at large including the US and Europe are anywhere close to having returned to a normal state of growth. We still haven't come back to normal, and we are not at a new normal that is sustainable either; growth is well below potential.

And in the US, the chief economic policy tool for getting back to normal has been monetary policy – extraordinary monetary policies that worked well, I think, during the crisis. It was a very wise and courageous move, but it is becoming less and less likely that monetary policy can return the economy to a sustainable state where growth is reflecting the underlying potential of the economy and unemployment is relatively low.

At the same time, the risks arising from extremely low interest rates are rising. So the benefit-to-risk balance is shifting; there may be some benefits left in an ultra easy monetary policy, but they are not getting larger, and in my opinion, they are likely to diminish over time while the risks are growing – the risk both in terms of financial market exuberance and asset bubbles. To some extent – as [Fed Chairperson] Janet Yellen says – you can control these through macro-prudential measures and financial regulations, but these usually work through the banks. There isn't so much control over the non-banks sector, and a fair bit of what's been happening is really in the non-banking sector.

So, financial instability down the road is one type of risk. A second type of risk that people don't focus on so often, which is extremely important, is the risk of a pensions crisis. In fact, we already have a pensions crisis across the advanced world. In the US, a substantial proportion of public pension funds is expected to go bankrupt within



Today in Indonesia, about a quarter or more of their young population is what they call NEETS (not in education, employment or training). That's a very serious challenge. And that's the key task of governance

Unemployment is the quietly growing tragedy of the post-crisis environment in the US and Europe

the next 20 years. The current ultra low interest rate environment accentuates the scale of the problem.

A third type of risk, which is perhaps the most fundamental, is risk arising from over-reliance on central banks to solve problems of growth: it's the risk that no one else does anything. You let Congress off the hook. And you could say the same in Europe. If you leave it to the European Central Bank to do everything it takes, whether it's easy liquidity to the banks or possibly quantitative easing in the future, you get less of what it takes to get growth back to normal. And what it really takes is structural reforms. The US has a very serious long-term unemployment problem, that it hasn't seen in 50 years. Simply having a little more growth, a little more demand in the economy, has not brought the long-term unemployed back to the market. And this is one of the things that everyone knows intuitively – the economists call it "hysteresis" – basically, the longer you are out of the workforce, the more difficult it is to get back in. Your skills atrophy, employers become less willing to look at you, and it's harder to fit back in. You might come back in for part-time work, or come back into a job well below what you are capable of doing.

So even if the Federal Reserve was right initially, the longer it takes to achieve the success it had hoped for, the less likely that it will achieve success in bringing unemployment down. That is the quietly growing tragedy of the post-crisis environment in the US and Europe. The longer it takes, the more difficult and futile it becomes to use monetary policy tools, which were always meant for short-term cycles, not to tackle longer-term structural problems.

PG: What is the structural reform in the US and Europe that is so important? Do you think coordinated policy action is at the level that you would like it to be? After the G20 meeting, there was a lot of coordinated policy *action, but that seems to have tapered off in the past couple of years and there's a sense of "each man for himself" beginning to come back into the system.*

DPM: We are not yet in the place that was hoped for in successive G20 meetings. The early coordination was there, and that was coordination in macro-economic policy when everyone was trying to manage the crisis decisively. But the nature of today's problems has to do with structural issues and the need for structural reforms in the US, Europe, Japan and of course, in the emerging world. That is intrinsically a domestic challenge; it is really a political challenge. You've got to have the honesty, the courage and the political strength to push through reforms. You can agree globally to do it, but you've got to do it yourself. It's not just a matter of global coordination, you've got to do your part. The peripheral European economies like Spain and Portugal, they had no choice but to do it, and they've done a good part of it and they're now coming out [of recession]. But the economies that had choice, have used that choice to do little.

So that is the nature of our problem globally. It is not a lack of demand, coordination or who should stimulate demand here versus there; it's really about respective national economies and legislatures getting down to the business of structural reform.

PG: If you think about the balance between stability and growth, from a banking perspective, it seems that the focus on ensuring financial system stability is at the cost of certain growth drivers – infrastructure, SME spending, being able to allow the real sectors of the economy to get on with what they need to get on. It has sort of tilted too much the wrong way. What do you think?

DPM: I agree with you. Basically in the financial reforms that we've seen, there are three pieces to it. Firstly, there is regulation, which involves strengthening capital requirements in the banking system and better, more robust liquidity requirements. I think that process is largely done. Second, there's the importance of supervision. And third, there is the issue of crisis resolution: what do you do when a bank fails, particularly when it is a large or international bank.

I think there has been too much focus on regulation and inadequate focus on supervision, which means you do not just rely on having more capital and liquidity requirements, but you supervise banks. The larger and more international a bank is, the more intrusive your supervision has to be. On the other hand, progress is being made on the resolution of banks, and how to manage a crisis when it actually occurs, but it has been slower, partly because it's more complex. Too much emphasis has been placed on the first pillar, and the consequence is that growth may be slower than hoped for, because if the system needs more capital and liquidity, it does weaken the ability of banking systems to stimulate growth.

So, I think a rebalancing of focus is needed – more focus on supervising banks and other financial institutions all along the way, in the midst of the game and not just setting the rules of the game before it starts. Supervising while the game is in play – you need a good umpire, and you need good linesmen. And we need to get bank resolution and crisis management in place as soon as possible. Otherwise I fear that we keep adding to regulatory requirements, some of which are already having a negative impact including in emerging economies.

PG: What are your views on the risk of a global hard landing given bloated central bank balance sheets, some bubbles, ultra low interest rates, rising debt and deepening inflation?

DPM: I don't see a hard landing in the global economy. Of course it can happen as tail risks always exist. They exist in each of the major economies as well as in China, but I don't see this as a very likely scenario. The real risk we face is prolonged sub-normal growth: prolonged slow growth and high unemployment in the advanced countries souring the political mood and making life more difficult for all of us.

Politicians and national legislatures not addressing the real issues forthrightly and moving forward in a way that tackles the structural problems that we face – that's the biggest risk: that we will just continue in this slow growth world for a very long time to come. And it is a slow growth world – the advanced economies are growing at a rate barely above 0%.

PG: What are your views on the Singapore property market and do you have a sense of where we are in the cycle?

DPM: I don't see a property market crash, but we've got to let the cycle work. I don't think that the cycle is over, but market players will determine where that cycle goes.

The government has put in place rules, stamp duties, restrictions and we have also pumped in a fair bit of supply in the market. I don't think we'll see a crash because we moved early enough. And we moved at each step of the game knowing that what we do may not be enough, but knowing full well that if we did too much, we might engineer a crash. We started early and avoided a huge bubble in the market. That's why we won't see a crash, but I think further correction will not be unexpected.

PG: Where is Singapore heading? How do you see Singapore five, ten, 15 years from now? Are we going to be a Scandinavian or a Monaco lookalike? And as Singapore undergoes this period of restructuring, are we prepared for the consequences? More fundamentally, what is the vision for Singapore?

DPM: Let me just make a few points. First, we can be a high-value, diversified economy and not just a services economy. We won't be Hong Kong serving the Pearl River Delta, we won't be Dubai, we won't be Luxembourg; we can be a high-value manufacturing and services economy. We have a good thing going in manufacturing; it's consolidated in terms of its employment share, but the upgrading has been taking place. The upgrading has been taking place in the old economy parts of manufacturing, as well as in the new investments that you see, in pharmaceuticals, chemicals and others.

If you take food manufacturing, an 'old economy' sector, productivity has increased by 25% in the last few years. That's a real transformation. Likewise if you look at furniture, at precision engineering, which is an old economy sector too, there are significant transformations taking place. If you take that together with the newer sectors, we have a good future in manufacturing and I think that's important for Singapore – to have a diversified economy that provides jobs for people with different skills.

Second, we have to move from being an upper middle income economy to becoming a truly advanced economy. And that's not a matter of dictating wages. You can't dictate wages. But we really have the opportunity of investing in the skills and ingenuity of Singaporeans and unleashing entrepreneurial energy. It takes time. You can't summon up productivity growth or innovation, but what the government can do is first provide very strong incentives; we've got very aggressive fiscal incentives for any form of innovation and anything related to productivity. We can tighten foreign labour supply – which we've done quite significantly, step by step – so that there's always incentive and pressure on companies to innovate and find ways of creating value without increasing employment. That we can do, and that we are doing in government.

> I think we need more disruptive players in every sector in Singapore, people who come in with a whole new way of doing business

But it does require industry restructuring at the end of the day and market forces have to do their job. The construction sector has a particular challenge and it has been a major drag on productivity growth, but there are some other sectors as well – the F&B sector at large, the retail sector, which have many enterprises. In fact, a part of our problem is that we have quite a vibrant enterprise scene. A few thousand enterprises are formed each year, but many are going into the same sectors and not differentiating themselves sufficiently from their competitors. With too many people entering business, doing the same thing and demanding labour, some restructuring is necessary. Restructuring that separates those that have a compelling product – be it cuisine, a fashion product or some other service – from the rest. I think we need more disruptive players in every sector in Singapore, people who come in with a whole new way of doing business, either by cutting down intermediaries or finding means of delivering to the customer without relying on more manpower.

We've seen how it happens in the US and elsewhere. It doesn't happen quickly, sometimes it happens in spurts. But if we stay on course, keep the labour market tight and provide strong incentives for companies to upgrade, I believe entrepreneurs will come forward and some firms are going to innovate in a way that will knock out their competitors. That's when productivity really changes – it's a restructuring of the industry driven by market forces.

It's entrepreneurial innovation that really counts. The government can't create it, we can't summon it up, but we can provide the conditions that encourage restructuring and reward the winners even if it means we lose some companies and industries.

PG: I sometimes wonder why some sectors, like in F&B, we have so many people. But I argue that the reason people come to Singapore is because they want a taste of Asia. So if we were to wind up being Germany, would people really come to Singapore? What would they come for?

DPM: This is a very important mental challenge we face, I feel. We are in Asia, we have an Asian style. You don't walk into a Singaporean restaurant or hotel thinking this is Sweden. But we cannot be Bangkok or Jakarta; we don't have the people. How do we retain high touch, high quality service and Asian courtesy without simply relying on people standing around in the restaurant or people being at your beck and call in a hotel? I'm sure it can be done, and there are some things to learn in that regard from Sweden, the US and other places. If you go into a top hotel in Stockholm and you sit down at breakfast, you don't look around to call someone for your coffee because you've got a rather nice flask in front of you, and you pour it yourself. Is it difficult?

If you're in Singapore, you look around and go, "Where's the coffee?" But when a Singaporean goes to Stockholm, he doesn't look around, he does what comes naturally. So we must develop a new form of what comes naturally. Customers have to do things for themselves but not feel that they are getting less service as a result. It's the quality of the coffee that counts.

PG: If you think about innovation in terms of creativity and ideas, a lot of it still happens in the US and the West. There's also some business model of innovation in China. Are we seeing enough in Singapore and what do we need to do?

DPM: We're not seeing enough, and I think at the end of the day, we need less of a dollars and cents approach to this. The government has to provide dollars and cents incentives like tax deductions, grants and so on, but at the end of the day, it's a matter of social culture. Moving from upper middle income to becoming truly advanced is actually a social and cultural change; it has to be more intrinsic, not just relying on extrinsic incentives. "I have to want to be the master of what I'm doing, whatever it is. I might be a bartender, I might be a technician, I might be a nurse, but I want to be very good at what I'm doing." And I think Singaporeans have it in themselves; the desire to be very good at what they're doing even if no one is looking.

PG: On a personal note, what do you love most about our country and what do you like least?

DPM: I really like Singapore's natural multiracial culture; it's the ability to accommodate each other in an unforced way. There will be challenges from time to time, which we have to manage, but it's a real strength of Singapore.

I'm not going to say the obvious thing, the fact that I like the food (although it's very good). But the other thing, which I used to think was a disadvantage in Singapore, is actually the weather. I used to think that it's such a hot and humid place but when you travel around the world, you realise that it's nice to be in a place where it's sunny when you go to work. It's really nice; you wake up in the morning and the sun is shining through the window. Sure, you need an air conditioner to do sustained work in the office, but being in a sunny environment lifts your spirits. And the tropical downpour – it does something to the air and to your spirits.

PG: So what is it [about Singapore] that you don't like and what are the issues that keep you up at night?

DPM: The issue that keeps me awake at night is the matter we talked about: we need a transformation in our social culture. That depends a lot on each of us, on entrepreneurial ingenuity, on every individual in every company. Where you really want to do something in a different way from others, that gives you pride that you've done a job really well. Will we achieve that change in social culture? I don't know, it's not a given. We may achieve it better if we go through a major crisis but that's not our approach in managing the economy. We are not going to engineer a crisis so that everyone sits up and realises they've got to be hungry and driven and they've got to do something differently. And that's our challenge. We're not a failing economy or a failed society; we're actually a relatively successful economy. You can get a job easily with some retraining, we've got a very low unemployment rate and our social environment is reasonably well provided for. We have challenges, but when we look around the world, our challenges are of a nature where we can deal with them.

PETER SEAH

CLOSING REMARKS

We live in the world's fastest growing region, but it does not come without its challenges. Asia's major economies – China, India and Indonesia – have new leaderships or are going to have new leadership in place. And they will determine the shape of their economies and the geopolitical arrangements in the region.

Technology is another major force that is shaping the world. We at DBS have allocated a $200 million budget to develop our digital banking. That's because we believe in adapting and moving in the right direction with technology, or we risk being left behind.

When we talk about digital banking, we're also talking about how businesses will be shaped by technology and how we have to adjust the way the work, the type of people we recruit and the skills we need to bring in.

The Alibabas of this world, that will increasingly have their hands on customer funds and deposits, are a challenge for banks. To top it off, we face increasing regulations – with Basel III coming up – that are again going to shape the way banks operate and the way economies are going to evolve.

But we at DBS believe we have the team and the skills to share our knowledge with you, and work with you to grow your business across the region. We hope you had as good a day with us as we had having you as our guest, and hope you have found this conference useful and insightful.

Peter Seah
Chairman
DBS Group Holdings and DBS Bank

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